Exchange Income Corporation

Third Quarter Report

For the three and nine months ended September 30, 2018

CEO’s Message

The third quarter of 2018 extended our track record of growth across virtually all metrics, as revenue, EBITDA, Adjusted Net Earnings, and Free Cash Flow less Maintenance Capital Expenditures all reached new highs both on an absolute and per share basis. The per share all-time highs were significantly higher than the previous records, as Adjusted Net Earnings and Free Cash Flow less Maintenance Capital Expenditures both improved on the prior all-time record quarterly per share results by 12%. Dividends paid also increased on a per share basis and, even with this increase, the trailing twelve month payout ratio declined both on a Free Cash Flow less Maintenance Capital Expenditure and an Adjusted Net Earnings basis. The highlights are set out below.

Third Quarter Financial Highlights

- Revenue grew by 22% to $308.2 million
- EBITDA grew by 10% to $79.2 million
- Adjusted Net Earnings grew by 15% to $29.6 million
- Adjusted Net Earnings per share was up 12% to $0.94 per share
- Free Cash Flow less Maintenance Capital Expenditures increased by 12% to $1.31 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 42% from 45% in the same period in 2017 and improved to 62% from 73% for the trailing twelve months
- Payout ratio, when calculated as a percentage of Adjusted Net Earnings, strengthened to 58% from 63% in the same period in 2017 and on a trailing twelve month basis improved to 75% from 86%

While the capital markets tend to be very focused on short term results, we have consistently delivered solid growth over both the short and long term. Our third quarter was in and of itself unequivocally a strong quarter, but what is more significant is that it is in line with a decade of strong performance. In 2009 we converted from an income trust structure to a corporation. As such, 2010 was the first full year in the current structure where results are directly comparable. In the first nine months of 2018, revenue, EBITDA and Adjusted Net Earnings per share grew by 19%, 12% and 16%, respectively. As impressive as this may sound, these results are merely in line with those from the same nine month period over the past eight years since 2010, where revenue has grown with a CAGR of 22%, and EBITDA has grown with a CAGR of 26%. We have grown approximately six fold over the eight year period, and in order to maintain our strong balance sheet with consistent leverage, we have increased the number of shares issued to fund a portion of the growth. With this in mind, the accretive nature of this growth is evident in the fact that Adjusted Net Earnings per share had a CAGR of 11% over this eight year period. It is this improvement that has facilitated consistent growth in our dividend from an annual rate of $1.56 in 2010 to $2.19, a CAGR of 4.3% together with continued improvement in our payout ratios.

There has been a wide range of economic factors at play over this period, with very high and very low natural resource prices and a strong and weak Canadian Dollar. Our diversity has enabled us to grow in a wide range of economic conditions. Our performance has been driven by different subsidiaries in different periods, but in aggregate has generated reliable, profitable growth that is accretive to our shareholders.

In the third quarter, the increased revenue and EBITDA were driven by the Manufacturing segment in general and by the strong performance of Quest in particular. Manufacturing revenue increased 65% to $81.6 million while EBITDA grew 152% to $14.1 million. Quest continued to exceed our internal expectations, generating $6.1 million in EBITDA, bringing the year-to-date total to approximately $21 million. The performance at Quest through nine months has already generated EBITDA that exceeds the threshold to trigger the full payout of the $15 million earn out included in the purchase agreement.

During the third quarter, we began to install the equipment at Quest’s new 330,000 square foot facility in Texas. We will continue with the set up of this facility through the fourth quarter and expect to begin trial production runs early in the new year. The senior management team has been in place for several months and we have begun to hire our production employees. We are on schedule to open the plant early in 2019 and expect to ramp up production over the course of the year.

Revenue for the Aerospace & Aviation segment grew by 11% over the preceding year to $226.6 million while EBITDA was down marginally at $70.9 million as higher fuel costs and training costs offset the addition of Moncton Flight College. It is important to point out that the third quarter of 2017 was a particularly strong comparative period for our Aerospace & Aviation segment.

Moncton Flight College performed as expected in the third quarter. The flight training business is expected to grow in terms of its financial contribution to EIC in future periods and remains a key tenet of our pilot training and retention strategy to provide our airlines with a competitive advantage in the extremely tight pilot market in Canada and around the world.

Provincial Aerospace's maritime surveillance aircraft "The Force Multiplier" has received its final approvals from Transport Canada. This is a highly modified aircraft which made the regulatory approval process more challenging than we anticipated, but we are pleased to have it completed. This modern platform significantly enhances Provincial Aerospace's contracted Intelligence, Surveillance and Reconnaissance (ISR) capabilities worldwide and has several key differentiators from other ISR assets such as its enhanced onboard data management capabilities and long range mission ability. The aircraft has gone into service and will contribute to results in the fourth quarter. I would like to congratulate the team at Provincial on the completion of this milestone and thank the professionals at Transport Canada who worked closely with Provincial throughout the entire project. Initial demand is promising and we look forward to updating you on the progress as the aircraft serves customers around the globe.

We previously provided guidance for 2018, indicating that we expected both EBITDA and Adjusted Net Earnings per share to grow between 10% and 20% for the fiscal year. I am pleased that we are on track to deliver on that promise in spite of rising interest rates, rapidly escalating fuel costs and a pilot shortage. We have also continued our long track record of increasing dividends while at the same time reducing our payout ratios.

I want to thank all of our stakeholders for their ongoing support. We are pleased with our progress in the first nine months of 2018 and look forward to reporting our annual results in February, at which time we will provide you with guidance for our expectations in fiscal 2019.

Mike Pyle
Chief Executive Officer

November 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 nine months ended September 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 nine months ended September 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 not to place undue reliance on forward-looking statements made or incorporated by reference herein because a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

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

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

EXCHANGE INCOME CORPORATION

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

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

(ii) to maximize 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 September 30						
Revenue	$ 308,179			$ 253,367		
EBITDA(1)	79,174			71,964		
Net earnings	24,162	$ 0.77	$ 0.72	23,902	$ 0.78	$ 0.72
Adjusted net earnings(1)	29,550	0.94	0.86	25,716	0.84	0.77
Adjusted net earnings payout ratio(1)		58%	64%		63%	68%
Free Cash Flow(1)	64,219	2.04	1.76	55,849	1.81	1.58
Free Cash Flow less maintenance capital expenditures(1)	41,103	1.31	1.16	35,976	1.17	1.05
Free Cash Flow less maintenance capital expenditures payout ratio(1)		42%	47%		45%	50%
Dividends declared	17,215	0.5475		16,152	0.525	
For the nine months ended September 30						
Revenue	$ 887,655			$ 749,040		
EBITDA(1)	208,258			185,383		
Net earnings	52,323	$ 1.66	$ 1.61	55,240	$ 1.78	$ 1.71
Adjusted net earnings(1)	67,690	2.15	2.05	57,467	1.86	1.77
Adjusted net earnings payout ratio(1)		76%	79%		85%	89%
Free Cash Flow(1)	163,600	5.19	4.57	141,369	4.56	4.01
Free Cash Flow less maintenance capital expenditures(1)	80,624	2.56	2.41	64,198	2.07	1.95
Free Cash Flow less maintenance capital expenditures payout ratio(1)		64%	68%		76%	81%
Dividends declared	51,305	1.6275		48,797	1.575	
FINANCIAL POSITION	September 30, 2018			December 31, 2017		
Working capital	$ 309,655			$ 240,018		
Capital assets	828,688			796,576		
Total assets	1,904,671			1,749,197		
Senior debt and finance leases	704,869			550,621		
Equity	597,263			577,508		
SHARE INFORMATION	September 30, 2018			December 31, 2017		
Common shares outstanding	31,374,535			31,317,890		
	September 30, 2018			September 30, 2017		
Weighted average shares outstanding during the period - basic	31,499,419			30,971,123		

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 represents an accretive use of capital.

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.

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.

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.

Subsequent Event - Certification of Provincial Aerospace Demonstrator Surveillance Aircraft

During the fourth quarter of 2018, Provincial reached a significant milestone in their Force Multiplier Surveillance Program. Provincial's DASH-8 demonstrator surveillance aircraft, has, following a complex process due to the highly modified state and technical capabilities of the aircraft, received final certification from Transport Canada. This demonstrator surveillance aircraft is a rapidly deployable asset that can immediately assist clients with the provision of actionable data/information within a broad range of missions. This modern platform significantly enhances Provincial's contracted Intelligence, Surveillance and Reconnaissance (ISR) capabilities worldwide in addition to their historic surveillance programs. This aircraft has several key differentiators from other ISR assets such as its enhanced onboard data management capabilities and long range mission ability.

2. RESULTS OF OPERATIONS

Three Month Results

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

	Three Months Ended September 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 226,565	$ 81,614	$ -	$ 308,179
Expenses(1)	155,703	67,544	5,758	229,005
EBITDA	70,862	14,070	(5,758)	79,174
Depreciation of capital assets				29,555
Amortization of intangible assets				5,179
Finance costs - interest				13,483
Acquisition costs				831
Earnings before tax				30,126
Current income tax expense				3,465
Deferred income tax expense				2,499
Net earnings				$ 24,162
Net earnings per share				$ 0.77
Adjusted net earnings				$ 29,550
Adjusted net earnings per share				$ 0.94

	Three Months Ended September 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 204,004	$ 49,363	$ -	$ 253,367
Expenses(1)	131,817	43,773	5,813	181,403
EBITDA	72,187	5,590	(5,813)	71,964
Depreciation of capital assets				27,939
Amortization of intangible assets				2,460
Finance costs - interest				8,954
Acquisition costs				18
Earnings before tax				32,593
Current income tax expense				8,955
Deferred income tax recovery				(264)
Net earnings				$ 23,902
Net earnings per share				$ 0.78
Adjusted net earnings				$ 25,716
Adjusted net earnings per share				$ 0.84

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 $308.2 million, an increase of $54.8 million or 22% over the comparative period. Revenue in the Manufacturing segment increased $32.2 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 $22.6 million.

EBITDA of $79.2 million was generated by the Corporation during the quarter, an increase of $7.2 million or 10% over the comparative period. The Manufacturing segment increased its EBITDA by $8.5 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 $1.3 million. During the three months ended September 30, 2018, the Corporation's head office costs were flat to the comparative period.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation increased by $22.6 million or 11% to $226.6 million.

Revenue in the Legacy Airlines and Provincial increased by $13.2 million or 9%. The increase at the Legacy Airlines was mainly the result of revenue from the Kitikmeot contract, which commenced in the fourth quarter of 2017, and higher passenger volumes in Ontario. The acquisition of Moncton Flight College in the first quarter with no comparative in the prior period was the largest factor impacting revenues at Provincial.

Regional One's revenue for the quarter increased by $9.3 million or 17% as a result of higher levels of sales and service revenues. The weaker Canadian dollar in the current period contributed to higher Canadian dollar revenues overall for Regional One with $2.1 million attributable to changes in foreign exchange.

Regional One Revenues	Three Months Ended September 30,	2018	2017	Variance	Variance %
Sales and service revenue		$ 41,704	$ 32,641	$ 9,063	28%
Lease revenue		22,547	22,262	285	1%
		$ 64,251	$ 54,903	$ 9,348	17%

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

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

Sales and service revenue increased by 28% in the current period with higher amounts across all revenue streams, including the benefit from foreign exchange. While the largest gains were made in the aircraft and engine assets sales, the parts sales also showed strong increases in the period increasing by 16%. Parts sales comprise the largest proportion of revenues within this category representing approximately three quarters of the sales and service revenue in the quarter. Other service fee revenue showed a strong increase but continues to be a smaller component of this category.

Lease revenue was consistent with the prior year, however the quality of the lease revenue improved. The comparative period's lease revenue included a significant redelivery settlement with no such corresponding transaction in the current period. When looking at the performance of the portfolio without the redelivery settlement, lease revenue increased by 11%. Regional One was able to generate stronger lease income from its fleet of CRJ900 aircraft due to greater utilization of these assets by their customers during the busy summer travel months.

In the Aerospace & Aviation segment EBITDA decreased by $1.3 million or 2% to $70.9 million.

EBITDA generated by the Legacy Airlines and Provincial decreased by $1.5 million. In the Legacy Airlines, increased revenues were offset by increased operating costs from continued fuel price increases and the lagged nature of fuel surcharges implemented throughout the quarter. 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 third 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.

Regional One's EBITDA is up by $0.2 million as a result of higher parts sales, asset sales, core lease revenues and the benefit of a stronger Canadian dollar. These increases were offset by the absence of lease redelivery settlements as the comparative period included a significant lease redelivery settlement. The current period results also included a higher proportion of the sale of aircraft and engine assets, which contribute a lower margin.

Manufacturing Segment

Manufacturing segment revenue increased by $32.2 million or 65% to $81.6 million. EBITDA also increased by $8.5 million or 152% to $14.1 million. The acquisition of Quest midway through the fourth quarter of 2017 is the largest contributor to these increases, adding $6.1 million of EBITDA.

The balance of the segment collectively experienced growth in revenue and EBITDA. The overall increase in revenue for these entities resulted in increased EBITDA of $2.4 million or 43% compared to the same period in 2017. The increase in revenue and EBITDA was principally driven by WesTower, Ben Machine and Stainless. WesTower continues to benefit from operational changes made in the last 18 months and the expansion of its service offerings to customers. Ben Machine continues to benefit from high levels of defence spending worldwide and is seeing returns on Growth Capital Expenditures previously made to expand its production capacity. Stainless is starting to experience returns on Growth Capital Expenditures made in previous periods to increase its plant capacity.

NET EARNINGS

Three Months Ended September 30		2018		2017		Variance	Variance %
Net Earnings	$	24,162	$	23,902	$	260	1%
Net Earnings per share	$	0.77	$	0.78	$	(0.01)	-1%

Net Earnings was $24.2 million, an increase $0.3 million or 1%. An increase of $7.2 million in EBITDA was mostly offset by increases to depreciation, amortization, interest costs and acquisition costs.

As a result of the recent acquisition activity of the Corporation, after tax increases in amortization of intangible assets, interest accretion on contingent consideration and acquisition costs have decreased Net Earnings by $3.6 million, which offsets a large portion of the substantive increase in EBITDA. Intangible asset amortization, net of tax, increased by $2.0 million over the comparative period as a result of the intangible assets recognized with the purchase of Quest and Moncton Flight College. Non-cash interest accretion on contingent consideration increased by $1.0 million as a result of the earn out portions of the purchase price of Quest and Moncton Flight College. On acquisition, the Corporation is required to assign a fair value to the expected earn out, which includes discounting the expected earn out for the time value of money. The interest accretion recorded accretes the liability to the amount that we expect to pay to the vendors. The accretion does not reflect a change in our estimate of the expected payment to the vendors. Acquisition costs, net of tax, increased by $0.6 million compared to the prior period as a result of acquisition related activity throughout the period.

Interest costs have increased by $4.5 million compared to the third quarter of 2017. During the quarter, $1.0 million of non-cash interest accretion was recorded in relation to the earn out liabilities of Quest and Moncton Flight College for which there is no comparative. 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 $1.6 million or 6% as a result of the purchases of capital assets during 2017 and throughout 2018, and the depreciation of capital assets acquired with the purchases of Quest in the fourth quarter of 2017 and Moncton Flight College in the first quarter of 2018.

Income tax expense has decreased by $2.7 million and the effective rate of tax has decreased to 19.8% from 26.7%. The proportion of pre-tax earnings has shifted to lower tax rate jurisdictions in comparison to the third 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 the 2% increase in the weighted average number of shares outstanding compared to the third 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 September 30		2018		2017
Net Earnings	$	24,162	$	23,902
Acquisition costs, net of tax		652		18
Amortization of intangible assets, net of tax		3,781		1,796
Interest accretion on acquisition contingent consideration		955		-
Adjusted Net Earnings	$	29,550	$	25,716
per share – Basic	$	0.94	$	0.84
per share – Diluted	$	0.86	$	0.77

Adjusted Net Earnings increased by 15% to $29.6 million in comparison to 2017. Intangible asset amortization net of tax increased by $2.0 million, interest accretion on contingent consideration increased by $1.0 million, and acquisition costs net of tax for 2018 increased by $0.6 million, all as a result of the recent acquisition activity of the Corporation.

Adjusted Net Earnings per share increased by 12% compared to the third quarter of 2017 as a result of higher Adjusted Net Earnings and was 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 September 30		2018		2017
Cash flows from operations	$	19,563	$	58,923
Change in non-cash working capital items		44,004		(3,092)
Acquisition costs, net of tax		652		18
	$	64,219	$	55,849
per share – Basic	$	2.04	$	1.81
per share - Fully Diluted	$	1.76	$	1.58

Free Cash Flow generated by the Corporation was $64.2 million, an increase of $8.4 million or 15% over the comparative period. The most significant reasons for the increase are the increase in EBITDA and decrease in current taxes, offset partially by increases in interest costs.

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 $2.04 per share, an increase of 13% over the comparative period (fully diluted $1.76, an increase of 11%). Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

Changes in non-cash working capital 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. The most significant portion of the increase relates to the acquisition of two large aircraft in July that were expected to be sold in the third quarter and are now anticipated to be sold in the fourth quarter. In addition, the Corporation experienced slow payment on government receivables, continued to invest in deposits for Quest's US expansion and recognized a receivable for proceeds relating to an insurance claim, all of which are expected to reverse by the end of the year. The Corporation expects to monetize these investments during the fourth quarter, resulting in a corresponding cash inflow from working capital. A more detailed discussion of changes in working capital is included within *Section 3 – Investing Activities*.

Nine Month Results

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

	Nine Months Ended September 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 649,790	$ 237,865	$ -	$ 887,655
Expenses(1)	464,900	196,751	17,746	679,397
EBITDA	184,890	41,114	(17,746)	208,258
Depreciation of capital assets				88,400
Amortization of intangible assets				14,330
Finance costs - interest				38,650
Acquisition costs				1,893
Other				(1,471)
Earnings before income tax				66,456
Current income tax expense				14,963
Deferred income tax recovery				(830)
Net earnings				$ 52,323
Net earnings per share				$ 1.66
Adjusted net earnings				$ 67,690
Adjusted net earnings per share				$ 2.15

	Nine Months Ended September 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 608,023	$ 141,017	$ -	$ 749,040
Expenses(1)	422,693	125,947	15,017	563,657
EBITDA	185,330	15,070	(15,017)	185,383
Depreciation of capital assets				81,587
Amortization of intangible assets				7,990
Finance costs - interest				24,833
Acquisition costs				304
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				76,254
Current income tax expense				24,235
Deferred income tax recovery				(3,221)
Net earnings				$ 55,240
Net earnings per share				$ 1.78
Adjusted net earnings				$ 57,467
Adjusted net earnings per share				$ 1.86

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 $887.7 million, an increase of $138.6 million or 19% over the comparative period. Of the increase, $41.8 million was generated by the Aerospace & Aviation segment and $96.8 million was generated by the Manufacturing segment. The majority of the increase in the Manufacturing segment relates to the acquisition of Quest.

EBITDA of $208.3 million was generated by the Corporation during the year, an increase of $22.9 million or 12% 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 nine months ended September 30, 2018, the Corporation's head office costs increased by $2.7 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 $41.8 million or 7% to $649.8 million.

Revenue in the Legacy Airlines and Provincial increased by $35.5 million or 8%. The increase in revenue at the Legacy Airlines includes the benefit of the Kitikmeot contract, which commenced in the fourth quarter of 2017, increased revenue from previous Growth Capital Expenditures in the rotary wing operation after it expanded to provide new services 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 revenues for the current period increased by $6.3 million or 3%. US denominated revenues were up 5%; however, the revenue was negatively impacted by the stronger Canadian Dollar in the current period.

Regional One Revenue	Nine Months Ended September 30,		2018		2017		Variance	Variance %
Sales and service revenue		$	135,017	$	121,571	$	13,446	11%
Lease revenue			57,439		64,599		(7,160)	-11%
		$	192,456	$	186,170	$	6,286	3%

Sales and service revenue increased by 11% in the current period compared to the same period in 2017 driven by period over period increases in sales of whole aircraft and engine assets and service fee income. As with the three month period, sales of whole aircraft and engine assets were a higher percentage of the total revenue within this stream than in the prior period.

Lease revenue decreased by $7.2 million in the current period compared to the same period in 2017 as a result of a lack of redelivery settlements which occurred in the comparative period, lower levels of utilization on the lease portfolio assets in the first part of the year and the change in foreign currency. 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 decreased by $0.4 million to $184.9 million.

EBITDA contributed by the Legacy Airlines and Provincial increased by $4.6 million or 4%. The increase in EBITDA is primarily driven by the acquisition of Moncton Flight College, which was acquired in the first quarter of 2018. In the Legacy Airlines, the increase is driven by higher revenue and operational efficiencies. Increased capacity sharing across airline subsidiaries and the benefit of investment in additional aircraft partway through 2017 which 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 and continued increases during the third quarter had an immediate impact putting downward pressure on EBITDA. In addition, the well-documented industry-wide labour shortage also increased costs during the period 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 was negatively impacted in the second quarter by a customer's labour strike in Labrador that created unused capacity, which was resolved in the third quarter.

Regional One's EBITDA was down $5.0 million or 6% from the prior year's record levels. This is attributable to the change in revenue mix, with high-margin lease revenue decreasing $7.2 million from the comparative period. As discussed above, the main factor driving the lower lease revenue was the lower redelivery settlements and lower levels of utilization of the lease portfolio in the first part of the year. The lower utilization was the result of some of the recently acquired CRJ900 aircraft being in between leases. Most of the CRJ900 aircraft were deployed in the third quarter improving the utilization of the aircraft during the seasonally higher travel period in the summer months. The strong Canadian Dollar also negatively impacted the converted value of Regional One's US Dollar EBITDA in the period.

Manufacturing Segment

Manufacturing segment revenue increased by $96.8 million or 69% to $237.9 million. EBITDA also increased by $26.0 million or 173% to $41.1 million. The acquisition of Quest midway through the fourth quarter of 2017 is the largest contributor to these increases.

In addition to the $20.8 million of EBITDA contributed by Quest, the remaining manufacturing entities collectively experienced strong growth in revenue and EBITDA compared to the first nine months of 2017. Revenues for these entities increased compared to 2017 resulting in growth in EBITDA of $5.2 million or 35% over the same period. This increase in revenue and EBITDA was principally driven by WesTower, Ben Machine and the Alberta Operations. WesTower continues to benefit from operational changes made in the last 18 months and the expansion of its service offerings to customers. Ben Machine continues to benefit from high levels of defence spending worldwide and is seeing returns on Growth Capital Expenditures previously made to expand its production capacity. The Alberta Operations have been positively impacted by the slow but steady economic recovery in its markets. The remaining entities within the segment were relatively flat to the prior period.

NET EARNINGS

Nine Months Ended September 30	2018	2017	Variance	Variance %
Net Earnings	$ 52,323	$ 55,240	$ (2,917)	-5%
Net Earnings per share	$ 1.66	$ 1.78	$ (0.12)	-7%

Net Earnings was $52.3 million, a decrease of $2.9 million or 5%. The most significant variances to the prior period in 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 $22.9 million or 12% and the decrease in taxes outpaced the growth in interest costs, depreciation, amortization and acquisition costs during the period. During the current nine 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 and Judgments).*

As a result of the recent acquisition activity of the Corporation, year over year after tax increases in amortization of intangible assets, interest accretion on contingent consideration and acquisition costs have resulted in decreased Net Earnings of $7.6 million, which offsets a large portion of the substantive increase in EBITDA. Intangible asset amortization, net of tax, increased by $4.6 million over the comparative period as a result of the intangible assets recognized with the purchases of Quest and Moncton Flight College. Non-cash interest accretion on contingent consideration increased by $1.6 million as a result of the earn out portions of the purchase prices of Quest and Moncton Flight College. On acquisition, the Corporation is required to assign a fair value to the expected earn out, which includes discounting the expected earn out for the time value of money. The interest accretion recorded accretes the liability to the amount that we expect to pay to the vendors. The accretion does not reflect a change in our estimate of the expected payment to the vendors. Acquisition costs, net of tax, increased by $1.4 million compared to the prior period as a result of acquisition activity throughout the period.

Interest costs have increased by $13.8 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, recent acquisition activity by the Corporation has resulted in non-cash interest accretion on contingent consideration of $1.6 million for which there is no comparative. Finally, 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 $6.8 million or 8% mainly as a result of the purchases of capital assets during 2017 and throughout 2018, 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 $6.9 million and the effective rate of tax has decreased to 21.3% from 27.6%. The proportion of pre-tax earnings has shifted to lower tax rate jurisdictions in comparison to the first nine 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 2% increase in the weighted average number of shares outstanding compared to the first nine 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)*

Nine Months Ended September 30,		2018		2017
Net Earnings	$	52,323	$	55,240
Acquisition costs, net of tax		1,696		304
Amortization of intangible assets, net of tax		10,461		5,833
Interest accretion on acquisition contingent consideration		1,614		-
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	$	67,690	$	57,467
per share – Basic	$	2.15	$	1.86
per share – Diluted	$	2.05	$	1.77

Adjusted Net Earnings increased by 18% to $67.7 million over the same period in 2017. Consistent with the factors identified in the three month discussion, the nine month Adjusted Net Earnings included the add back of acquisition related costs, including increases, net of tax, of $4.6 million in intangible asset amortization, $1.6 million in interest accretion on contingent consideration, and $1.4 million in acquisition costs. In addition, the nine month period was increased by $1.6 million by the after tax accelerated interest accretion on the early redemption of the Corporation's 2020 convertible debentures.

Adjusted Net Earnings per share increased by 16% compared to the first nine months of 2017 as a result of increased Adjusted Net Earnings, slightly offset by the 2% 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 Nine Months Ended September 30,		2018		2017
Cash flows from operations	$	64,230	$	100,817
Change in non-cash working capital items and long-term deferred revenue		97,674		40,248
Acquisition costs, net of tax		1,696		304
	$	163,600	$	141,369
per share – Basic	$	5.19	$	4.56
per share - Fully Diluted	$	4.57	$	4.01

The Free Cash Flow generated by the Corporation for the first nine months of 2018 was $163.6 million, an increase of $22.2 million or 16% over the comparative period. The main reasons for this increase are the $22.9 million or 12% increase in EBITDA and the decrease in 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 2% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $5.19 per share, an increase of 14% over the comparative period (fully diluted $4.57, 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 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. In addition to the items identified in the three month discussion, the increase in working capital in the nine month period was driven primarily by increased business volumes, deposits on equipment for Quest's new US facility and the sale of an aircraft by Regional One in the first quarter for which collection will occur in the fourth quarter and is backed by a letter of credit. As a result of the monetization of one-time items identified above and in the three month discussion, the Corporation expects a significant inflow from working capital in the fourth quarter of 2018. A more detailed 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
Working capital and other post-closing adjustments	(242)
Contingent cash consideration - earn out	15,902
Total purchase consideration	$ 47,034

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.

Fair value of assets acquired:	
Cash	$ 1,193
Accounts receivable	840
Inventory	1,682
Prepaid expenses and deposits	160
Capital assets	10,342
Intangible assets	21,100
	35,317
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	1,446
Income taxes payable	4,097
Deferred revenue	2,225
Deferred income tax liabilities	5,423
Fair value of identifiable net assets acquired	22,126
Goodwill	24,908
Total purchase consideration	$ 47,034

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 has invested $25.3 million in Wasaya, of which $13.0 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 September 30, 2018			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 22,275	$ 440	$ 62	$ 22,777
add: finance lease principal payments	-	339	-	339
Maintenance Capital Expenditures	22,275	779	62	23,116
Growth Capital Expenditures	13,602	1,484	-	15,086
	$ 35,877	$ 2,263	$ 62	$ 38,202

	Three Months Ended September 30, 2017			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 19,066	$ 380	$ 231	$ 19,677
add: finance lease principal payments	-	196	-	196
Maintenance Capital Expenditures	19,066	576	231	19,873
Growth Capital Expenditures	20,416	355	-	20,771
	$ 39,482	$ 931	$ 231	$ 40,644

	Nine Months Ended September 30, 2018			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 79,924	$ 1,752	$ 383	$ 82,059
add: finance lease principal payments	-	917	-	917
Maintenance Capital Expenditures	79,924	2,669	383	82,976
Growth Capital Expenditures	13,694	3,733	-	17,427
	$ 93,618	$ 6,402	$ 383	$ 100,403

	Nine Months Ended September 30, 2017			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 74,792	$ 1,109	$ 665	$ 76,566
add: finance lease principal payments	-	605	-	605
Maintenance Capital Expenditures	74,792	1,714	665	77,171
Growth Capital Expenditures	111,568	1,041	-	112,609
	$ 186,360	$ 2,755	$ 665	$ 189,780

Aerospace & Aviation

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the three and nine months ended September 30, 2018 were $13.5 million and $54.2 million, respectively, an increase of 17% for the three month period and an increase of 7% for the nine month period. The variances in both the three and nine month periods relate to an increase in the fleet of aircraft and the timing of maintenance events, which includes the impact of additional aircraft engine events in 2018 compared to 2017 and is consistent with our expectations and with our previous disclosures. In addition, the acquisition of Moncton Flight College increased Maintenance Capital Expenditures during the three and nine month periods. During the three and nine months ended September 30, 2018, the Legacy Airlines and Provincial invested $4.9 million and $12.3 million, respectively, in Growth Capital Expenditures. These expenditures primarily relate to increased infrastructure to support the northern operation, a second base and an additional aircraft 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 aircraft is in service after receiving its final certification during the fourth quarter. 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 nine months ended September 30, 2018 were $8.8 million and $25.7 million, respectively, and slightly higher than the comparative periods. 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	September 30, 2018		December 31, 2017	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	43	55	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 nine months ended September 30, 2018, Regional One incurred Growth Capital Expenditures of $8.7 million and $1.4 million, respectively. For the first six months of 2018, Regional One incurred negative Growth Capital Expenditures due to timing differences between when assets in the lease portfolio were sold or parted-out and the replacement of these assets. During the third quarter, the timing of purchases resulted in positive Growth Capital Expenditures in both the three and nine month periods. 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 the nine months ended September 30, 2018, the investment in inventory has totaled $30.0 million, resulting in a net increase in investment in Regional One of $31.4 million when combined with growing the leasing portfolio, including the investment in two ERJ 170 aircraft. 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 nine month period from the comparative period. The largest portion of the decrease relates to significantly lower Growth Capital Expenditures during the nine months ended September 30, 2018, decreasing by $95.2 million. The Corporation completed the purchase of its fleet of CRJ900 aircraft in the first half of 2017, and, as previously communicated, Growth Capital Expenditures have decreased 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 $0.8 million made by the Manufacturing segment during the third quarter of 2018 is an increase of $0.2 million from the comparative period. Maintenance Capital Expenditures of $2.7 million for the first nine months of 2018 reflect an increase of $1.0 million from the comparative period. The increase for the nine month period is mainly the result of the Quest acquisition.

Growth Capital Expenditures of $1.5 million in this segment for the third quarter are mainly due to Quest's US expansion as well as the purchase of equipment by Ben Machine to increase production capacity in response to the growth in demand. Growth Capital Expenditures for the nine months 2018 were $3.7 million and are mainly due to Quest's US expansion as well as the purchase of equipment by Stainless and Ben Machine required for increasing capacity.

INVESTMENT IN WORKING CAPITAL

During the first nine months of 2018, the Corporation invested $97.7 million into working capital across several entities. Approximately $6 million of the increase relates to deposits on equipment for Quest's US expansion which is expected be received and capitalized in the fourth quarter. The remaining investment, exclusive of items expected to be monetized in the fourth quarter, was made to support increased operations and future growth.

The drivers of a reduction in working capital investment in the fourth quarter include large aircraft sales at Regional One, higher government receivables from increased air services provided in the busier third quarter which will decrease over the remainder of the year and the outstanding aircraft sale receivable backed by a letter of credit which will be paid by the end of the year. In addition, the equipment deposits for Quest's new plant are expected to be capitalized in the fourth quarter, resulting in a decrease in prepaid expenses and deposits. The Corporation expects these investments will be monetized during the fourth quarter, resulting in a corresponding cash inflow from working capital.

The remaining investment in working capital is largely driven by the 19% increase in revenue over the comparative period. This investment in working capital included funding the growth of Quest's operations, which has outperformed our internal expectations and as a result has required additional investment in working capital. Finally, the Corporation continued to invest in Regional One's inventory of parts and aircraft for resale as Regional One has continued to demonstrate an ability to generate exceptional returns on investment.

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.

Detail of the increase is included in Note 16 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

4. DIVIDENDS AND PAYOUT RATIOS

The payment of stable and growing dividends to shareholders is a cornerstone goal of the Corporation. We 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

Month	2018 Record date	2018 Per Share	2018 Dividends Amount	2017 Record date	2017 Per Share	2017 Dividends 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
July	July 31, 2018	0.1825	5,754	July 31, 2017	0.175	5,402
August	August 31, 2018	0.1825	5,735	August 31, 2017	0.175	5,383
September	September 28, 2018	0.1825	5,726	September 29, 2017	0.175	5,367
Total		$ 1.6275	$ 51,305		$ 1.575	$ 48,797

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 in excess of current cash flows.

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.

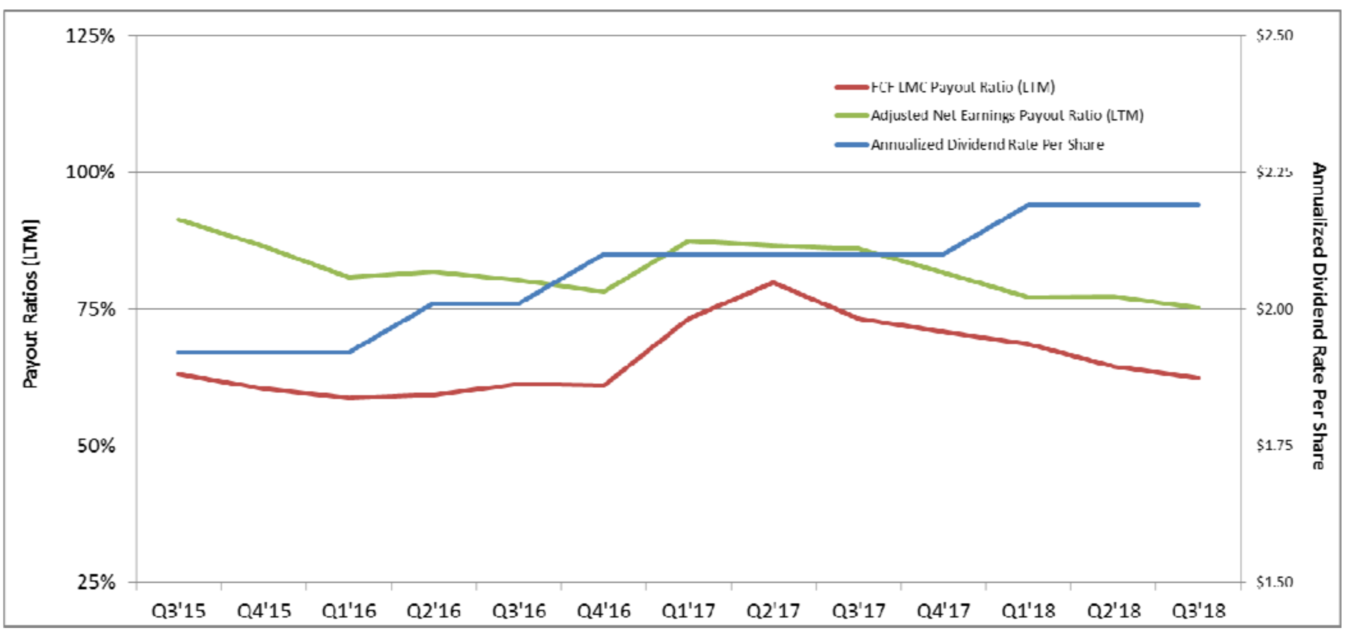
Payout Ratios

Basic per Share Payout Ratios for the Corporation	2018		2017	
periods ended September 30	Three Months	Trailing Twelve Months	Three Months	Trailing Twelve Months
Adjusted Net Earnings	*58%*	*75%*	*63%*	*86%*
Free Cash Flow less Maintenance Capital Expenditures	*42%*	*62%*	*45%*	*73%*

The Corporation's three month Adjusted Net Earnings payout ratio and three month Free Cash Flow less Maintenance Capital Expenditures payout ratio both improved over the prior period. The trailing twelve month payout ratios have both improved materially, from 86% to 75% on an Adjusted Net Earnings basis and from 73% to 62% 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 nine 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 material 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 $320 million of available capital.

Aerospace & Aviation Segment

The investments and initiatives discussed last quarter are consistent themes of our current outlook. EIC continues to execute on these initiatives while putting in place strategies to deal with the labour shortages and fuel price increases facing the aviation industry as a whole.

Provincial's demonstrator surveillance aircraft received its final design approvals from Transport Canada. This is a highly modified aircraft which made the Canadian regulatory approval process more challenging than we anticipated. This prototype surveillance platform aircraft is the first of its kind and the customer demand for the aircraft from multiple government bodies has been strong. The aircraft went into service in the fourth quarter and will contribute to results for the remainder of the year.

As discussed in the last outlook, Regional One has further invested in the ERJ product line. Similar to our strategy on the CRJ platform, our investment started with the smaller ERJ145 model and the knowledge gained on that product was levered into the larger ERJ170 aircraft. In the third quarter Regional One took delivery of two ERJ170 aircraft and plans to sell both these aircraft. As these aircraft are held for sale and not for lease, they are shown as an increase in inventory in the third quarter which will reverse when the aircraft are sold. Regional One will continue to look for opportunities such as these in the market. Parts, engine and aircraft sales in the other product lines continues to be strong. Lease revenues grew as the CRJ900 fleet experienced an increase in utilization as a result of its customers flying more in the busier summer months. Subsequent to quarter end, the number of these aircraft on long-term lease increased.

EIC's has responded to a number of significant request for proposals ("RFP") over the last year. Keewatin was successful in winning the medevac contract in the Baffin region as the incumbent. Keewatin now has long-term contracts to provide medevac services in all three regions of Nunavut. To meet the requirements of this contract, Keewatin purchased a Citation jet in the third quarter, will build an additional base in the high Artic in the fourth quarter, and will add a second Citation jet in the fourth quarter. This investment will not only increase the service to the customer but will also increase our revenue.

Provincial submitted a proposal in response to the Government of Canada's RFP 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 believe we are strongly positioned to continue to provide this service to the Government of Canada. We expect this contract to be awarded in the fourth quarter.

EIC also submitted a proposal in response to the Government of Manitoba's RFP for Air Services for Manitoba, in particular for medevac services. If EIC is successful in our proposal, the medevac revenue generated in the province of Manitoba would increase from our current levels. We expect there to be competition from both domestic and international companies for this contract. With the investment EIC has made in the Province of Manitoba including infrastructure and human resources, and our leading position in medevacs throughout Canada, we believe we are strongly positioned to provide this service to the Province of Manitoba. The government's assessment process for the medevac work will take a while and as such we don't expect this contract to be awarded until 2019.

Despite the strong overall outlook and exciting opportunities for our aviation companies, there are some immediate and long-term challenges. We have and continue to implement strategies to address these challenges.

Fuel prices have risen dramatically this year and while all our companies have implemented fuel surcharges to address these higher costs, there is always a delay in the fuel surcharges leading to a short-term impact on results. This impact on results was experienced throughout the first 9 months of the year, but we now have fuel surcharges in place that significantly mitigate the fuel cost impact fourth quarter results should be negligible at the current fuel price.

Provincial has a contract servicing a major contractor on the Muskrat Falls hydro project in Labrador. There has been a dispute between this contractor and Nalcor resulting in a temporary suspension of certain aspects of the project which has impacted flights.

This combined with continued weaker economic conditions in Newfoundland will impact Provincial's results in the fourth quarter. This will abate once the dispute is resolved or another contractor is put in place to continue this project.

As explained in the last quarter outlook, the pilot shortage covered in the media is very real. This pilot shortage will likely have a greater impact on regional airlines. As such, EIC has proactively developed a strategy to address this pilot shortage, providing it with an advantage over its competitors. This strategy is a fully integrated retention strategy, which utilizes our strength across our diverse aviation companies and incorporates the addition of Moncton Flight College, the largest flight training college in Canada. This strategy contains multiple initiatives that 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 continue to be implemented but will require some time to take effect. This will continue to create a negative impact on short-term results due to higher contractor and training costs.

Manufacturing Segment

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. In the third quarter Ben Machine continued its investment in additional equipment to meet customers' needs and Quest continues to invest in its second facility. When fully operational this new 330,000 square foot facility located in Texas will more than double capacity, which will lower the lead times in their backlog and facilitate further revenue growth in the future. Quest has begun to install equipment in this facility and their US senior management team has been in place for several months now. We are on track to open this facility early in 2019 and ramp production throughout the year.

This new Quest facility 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. The complete impact from the recent USMCA agreement is not fully known, however with the Texas facility in early 2019, the biggest potential cross border trade impact on our results will be mitigated. We do not foresee any other situations in our operations where trade policy will have a material impact on EIC results.

Capital Expenditures

Maintenance Capital Expenditures were in line with expectations in the third quarter and we expect Maintenance Capital Expenditures to be consistent with this level in the fourth quarter before seasonally increasing in the first quarter of 2019. This is consistent with EIC's strategy to perform as much maintenance as possible during the seasonally slower first quarter.

The growth projects from the third quarter will be completed in the fourth quarter. These include the material completion of Quest's new manufacturing facility in the US, a second Citation aircraft for Keewatin's new Baffin region contract, and additional CRJ200 aircraft for Regional One. In addition, we will add one Dash-8 aircraft to support increased business levels in the Legacy Airlines. As previously discussed, this will result in Growth Capital Expenditures for the full year in 2018 that are significantly lower than previous years.

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. 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. 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 September 30, 2018, the Corporation had a cash position of $25.2 million (December 31, 2017 of $72.3 million) and a net working capital position of $309.7 million (December 31, 2017 of $240.0 million) which represents a current ratio of 2.32 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 entire earn out for Quest and a portion of the earn out for Moncton Flight College are expected to be paid within a year and have now been reclassified into the current liabilities section on the balance sheet.

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 September 30, 2018 as calculated under the terms of our credit facility, which is adjusted for the impact of the timing of acquisitions and is inclusive of outstanding letters of credit at the balance sheet date, was 2.48 (December 31, 2017 – 1.86). Our leverage ratio at December 31, 2017 was 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.

	September 30 2018	December 31 2017
Total senior debt outstanding (principal value)	$ 704,674	$ 550,318
Convertible debentures outstanding (par value)	277,355	318,678
Common shares	588,022	576,471
Total capital	$ 1,570,051	$ 1,445,467

Credit facility

The size of the Corporation's credit facility as at September 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 September 30, 2018, the Corporation had drawn $216.0 million and US $377.5 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, the purchase of Moncton Flight College 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 entering into the swap 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 September 30, 2018, US $192.8 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 September 30, 2018 and the changes in the amount of convertible debentures outstanding during the nine months ended September 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	-	(2)	(64,978)	-
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	$ (92)	$ (121,731)	$ 277,355

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

Note 2) 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 nine months ended September 30, 2018:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		31,317,890
Issued upon conversion of convertible debentures	various	2,493
Issued under dividend reinvestment plan (DRIP)	various	157,174
Issued under deferred share plan	various	8,534
Shares cancelled under NCIB	various	(706,218)
Issued under First Nations community partnership agreements	various	8,000
Issued under employee share purchase plan	various	24,652
Issued to Moncton Flight College vendors on closing	February 28, 2018	176,102
Issued to Wasaya vendors on closing	April 19, 2018	385,908
Shares outstanding, end of period		31,374,535

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 157,174 shares under its dividend reinvestment plan ("DRIP") during the first nine months of 2018 and received $5.0 million for those shares in accordance with the DRIP.

During the first nine 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 nine months ended September 30, 2018 increased by 2% and 2%, 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 nine months of 2018, the Corporation purchased a total of 706,218 shares through its NCIB. The Corporation paid $23.3 million to purchase these shares at a weighted average purchase price of $33.06. 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 nature of related party transactions that the Corporation entered into during the nine months ended September 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 first quarter, 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 "Other" in 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 nine months ended September 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 nine months ended September 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.

Future Accounting Standard Change – IFRS 16 Leases

A new IFRS that sets out the accounting for leases will be effective for the year beginning on January 1, 2019. As a result of adopting this new standard, many of the Corporation's leases, that were previously accounted for as operating leases, will be accounted for by recognizing a "right to use" asset and a lease liability on the balance sheet. The Corporation's current intention is to adopt the new standard using the modified retrospective method. Under this method, the lease assets and liabilities will be measured by discounting the remaining lease payments using the incremental borrowing rate. Subsequently, the lease liability will be reduced by the lease payments made and interest expense will be recorded on the outstanding liability. Also, the right to use asset will be depreciated over the term of the lease. Lease payments will no longer be reflected as operating expenses in the Consolidated Statement of Income. Rather, interest expense related to the liability and depreciation related to the right to use asset will now be reflected as non-operating expenses.

As a result of adopting the new standard:

- Both assets and liabilities on the Consolidated Balance Sheet will increase;
- Operating expenses will decrease and therefore operating profit before depreciation, amortization, finance costs and other on the Consolidated Statement of Income will increase;
- Finance costs – interest on the Consolidated Statement of Income will increase; and
- Depreciation of capital assets on the Consolidated Statement of Income will increase.

The Corporation has reviewed all of its leases and performed preliminary calculations of the expected impact of adopting the standard. Efforts associated with the adoption of the new standard will continue during the remainder of 2018. The Corporation intends to disclose the expected impact of the adoption of this new standard in its Consolidated Financial Statements for the year ended December 31, 2018.

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 September 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 $27.2 million included in the consolidated results of the Company for the nine months ended September 30, 2018. As at September 30, 2018, these entities had current assets and non-current assets of $50.1 million and $129.2 million, respectively, and current liabilities and non-current liabilities of $32.6 million and $18.0 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 September 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	$ 308,179	$ 313,449	$ 266,027	$ 263,910	$ 253,367	$ 273,145	$ 222,528	$ 221,657	$ 224,620
EBITDA	79,174	75,071	54,013	63,315	71,964	70,071	43,348	51,304	60,012
Net earnings	24,162	19,547	8,614	16,920	23,902	25,779	5,559	13,822	20,581
Basic	0.77	0.62	0.27	0.55	0.78	0.83	0.18	0.48	0.72
Diluted	0.72	0.60	0.27	0.53	0.72	0.77	0.18	0.47	0.67
Adjusted net earnings	29,550	25,208	12,932	22,260	25,716	23,943	7,808	16,631	23,145
Basic	0.94	0.80	0.41	0.72	0.84	0.77	0.25	0.58	0.81
Diluted	0.86	0.76	0.40	0.68	0.77	0.72	0.25	0.56	0.74
Free Cash Flow ("FCF")	64,219	58,785	40,596	49,745	55,849	51,731	33,789	40,765	45,873
Basic	2.04	1.86	1.29	1.61	1.81	1.66	1.09	1.42	1.60
Diluted	1.76	1.66	1.15	1.45	1.58	1.46	0.98	1.25	1.37
FCF less maintenance capital expenditures	41,103	29,679	9,842	27,748	35,976	21,842	6,380	22,823	26,484
Basic	1.31	0.94	0.31	0.90	1.17	0.70	0.21	0.80	0.93
Diluted	1.16	0.90	0.31	0.86	1.05	0.66	0.20	0.74	0.84
Maintenance capital expenditures	23,116	29,106	30,754	21,997	19,873	29,889	27,409	17,942	19,389
Growth capital expenditures	15,086	301	2,040	15,768	20,771	33,048	58,790	44,760	53,268

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	September 30 2018	December 31 2017
ASSETS		
CURRENT		
Cash and cash equivalents	$ 25,229	$ 72,315
Accounts receivable	252,477	207,796
Costs incurred plus recognized profits in excess of billings	17,835	9,294
Inventory	216,976	178,397
Prepaid expenses and deposits	32,569	29,932
Income taxes receivable	-	5,072
	545,086	502,806
OTHER ASSETS (Note 7)	69,770	25,570
CAPITAL ASSETS	828,688	796,576
INTANGIBLE ASSETS	144,948	135,706
DEFERRED INCOME TAX ASSETS	-	258
GOODWILL	316,179	288,281
	$ 1,904,671	$ 1,749,197
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 187,857	$ 166,415
Income taxes payable	2,591	-
Deferred revenue (Note 3)	29,775	24,160
Billings in excess of costs incurred plus recognized profits	13,991	14,200
Current portion of long-term debt and finance leases (Note 8)	1,217	1,170
Current portion of convertible debentures (Note 9)	-	56,843
	235,431	262,788
LONG-TERM DEBT AND FINANCE LEASES (Note 8)	703,652	549,451
OTHER LONG-TERM LIABILITIES	28,998	34,493
DEFERRED REVENUE	4,355	6,934
CONVERTIBLE DEBENTURES (Note 9)	252,749	240,962
DEFERRED INCOME TAX LIABILITY	82,223	77,061
	1,307,408	1,171,689
EQUITY		
SHARE CAPITAL (Note 10)	588,022	576,471
CONVERTIBLE DEBENTURES - Equity Component (Note 9)	11,955	14,311
CONTRIBUTED SURPLUS	9,693	3,478
DEFERRED SHARE PLAN	12,512	9,867
RETAINED EARNINGS		
Cumulative Earnings (Note 3)	372,243	320,141
Cumulative Dividends	(407,023)	(355,718)
Cumulative impact of share cancellation under the NCIB (Note 10)	(22,317)	(12,074)
	(57,097)	(47,651)
ACCUMULATED OTHER COMPREHENSIVE INCOME	32,178	21,032
	597,263	577,508
	$ 1,904,671	$ 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		Nine Months Ended	
For the periods ended September 30	2018	2017	2018	2017
REVENUE				
Aerospace & Aviation	$ 226,565	$ 204,004	$ 649,790	$ 608,023
Manufacturing	81,614	49,363	237,865	141,017
	308,179	253,367	887,655	749,040
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	122,748	108,769	372,991	347,936
Manufacturing expenses - excluding depreciation and amortization	57,278	38,318	168,106	108,317
General and administrative	48,979	34,316	138,300	107,404
	229,005	181,403	679,397	563,657
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	79,174	71,964	208,258	185,383
Depreciation of capital assets	29,555	27,939	88,400	81,587
Amortization of intangible assets	5,179	2,460	14,330	7,990
Finance costs - interest	13,483	8,954	38,650	24,833
Acquisition costs	831	18	1,893	304
Gain on disposal on partnership interest, net of transaction costs (Note 7)	-	-	-	(5,585)
Other (Note 5)	-	-	(1,471)	-
EARNINGS BEFORE INCOME TAXES	30,126	32,593	66,456	76,254
INCOME TAX EXPENSE (RECOVERY)				
Current	3,465	8,955	14,963	24,235
Deferred	2,499	(264)	(830)	(3,221)
	5,964	8,691	14,133	21,014
NET EARNINGS	$ 24,162	$ 23,902	$ 52,323	$ 55,240
EARNINGS PER SHARE (Note 13)				
Basic	$ 0.77	$ 0.78	$ 1.66	$ 1.78
Diluted	$ 0.72	$ 0.72	$ 1.61	$ 1.71

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		Nine Months Ended	
For the periods ended September 30	2018	2017	2018	2017
NET EARNINGS	$ 24,162	$ 23,902	$ 52,323	$ 55,240
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 September 30 of $(7) and $(13), respectively and net of tax expense (recovery) for the nine months ended September 30 of $8 and $(34), respectively	(10,250)	(21,016)	16,896	(37,881)
Net gain (loss) on hedge of net investment in foreign operation, net of tax expense (recovery) for the three months ended September 30 of $491 and $877, respectively and net of tax expense (recovery) for the nine months ended September 30 of $(792) and $1,459, respectively	3,635	8,146	(5,750)	13,690
	(6,615)	(12,870)	11,146	(24,191)
COMPREHENSIVE INCOME FOR THE PERIOD	$ 17,547	$ 11,032	$ 63,469	$ 31,049

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	154	(10)	-	-	-	-	-	-	144
Shares issued under dividend reinvestment plan	5,001	-	-	-	-	-	-	-	5,001
Shares issued under First Nations community partnership agreements	245	-	-	-	-	-	-	-	245
Deferred share plan vesting	-	-	-	1,922	-	-	-	-	1,922
Deferred share plan issuance	199	-	-	-	-	-	-	-	199
Shares cancelled under NCIB	(11,019)	-	-	-	-	-	(8,375)	-	(19,394)
Comprehensive income	-	-	-	-	55,240	-	-	(24,191)	31,049
Dividends declared (Note 11)	-	-	-	-	-	(48,797)	-	-	(48,797)
Balance, September 30, 2017	$ 552,471	$ 11,235	$ 3,478	$ 9,129	$ 303,221	$ (339,428)	$ (8,770)	$ 19,458	$ 550,794
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)	99	(7)	-	-	-	-	-	-	92
Issued	-	3,866	-	-	-	-	-	-	3,866
Matured/Redeemed	-	(6,215)	6,215	-	-	-	-	-	-
Shares issued under dividend reinvestment plan (Note 10)	4,966	-	-	-	-	-	-	-	4,966
Shares issued under First Nations community partnership agreements (Note 10)	272	-	-	-	-	-	-	-	272
Deferred share plan vesting (Note 14)	-	-	-	2,816	-	-	-	-	2,816
Deferred share plan issuance	171	-	-	(171)	-	-	-	-	-
Shares issued under ESPP (Note 14)	816	-	-	-	-	-	-	-	816
Shares cancelled under NCIB (Note 10)	(13,097)	-	-	-	-	-	(10,243)	-	(23,340)
Comprehensive income	-	-	-	-	52,323	-	-	11,146	63,469
Dividends declared (Note 11)	-	-	-	-	-	(51,305)	-	-	(51,305)
Balance, September 30, 2018	$ 588,022	$ 11,955	$ 9,693	$ 12,512	$ 372,243	$ (407,023)	$ (22,317)	$ 32,178	$ 597,263

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended September 30	Three Months Ended 2018	Three Months Ended 2017	Nine Months Ended 2018	Nine Months Ended 2017
OPERATING ACTIVITIES				
Net earnings for the period	$ 24,162	$ 23,902	$ 52,323	$ 55,240
Items not affecting cash:				
Depreciation of capital assets	29,555	27,939	88,400	81,587
Amortization of intangible assets	5,179	2,460	14,330	7,990
Accretion of interest	2,303	1,272	7,822	3,668
Long-term debt discount (paid) accretion	(190)	(68)	(325)	84
Gain on sale of disposal of capital assets	(954)	(147)	(1,161)	(419)
Deferred income tax	2,499	(264)	(830)	(3,221)
Deferred share program share-based vesting (Note 14)	1,013	737	2,816	2,121
Gain on disposal of partnership interest	-	-	-	(5,985)
Consideration liability fair value adjustment (Note 5)	-	-	(1,471)	-
	63,567	55,831	161,904	141,065
Changes in non-cash operating working capital items (Note 16)	(44,004)	3,092	(97,674)	(40,248)
	19,563	58,923	64,230	100,817
FINANCING ACTIVITIES				
Proceeds from long-term debt & finance leases, net of issuance costs	45,448	19,928	140,756	59,875
Proceeds from issuance of debentures, net of issuance costs (Note 9)	-	-	76,597	-
Redemption of convertible debentures (Note 9)	(64,978)	-	(121,731)	-
Issuance of shares, net of issuance costs (Note 10)	2,477	1,690	6,054	97,995
Payment for repurchase of Shares under NCIB (Note 10)	(7,007)	(9,490)	(23,348)	(19,394)
Cash dividends (Note 11)	(17,215)	(16,152)	(51,305)	(48,797)
	(41,275)	(4,024)	27,023	89,679
INVESTING ACTIVITIES				
Purchase of capital assets	(50,340)	(55,170)	(142,747)	(222,183)
Proceeds from disposal of capital assets	13,079	15,303	45,112	34,835
Purchase of intangible assets	(602)	(581)	(1,851)	(1,827)
Cash outflow for acquisitions, net of cash acquired	(291)	-	(24,203)	-
Cash outflow for prior acquisition working capital settlement	-	(14)	-	(158)
Investment in other assets (Note 7)	219	(4,720)	(15,559)	(5,727)
	(37,935)	(45,182)	(139,248)	(195,060)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(59,647)	9,717	(47,995)	(4,564)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	85,463	14,113	72,315	26,494
EFFECTS OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(587)	(5,070)	909	(3,170)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 25,229	$ 18,760	$ 25,229	$ 18,760
Supplementary cash flow information				
Interest paid	$ 12,791	$ 4,757	$ 31,051	$ 17,412
Income taxes paid	$ 3,680	$ 6,947	$ 11,133	$ 25,718

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 September 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., Regional One Inc., and Quest USA Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

2. BASIS OF PREPARATION

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

In accordance with IFRS, these financial statements do not include all 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 November 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.

<u>Adoption of IFRS 15 *Revenue from Contracts with Customers*</u>

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.

<u>Revised Revenue Recognition Policy</u>

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”).

Future Accounting Standard Change – IFRS 16 Leases

A new IFRS that sets out the accounting for leases will be effective for the year beginning on January 1, 2019. As a result of adopting this new standard, many of the Corporation’s leases, that were previously accounted for as operating leases, will be accounted for by recognizing a “right to use” asset and a lease liability on the balance sheet. The Corporation’s current intention is to adopt the new standard using the modified retrospective method. Under this method, the lease assets and liabilities will be measured by discounting the remaining lease payments using the incremental borrowing rate. Subsequently, the lease liability will be reduced by the lease payments made and interest expense will be recorded on the outstanding liability. Also, the right to use asset will be depreciated over the term of the lease. Lease payments will no longer be reflected as operating expenses in the Consolidated Statement of Income. Rather, interest expense related to the liability and depreciation related to the right to use asset will now be reflected as non-operating expenses.

As a result of adopting the new standard:

- Both assets and liabilities on the Consolidated Balance Sheet will increase;
- Operating expenses will decrease and therefore operating profit before depreciation, amortization, finance costs and other on the Consolidated Statement of Income will increase;
- Finance costs – interest on the Consolidated Statement of Income will increase; and
- Depreciation of capital assets on the Consolidated Statement of Income will increase.

The Corporation has reviewed all of its leases and performed preliminary calculations of the expected impact of adopting the standard. Efforts associated with the adoption of the new standard will continue during the remainder of 2018. The Corporation intends to disclose the expected impact of the adoption of this new standard in its Consolidated Financial Statements for the year ended December 31, 2018.

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

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 first quarter, 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 "Other" of the Statement of Income.

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
Working capital and other post-closing adjustments		(242)
Contingent cash consideration - earn out		15,902
Total purchase consideration	$	47,034

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 $21,100 of intangible assets, including trade name and customer relationships. The preliminary allocation of the purchase price is reflected in the table that follows.

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

Fair value of assets acquired:		
Cash	$	1,193
Accounts receivable		840
Inventory		1,682
Prepaid expenses and deposits		160
Capital assets		10,342
Intangible assets		21,100
		35,317
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		1,446
Income taxes payable		4,097
Deferred revenue		2,225
Deferred income tax liabilities		5,423
Fair value of identifiable net assets acquired		22,126
Goodwill		24,908
Total purchase consideration	$	47,034

7. OTHER ASSETS

The other assets of the Corporation consist of the following:

		September 30 2018		December 31 2017
Long term security deposits	$	1,628	$	1,131
Long term receivables		16,790		4,068
Long term holdback receivables		4,055		-
Equity method investments		29,845		14,306
Other investments - Fair value through OCI		862		1,963
Loan to Wasaya		13,000		-
Loan to NGC		3,590		4,102
Total other assets	$	69,770	$	25,570

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.

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

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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. In connection with this transaction, the Corporation loaned $5,100 to NGC, of which $3,590 was outstanding at September 30, 2018. The loan is interest bearing and repayable over five years.

8. LONG-TERM DEBT AND FINANCE LEASES

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

	September 30 2018	December 31 2017
Revolving term facility:		
Canadian dollar amounts drawn	$ 216,000	$ 109,700
United States dollar amounts drawn (US$377,500 and US$351,230 respectively)	488,674	440,618
Total credit facility debt outstanding, principal value	704,674	550,318
less: unamortized transaction costs	(2,289)	(1,707)
less: unamortized discount on outstanding Banker's Acceptances	(428)	(103)
Net credit facility debt	701,957	548,508
Finance leases	2,912	2,113
Total net credit facility debt and finance leases	704,869	550,621
less: current portion of finance leases	(1,217)	(1,170)
Long-term debt and finance leases	$ 703,652	$ 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 September 30, 2018.

The Corporation amended its credit facility to increase its size and extend its term during the nine months ended September 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 nine months ended September 30, 2018 for the long-term debt and finance leases was $7,568 and $20,578, respectively (2017 – $4,816 and $12,469, respectively).

Credit Facility

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

	Nine Months Ended September 30, 2018				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 109,700	$ 230,300	$ (124,000)	$ -	$ 216,000
United States dollar portion	440,618	153,253	(119,607)	14,410	488,674
	$ 550,318				$ 704,674

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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) On July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible debentures which were due March 31, 2020.

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	(2)	(64,978)	-
Unsecured - 2014	26,833	-	256	-	-	27,089
Unsecured - 2016	65,041	-	460	-	-	65,501
Unsecured - 2017	94,762	-	662	-	-	95,424
Unsecured - 2018	-	74,932	159	-	-	75,091
						263,105
less: unamortized transaction costs						(10,356)
Convertible Debentures - Debt Component, end of period						$ 252,749

During the nine months ended September 30, 2018, convertible debentures totaling a face value of $92 were converted by the holders at various times into 2,493 shares of the Corporation (2017 – $148 face value into 4,144 shares).

On July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible debentures which were to mature on March 31, 2020. On the redemption date, the remaining outstanding debentures with a face value of $64,978 were redeemed by the Corporation.

Interest expense recorded during the three and nine months ended September 30, 2018 for the convertible debentures was $4,960 and $16,459, respectively (2017 – $4,138 and $12,364, respectively).

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.

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

The June 2018 convertible unsecured debentures have $80,500 of principal outstanding as at September 30, 2018 and mature in June 2025.

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:

	September 30 2018	December 31 2017
Unsecured Debentures - 2012	$ -	$ 3,160
Unsecured Debentures - 2013	-	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	3,866	-
Convertible Debentures - Equity Component, end of period	$ 11,955	$ 14,311

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

10. SHARE CAPITAL

Changes in the shares issued and outstanding during the nine months ended September 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	2,493	99
Issued under dividend reinvestment plan	157,174	4,966
Issued under First Nations community partnership agreements	8,000	272
Issued under deferred share plan	8,534	171
Shares cancelled under NCIB	(706,218)	(13,097)
Issued under employee share purchase plan	24,652	816
Issued to Moncton Flight College vendors on closing (Note 6)	176,102	5,998
Issued to Wasaya vendors on closing (Note 7)	385,908	12,326
Share capital, end of period	31,374,535	$ 588,022

On January 31, 2018, the Corporation received approval from the TSX for the renewal of its NCIB and during the nine months ended September 30, 2018 purchased a total of 706,218 shares. The Corporation purchased the shares at an average cost of $33.06 per share for aggregate consideration of $23,348 before the impact of deferred tax. All of the shares repurchased under NCIB were cancelled. The excess of the cost over the average book value of $10,243 was charged to retained earnings.

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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 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 nine months ended September 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
July	July 31, 2018	0.1825	5,754	July 31, 2017	0.175	5,402
August	August 31, 2018	0.1825	5,735	August 31, 2017	0.175	5,383
September	September 28, 2018	0.1825	5,726	September 29, 2017	0.175	5,367
Total		$ 1.6275	$ 51,305		$ 1.575	$ 48,797

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

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.

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

	Three Months Ended September 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 226,565	$ 81,614	$ -	$ 308,179
Expenses	155,703	67,544	5,758	229,005
EBITDA	70,862	14,070	(5,758)	79,174
Depreciation of capital assets				29,555
Amortization of intangible assets				5,179
Finance costs - interest				13,483
Acquisition costs				831
Earnings before income tax				30,126
Current income tax expense				3,465
Deferred income tax expense				2,499
Net earnings				$ 24,162

	Three Months Ended September 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 204,004	$ 49,363	$ -	$ 253,367
Expenses	131,817	43,773	5,813	181,403
EBITDA	72,187	5,590	(5,813)	71,964
Depreciation of capital assets				27,939
Amortization of intangible assets				2,460
Finance costs - interest				8,954
Acquisition costs				18
Earnings before income tax				32,593
Current income tax expense				8,955
Deferred income tax recovery				(264)
Net earnings				$ 23,902

	Nine Months Ended September 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 649,790	$ 237,865	$ -	$ 887,655
Expenses	464,900	196,751	17,746	679,397
EBITDA	184,890	41,114	(17,746)	208,258
Depreciation of capital assets				88,400
Amortization of intangible assets				14,330
Finance costs - interest				38,650
Acquisition costs				1,893
Other (Note 5)				(1,471)
Earnings before income tax				66,456
Current income tax expense				14,963
Deferred income tax recovery				(830)
Net earnings				$ 52,323

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

	Nine Months Ended September 30, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 608,023	$ 141,017	$ -	$ 749,040
Expenses	422,693	125,947	15,017	563,657
EBITDA	185,330	15,070	(15,017)	185,383
Depreciation of capital assets				81,587
Amortization of intangible assets				7,990
Finance costs - interest				24,833
Acquisition costs				304
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				76,254
Current income tax expense				24,235
Deferred income tax recovery				(3,221)
Net earnings				$ 55,240

	For the period ended September 30, 2018			
	Aerospace & Aviation	Manufacturing	Head Office(1)	Consolidated
Total assets	$ 1,523,783	$ 332,606	$ 48,282	$ 1,904,671
Net capital asset additions, excluding finance leases	91,777	5,475	383	97,635

	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.

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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.

Revenue Streams	Periods Ended September 30	Three Months Ended 2018	Three Months Ended 2017	Nine Months Ended 2018	Nine Months Ended 2017
Aerospace & Aviation Segment					
Sale of goods - point in time		$ 132,638	$ 113,984	$ 375,534	$ 348,653
Sales of services - point in time		92,335	88,975	269,789	255,383
Sale of services - over time		1,592	1,045	4,467	3,987
Manufacturing Segment					
Sale of goods - point in time		41,443	16,323	129,991	46,943
Sale of services - over time		40,171	33,040	107,874	94,074
Total revenue		$ 308,179	$ 253,367	$ 887,655	$ 749,040

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.

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

Periods Ended September 30	Three Months Ended 2018	Three Months Ended 2017	Nine Months Ended 2018	Nine Months Ended 2017
Net earnings for the period, available to common shareholders	$ 24,162	$ 23,902	$ 52,323	$ 55,240
Effect of dilutive securities				
Convertible debentures	3,621	3,020	3,806	9,026
Diluted earnings for the period	$ 27,783	$ 26,922	$ 56,129	$ 64,266
Basic weighted average number of Shares	31,462,652	30,787,935	31,499,419	30,971,123
Effect of dilutive securities				
Vested deferred shares	809,630	631,718	809,630	631,718
Convertible debentures	6,277,094	5,882,443	2,483,034	5,883,371
Diluted basis weighted average number of Shares	38,549,376	37,302,096	34,792,083	37,486,212
Earnings per share:				
Basic	$ 0.77	$ 0.78	$ 1.66	$ 1.78
Diluted	$ 0.72	$ 0.72	$ 1.61	$ 1.71

14. EMPLOYEE BENEFITS

Deferred Share Plan

During the nine month period ended September 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 nine months ended September 30, 2018, the Corporation recorded compensation expense of $1,013 and $2,816, respectively for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2017 - $737 and $2,121, 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 three month period ended September 30, 2018, employees acquired 13,302 shares from Treasury at a weighted average price of $32.29 per share, effective September 17, 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 $158 based on the share price and monthly dividend rate as at that time. During the nine month period ended September 30, 2018, employees acquired 24,652 shares at a weighted average price of $33.11 per share.

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 $377,500 or $488,674 (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 $19,000 (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 $165,650 (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 September 30, 2018 was a loss of $420 (December 31, 2017 - loss of $5,748). At September 30, 2018, the notional value of the swaps outstanding is US $192,800 (December 31, 2017 - US $194,700).

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

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 September 30, 2018:

- US $377,500 (December 31, 2017 – US $351,000) was outstanding under US LIBOR,
- nil (December 31, 2017 – US $230) was outstanding under US Prime,
- nil (December 31, 2017 – $66,500) was outstanding under Prime, and
- $216,000 (December 31, 2017 – $43,200) was outstanding under Banker's Acceptances.

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

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 September 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	$ (33,347)	$ -	$ -	$ (33,347)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(420)	-	(420)	-
Fair Value Disclosures				
Other assets - Amortized cost	39,063	-	39,063	-
Other assets - Fair value through OCI	862	-	-	862
Long term debt - Amortized cost	(701,957)	-	-	(704,674)
Convertible debt - Amortized cost	(252,749)	(281,435)	-	-

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		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.

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 For the periods ended	September 30 2018	December 31 2017
Opening	$ 17,410	$ 3,765
Accretion	1,614	238
Settled during the period	(108)	(463)
Change in estimate (Note 5)	(1,471)	-
Acquisition of Quest	-	13,889
Acquisition of CANLink	15,902	-
Translation (gain)/loss	-	(19)
Ending	$ 33,347	$ 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 $33,347 above is the earn outs for CarteNav, Quest and 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. At December 31, 2017, 87,642 shares were in escrow and subsequently 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 second quarter.

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

Financial Instrument Fair Value Disclosures

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

As at September 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 September 30, 2018, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $281,435 (December 31, 2017 - $323,815) with a carrying value of $252,749 (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.

16. CHANGES IN WORKING CAPITAL ITEMS

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

	Three Months Ended		Nine Months Ended	
Periods Ended September 30	2018	2017	2018	2017
Accounts receivable, including long-term portion	$ (2,028)	$ (24,583)	$ (51,742)	$ (43,791)
Costs incurred plus recognized profits in excess of billings	(2,737)	(2,483)	(8,450)	(4,507)
Inventory	(20,494)	1,534	(33,446)	(21,255)
Prepaid expenses and deposits	4,269	2,283	(2,301)	6,030
Accounts payable and accrued charges	(28,099)	26,132	(5,173)	29,877
Income taxes receivable/payable	(420)	1,891	3,530	(1,814)
Deferred revenue	3,224	(585)	3,046	(3,222)
Billings in excess of costs incurred plus recognized profits	3,305	90	(559)	1,837
Net change in working capital items	$ (42,980)	$ 4,279	$ (95,095)	$ (36,845)

For the three and nine months ended September 30, 2018, long-term deferred revenue decreased by $1,024 and $2,579 respectively (September 30, 2017 – $1,187 and $3,403, respectively) and is reflected with the change in working capital from the table above on the statement of cash flows.