Exchange Income Corporation

First Quarter Report

For the three months ended March 31, 2016

CEO's Message

At EIC we pride ourselves on the consistency of our strategy and its implementation. In our original prospectus in 2004, we stated *"The Fund's long term objective is to provide Unitholders with stable cash distributions from investments in a diversified portfolio of companies".* It is our commitment to that strategy which has enabled us to deliver over 12 years of reliable and growing dividends to our shareholders. Never has the power of this simple strategy, executed with diligence and commitment, been more evident than in the first quarter of 2016, our best first quarter to date. Record performance on every metric has enabled us to increase our dividend not only for the 11th time in our existence, but also for the third time in the last 18 months.

First quarter highlights include:

- Revenue grew by 25% to $217.9 million
- EBITDA increased by 43% to $44.3 million
- Net Earnings grew by over 900% to $9.9 million
- On a basic per share basis Net Earnings grew by 800% to $0.36
- On a basic per share basis Free Cash Flow less maintenance capital expenditure increased 53% to $0.61
- Our quarterly dividend payout ratio declined significantly to 79% from 109%
- Our trailing twelve month dividend payout ratio fell to 59%
- Announced a dividend increase of 5% to $2.01 per annum
- Organic EBITDA growth, that is excluding the addition of Ben Machine, was $11.3 million, an increase of 36%

We are particularly proud of the improvement in our payout ratio. Even after two dividend increases in the last 18 months, our first quarter payout ratio has declined dramatically to 79%. This compares with 109% last year and an average of 194% over the last five years. Many of you are familiar with the fact that the first quarter of the year is seasonally the weakest for EIC because of the availability of winter roads and the reduction in demand for our airlines. We have worked diligently on improving our first quarter results through enhanced diversification, which limits the impact of seasonality, and by improving the profitability of our existing subsidiary operations. Our payout ratio for the trailing 12 months has fallen below 60% to 59%. This marks the eighth consecutive quarter where our trailing twelve month payout ratio has declined.

EIC is an acquisition driven company and occasionally a major acquisition results in significant growth in our financial metrics. This is not the case in our first quarter of 2016 however. Ben Machine is the only subsidiary we did not have in the comparative period. Ben Machine contributed approximately $2 million of the $13 million improvement in EBITDA, meaning that approximately $11 million or an increase of 36% is organic. While we do not expect every quarter to produce this level of organic improvement, as Regional One in particular had an exceptional quarter, it shows that EIC does not need to make acquisitions in order to provide meaningful growth for our shareholders. This reinforces our strategy of being very disciplined in making acquisitions; not only in which companies we buy, but also in how much we pay and how we fund the purchase. We will only invest in acquisitions when we can buy strong companies that are immediately and sustainably accretive to shareholders. When no such opportunities exist, improved financial performance can be fueled through organic growth and enhanced operating performance.

The strength of our first quarter results suggest that all of our subsidiary operations were running at peak performance, but that is not the case. Our manufacturing businesses in general and our Alberta Operations in particular suffered from weak demand and a challenging environment. The difficult situation in manufacturing however was more than offset by the strength in other areas, demonstrating the resiliency of our model. Continued strong performance in our Legacy Airlines and growth in our aerospace operations have driven this improvement. Provincial has begun work on its new contract in the Middle East awarded last fall, and Regional One has enjoyed a stellar quarter as the monetization of the CRJ700 fleet has picked up speed. In addition to generating parts and leasing revenue, Regional One was able to sell operating aircraft as well which resulted in a truly exceptional quarter. As we have said since its acquisition, the Regional One business can be somewhat lumpy and this was just that, a very strong quarter.

We continue to invest in the Regional One platform. In the first quarter we acquired our first two CRJ900 aircraft. We are excited about the addition of this aircraft type to the company's portfolio.

Our balance sheet is strong with over $200 million of available capital to invest in acquisitions and organic growth opportunities. As in the past, however, we will only make these investments when they meet our stringent investment criteria, and are immediately accretive to our shareholders.

Our dividend increase of approximately 5% marks our third increase in the last 18 months, for a total dividend increase of 20% over this time period. Our business model at EIC is clear and consistent, to provide our shareholders with a reliable and growing dividend. It has not changed since the prospectus filed for our IPO and we have no plans to change it in the future. I want to thank all of our shareholders for their continuing support and we look forward to updating you on our performance throughout 2016.

Mike Pyle
Chief Executive Officer

Management's Discussion and Analysis

May 10, 2016

FORWARD-LOOKING STATEMENTS

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

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

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

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement.

INTRODUCTION

This MD&A supplements the unaudited interim condensed consolidated financial statements and related notes for the three months ended March 31, 2016 ("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 months ended March 31, 2016, its annual financial statements for the year ended December 31, 2015 and its annual MD&A for the year ended December 31, 2015. These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements.

1. FINANCIAL HIGHLIGHTS

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

FINANCIAL PERFORMANCE	2016	per share basic	per share fully diluted	2015	per share basic	per share fully diluted
For the three months ended March 31						
Revenue	$ 217,898			$ 173,935		
EBITDA	44,331			31,080		
Net earnings	9,873	$ 0.36	$ 0.35	934	$ 0.04	$ 0.04
Adjusted net earnings	12,008	0.43	0.43	3,651	0.16	0.16
Free Cash Flow	34,890	1.26	1.10	23,926	1.04	0.88
Free Cash Flow less maintenance capital expenditures	16,801	0.61	0.58	9,109	0.40	0.39
Free Cash Flow less maintenance capital expenditures payout ratio		79%	83%		109%	112%
Dividends declared	13,258	0.48		10,038	0.435	
FINANCIAL POSITION	March 31, 2016			December 31, 2015		
Working capital	$ 159,877			$ 135,310		
Capital assets	559,474			542,629		
Total assets	1,251,103			1,229,056		
Senior debt and finance leases	355,669			304,886		
Equity	426,838			446,618		
SHARE INFORMATION	March 31, 2016			December 31, 2015		
Common shares outstanding	27,628,417			27,633,217		
	March 31, 2016			March 31, 2015		
Weighted average shares outstanding during the period - basic	27,623,261			23,058,447		

2. OVERVIEW

EXCHANGE INCOME CORPORATION

The Corporation is a diversified, acquisition-oriented corporation focused on opportunities in two sectors: 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 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: Aviation and Manufacturing.

(a) Aviation – includes a variety of operations within the aviation industry. It includes providing scheduled airline and charter service and emergency medical services to communities located in Manitoba, Ontario and Nunavut. These services are provided by: Calm Air, Perimeter, Keewatin, Bearskin, Custom Helicopters, 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 provides scheduled airline and charter service 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 has maritime surveillance and support operations in Canada, the Caribbean and the Middle East. Together all of these operations make up the 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. The operations of WesTower CDA are focused on the engineering, design, manufacturing and construction of communication towers. Stainless manufactures specialized stainless steel tanks, vessels and processing equipment. The Alberta Operations manufactures specialized heavy duty pressure washing and steam systems, commercial water recycling systems and custom tanks for the transportation of various products, primarily oil, gasoline and water. Overlanders manufactures precision sheet metal and tubular products. Ben Machine is a manufacturer of precision parts and components primarily used in the aerospace and defense sector.

Management of the Corporation continuously monitors the operating subsidiaries. The operating subsidiaries of the Corporation, however, operate autonomously and maintain their individual business identities. The Corporation will undertake future acquisitions as deemed beneficial to the Corporation.

3. KEY PERFORMANCE INDICATORS

The following section will quantify and analyze the key performance indicators of the Corporation. The Corporation continually monitors and evaluates its metrics and updates these metrics as required to ensure they provide information considered most useful in any decision-making based on the Corporation's performance.

The dividends declared by the Corporation to its shareholders are dependent on its cash flow from operating activities with consideration for changes in working capital requirements, investing activities and financing activities of the Corporation. The EBITDA, Free Cash Flow, and Free Cash Flow less maintenance capital expenditures generated from operations are important performance measures that are used by management to evaluate the performance of the Corporation.

EBITDA

The following reconciles net earnings before income taxes to EBITDA. Further discussion and analysis of EBITDA for the periods can be found in Section 4 – *Analysis of Operations*.

EBITDA	Three Months Ended March 31,	2016	2015
Earnings before income taxes		$ 15,688	$ 1,973
Depreciation and amortization		21,671	18,515
Finance costs - interest		6,908	8,398
Acquisition costs		64	2,194
		$ 44,331	$ 31,080

The EBITDA generated by the Corporation during the current period was $44.3 million, an increase of $13.3 million or 43% over the comparative period. The increase in EBITDA is the result of improved performance in the Aviation segment ($12.3 million increase) and an increase in EBITDA generated by the Manufacturing segment ($1.7 million increase), offset slightly by higher head-office costs. The increase in EBITDA for the Aviation segment is mainly attributed to Regional One and Provincial. Regional One contributed strong growth in its EBITDA as additional investments in its portfolio of aircraft assets continued to yield strong results. The increase in EBITDA at Provincial is attributable to the continued growth of its aerospace operations. The Manufacturing segment EBITDA increased due to the acquisition of Ben Machine, which has no comparative in the prior period as Ben Machine was acquired in the third quarter of 2015. The EBITDA of the pre-existing entities in the Manufacturing segment was relatively flat compared to the prior period when excluding the impact of Ben Machine in 2016.

FREE CASH FLOW

FREE CASH FLOW Three Months Ended March 31,		2016		2015
Cash flows from operations	$	18,613	$	20,239
Change in non-cash working capital items		16,213		1,493
Acquisition costs		64		2,194
	$	34,890	$	23,926
per share - Basic	$	1.26	$	1.04
per share - Fully Diluted	$	1.10	$	0.88

The Free Cash Flow generated by the Corporation for the current period was $34.9 million, an increase of $11.0 million or 46% over the comparative period. The change in Free Cash Flow is the result of a number of factors but primarily due to the increase in EBITDA generated in the current period. The higher EBITDA is a result of the growth of aerospace at Regional One and Provincial, and the addition of Ben Machine with no comparative.

In addition to the increase in EBITDA, a decrease of $0.8 million of cash interest on the Corporation's convertible debentures further improved Free Cash Flow. The cash interest on the Corporation's convertible debentures was lower in the current period as a result of the early redemption of the Series I convertible debentures in the first quarter 2015 and the early redemption of the Series H convertible debentures in the third quarter 2015. The decrease in cash interest on convertible debentures was partially offset by an increase of $0.3 million in cash interest on the Corporation's credit facility. As a result of these factors, the Corporation's cash interest overall decreased $0.5 million in the current period.

The Corporation's cash taxes increased by $3.2 million in the current period, which reduced Free Cash Flow. The higher cash taxes are a result of the increased earnings generated in the current period.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts and was partially offset by the higher number of Shares outstanding in the current period. The combined impact resulted in Free Cash Flow of $1.26 per share for the current period, an increase of $0.22 per share or 21% over the comparative period (fully diluted $1.10, an increase of $0.22 or 25%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES Three Months Ended March 31,		2016		2015
Free Cash Flow	$	34,890	$	23,926
Maintenance Capital Expenditures		18,089		14,817
	$	16,801	$	9,109
per share - Basic	$	0.61	$	0.40
per share - Fully Diluted	$	0.58	$	0.39

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current period was $16.8 million, an increase of $7.7 million or 84% over the comparative period. The increase is due to the increase in Free Cash Flow as described above, partially offset by the $3.3 million or 22% increase in maintenance capital expenditures, which is described in detail in the Capital Expenditures section.

Under IFRS, maintenance capital expenditures fluctuate from period to period as described further in the Capital Expenditures section. As a result of the variability in the maintenance capital expenditures under IFRS, Free Cash Flow is a more stable metric than Free Cash Flow less maintenance capital expenditures as a measure of ongoing operating performance. Maintenance capital expenditures are variable under IFRS because overhaul maintenance for aircraft engines and airframe heavy checks are treated as capital expenditures when the event takes place. Free Cash Flow less maintenance capital expenditures is still an important operating metric; however, it will be subject to quarterly and annual variability as a result of the uneven timing of maintenance capital expenditures and therefore needs to be evaluated over longer operating periods.

The increase in absolute Free Cash Flow less maintenance capital expenditures contributed to the increase in basic per share amounts and was partially offset by the higher base of the Corporation's Shares outstanding in the current period. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $0.61 per share for the current period, an increase of

$0.21 per share or 53% over the comparative period (fully diluted $0.58, increase of $0.19 or 49%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended March 31,	2016	2015
Cash maintenance capital expenditures		$ 17,905	$ 14,560
add: finance lease principal payments		184	257
Maintenance capital expenditures		18,089	14,817
Growth capital expenditures		27,866	22,214
CAPITAL EXPENDITURES		$ 45,955	$ 37,031
Maintenance capital expenditures per share - Basic		$ 0.65	$ 0.64
Growth capital expenditures per share - Basic		1.01	0.96
Total capital expenditures per share - Basic		$ 1.66	$ 1.60

Maintenance Capital Expenditures

The Corporation's maintenance capital expenditures in the first quarter totaled $18.1 million, an increase of $3.3 million or 22% from the comparative period. The majority of the expenditures occurred in the Aviation segment, as it spent $17.4 million, while the Manufacturing segment spent $0.7 million.

The $17.4 million of maintenance capital expenditures invested by the Aviation segment was $3.4 million or 24% higher than the comparative period. Regional One's maintenance capital expenditures increased by $1.0 million from the comparative period due to the decreased value of the Corporation's Canadian dollar reporting currency compared to the US dollar and a larger pool of leased aircraft. As with Regional One, the decrease in value of the Canadian dollar compared to the US dollar negatively impacted maintenance capital expenditures for the Legacy Airlines as many of its capital expenditures are purchased in US dollars. These types of expenditures may fluctuate significantly from period to period. Compared to first quarter of 2015, Provincial's capital expenditures increased while the Legacy Airlines' decreased slightly, all of which relates to timing of different maintenance events and the impact foreign exchange.

The Manufacturing segment's maintenance capital expenditures in the first quarter of $0.7 million is in line with the comparative period.

Growth Capital Expenditures

The Corporation's growth capital expenditures in the first quarter totaled $27.9 million, an increase of $5.7 million or 25% over the comparative period. The majority of the investments were made by the Corporation's aerospace operations, totaling $26.4 million or 95% of the overall growth capital expenditures. The most significant investment was the purchase of two CRJ900s by Regional One, adding to its portfolio of leased aircraft and expanding to include a new series of the CRJ aircraft. The Manufacturing segment made no growth capital expenditures during the first quarter of 2016.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the three months ended March 31, 2016 and the comparative period in 2015 were as follows:

			2016 Dividends			2015 Dividends
Month	Record date	Per Share	Amount	Record date	Per Share	Amount
January	January 29, 2016	$ 0.16	$ 4,424	January 30, 2015	$ 0.145	$ 3,342
February	February 29, 2016	0.16	4,416	February 27, 2015	0.145	3,347
March	March 31, 2016	0.16	4,418	March 31, 2015	0.145	3,349
Total		$ 0.48	$ 13,258		$ 0.435	$ 10,038

The Corporation's dividends declared for the current period increased by $3.2 million or 32% over the comparative period as a result of the dividend rate per share per month increasing and the higher number of Shares outstanding in 2016. The Corporation increased the monthly dividend rate per share by $0.015 in the third quarter of 2015 (10% increase). This resulted in the dividends declared for the first quarter of 2016 totaling $0.48 per share compared to $0.435 per share in the comparative period, an increase of 10%. Dividends declared during the first quarter of 2016 totaled $13.3 million. Impacting the dividends declared for the current period is the

Corporation's issuance of shares through its equity offering that closed late in the third quarter of 2015 and the Shares repurchased under the Corporation's normal course issuers bid in the first quarter of 2016 and subsequently cancelled.

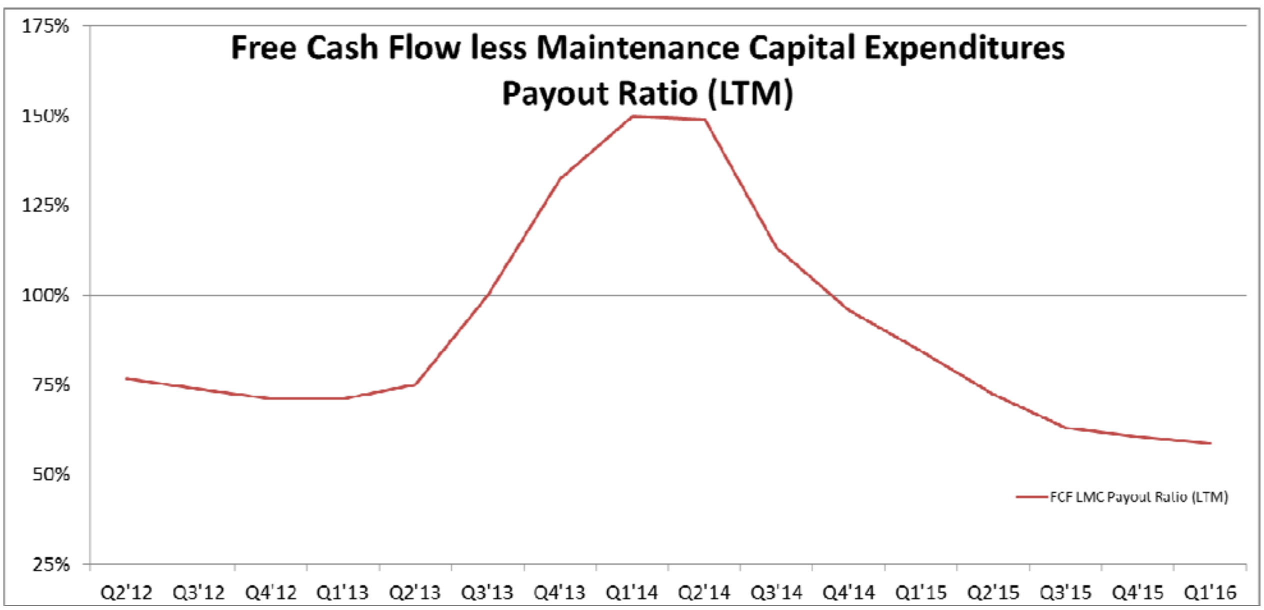
The Corporation compares the dividends declared in the period to the amount of cash flows generated by the Corporation in that period to determine a payout ratio. The dividends declared by the Corporation are presented as financing activities within the Corporation's statement of cash flows whereas Free Cash Flow and Free Cash Flow less maintenance capital expenditures, as defined, are driven from the Corporation's operating activities and exclude dividends. The payout ratio provides an indication of the Corporation's ability to generate sufficient funds from its operations to pay its dividends to shareholders.

The following compares the Corporation's dividends declared on a per share basis as a percentage of the Corporation's Free Cash Flow and Free Cash Flow less maintenance capital expenditures on a per share basis during the current period and the comparative period.

Payout Ratios for the Corporation		Per share	Per share		Per share	Per share
Three Months Ended March 31,	2016	basic	fully diluted	2015	basic	fully diluted
Free Cash Flow		*38%*	*44%*		*42%*	*49%*
Free Cash Flow less maintenance capital expenditures		*79%*	*83%*		*109%*	*112%*

All of the Corporation's payout ratios for the current period improved over the comparative period. The improvement in the first quarter of 2016 is mainly the result of the growth of aerospace at Regional One and Provincial, and the addition of Ben Machine with no comparative in 2015. The payout ratios improved even though the Corporation paid out a 10% higher dividend rate in the current period on a larger number of Shares.

The following graph shows the Corporation's historical Free Cash Flow less maintenance capital expenditures trailing 12 months payout ratio. As can be seen in the graph, the current trailing twelve months payout ratio of 59% is below historical levels.



The Corporation's Board of Directors regularly examines the dividends paid to shareholders. The enhanced level of performance is not considered to be transitory but indicative of a newly established base level of performance to be further augmented with growing profitability. This established base level is expected to continue into the foreseeable future and will be further supported through the enhanced access to capital the Corporation secured in 2015. These additional capital resources allow the Corporation to move decisively when additional opportunities to grow its Free Cash Flow are identified. For these reasons, the Corporation's Board of Directors has increased the monthly dividend paid to shareholders by 5%, reflecting an annualized dividend of $2.01 per Share. This change becomes effective for the May 2016 dividend which is distributed to shareholders mid-June 2016.

4. ANALYSIS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the three months ended March 31, 2016 and the comparative 2015 period.

	Three Months Ended March 31, 2016			
	Aviation	Manufacturing	Head Office[(2)]	Consolidated
Revenue	$ 173,510	$ 44,388	$ -	$ 217,898
Expenses[(1)]	129,955	39,841	3,771	173,567
EBITDA	43,555	4,547	(3,771)	44,331
Depreciation and amortization				21,671
Finance costs - interest				6,908
Acquisition costs				64
Earnings before income tax				15,688
Current income tax expense				4,476
Deferred income tax expense				1,339
Net earnings				$ 9,873

	Three Months Ended March 31, 2015			
	Aviation	Manufacturing	Head Office[(2)]	Consolidated
Revenue	$ 133,458	$ 40,477	$ -	$ 173,935
Expenses[(1)]	102,237	37,675	2,943	142,855
EBITDA	31,221	2,802	(2,943)	31,080
Depreciation and amortization				18,515
Finance costs - interest				8,398
Acquisition costs				2,194
Earnings before income tax				1,973
Current income tax expense				1,246
Deferred income tax recovery				(207)
Net earnings				$ 934

Note 1): Expenses include 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.

AVIATION SEGMENT

Aviation Segment	Three Months Ended March 31,	2016	2015	Variance	Variance %
Revenue		$ 173,510	$ 133,458	$ 40,052	30%
Expenses		129,955	102,237	27,718	27%
EBITDA		$ 43,555	$ 31,221	$ 12,334	40%

The revenue of the Aviation segment for the current period was $173.5 million, an increase of $40.1 million or 30% over the comparative period. More than 80% of the revenue growth for the segment is attributable to revenue growth in aerospace at Regional One and Provincial. The balance of the revenue growth, from the Legacy Airlines, is primarily related to the acquisition of First Air's Kivalliq non-aircraft assets acquired in the third quarter of 2015, with no comparative in the prior period.

The EBITDA generated by the Aviation segment for the current period was $43.6 million, an increase of $12.3 million or 40% over the comparative period. EBITDA margins were 25.1% in the current period versus 23.4% in the comparative period. The vast majority of the growth in EBITDA was driven by growth in Regional One and Provincial, increasing their EBITDA by 63% over the comparative period. The balance of the Aviation segment's operations saw the Legacy Airlines generated small gains in EBITDA.

Provincial's operations delivered strong results during the quarter. Provincial's revenue and EBITDA growth were primarily driven by growth in the Middle East operations resulting from the new multi-year contract announced in November 2015. In addition to strong aerospace revenue, Provincial directly benefited from decreased costs due to the fall in fuel prices. This decline in costs, however, was partially offset by decreased airline revenues from the negative impact to customer demand associated with the oil and gas and mining industries and reductions in government spending. The reduced value of the Canadian dollar versus the US dollar also had a positive impact for US denominated aerospace contracts, which was partially offset by increased aircraft parts, maintenance and flight training costs.

Regional One generated significant revenue and EBITDA growth in the first quarter, driven by strong lease revenue and increased asset and part sales. This growth was largely driven by the investment made in 13 CRJ700 aircraft, including the 11 CRJ700s purchased in 2015 and the two that were purchased in late 2014, which Regional One continued to monetize during the first quarter. The first quarter of 2016 the included sale of operating aircraft, resulting in a particularly strong first quarter. The sale of operating aircraft will not occur in every quarter, thus highlighting the uneven nature of quarterly results. Regional One's results were also positively impacted from gains due to the higher conversion rates used to convert its US dollar results into the Corporation's Canadian reporting currency.

The Legacy Airlines strong revenue growth over the comparative period was primarily attributable to the acquisition of First Air's Kivalliq non-aircraft assets in the third quarter of 2015, which had no comparative for the prior period. The Legacy Airlines generated improvements in EBITDA over the comparative period due to prior investments in operational assets and ongoing management initiatives to improve efficiency and cost controls. As part of these initiatives to improve operational efficiencies, there were one-time severance costs relating to layoffs during the quarter. Increases in revenue and EBITDA were partially offset by a conscious decision to eliminate lower margin fuel business not generating a sufficient return for the Legacy Airlines. Improvement in EBITDA was largely offset by shortfalls due to the closure of a mine the Legacy Airlines had serviced and surplus competitive capacity in one region in which the Legacy Airlines operate.

Both Provincial's airline operations and the Legacy Airlines' EBITDA benefited from fuel cost savings throughout the quarter. However, the fuel cost saving were offset by increased costs of parts, maintenance and flight training costs due to the impact of the decline in the value of the Canadian dollar versus the US dollar. Overall, the Aviation segment performance was also enhanced by an increased volume of internalized MRO work and procurement efficiencies between the Legacy Airlines, Provincial and Regional One.

MANUFACTURING SEGMENT

Manufacturing Segment	Three Months Ended March 31,	2016	2015	Variance	Variance %
Revenue		$ 44,388	$ 40,477	$ 3,911	10%
Expenses		39,841	37,675	2,166	6%
EBITDA		$ 4,547	$ 2,802	$ 1,745	62%

The revenue of the Manufacturing segment for the current period was $44.4 million, an increase of $3.9 million or 10% over the comparative period. The Manufacturing segment generated EBITDA of $4.5 million for the current period, an increase of $1.7 million or 62% over the comparative period. Revenue and EBITDA growth is attributable to the acquisition of Ben Machine in the third quarter of 2015, with no comparative for the prior period and revenue and EBITDA growth at Stainless. The growth in both revenue and EBITDA was negatively impacted by declines within the remainder of the segment.

Ben Machine, which was acquired in the third quarter of 2015 and has no comparatives in the prior period, generated strong revenue and EBITDA during the current period. Investments made in equipment late in 2015 to expand production capacity along with good levels of demand from customers had immediate positive impacts on revenue and EBITDA.

The results for Stainless in the current period included the favourable impact of the weaker value of the Canadian dollar that resulted in a higher converted Canadian dollar value of Stainless' US operations. Overall Stainless was able to increase its US dollar sales coming from higher levels of field projects, partially offset by a decline in shop production. Stainless' margins were positively impacted by higher volumes of field jobs that generally produce higher margins.

Weak economic conditions that persisted throughout 2015 continued into the current period throughout the Alberta Operations' regions. Low oil and natural gas prices compared to the first quarter of 2015 negatively impacted demand for the Alberta Operations' products and services, which declined further in the current period. Ongoing weakness throughout the Alberta economy remained the primary contributor to the reduction in revenue by approximately 30% from the comparative period. This reduced demand and tough economic conditions contributed to the Alberta Operations EBITDA decreasing marginally over the comparative period.

WesTower's revenue in the current period experienced a slight reduction over the comparative period. The ongoing shift in demand arising from the past CRTC decision on 'sharing' of towers between competitive carriers, reduced demand for new tower construction and increasing proportionate demand for higher margin, more labour intense, equipment upgrade and service work type projects. Regional variations in customer demand; a higher volume of activity in western Canada, lower volumes of activity in eastern Canada, were also experienced during the current period.

The Corporation remains confident that the Manufacturing segment's industry and geographic diversification and strong operating company management teams are competitively positioned within their respective markets to successfully withstand the specific immediate challenges they face.

HEAD-OFFICE

Head-office Costs	Three Months Ended March 31,	2016	2015	Variance	Variance %
Expenses		$ 3,771	$ 2,943	$ 828	28%

The head-office costs of the Corporation increased in the current period by $0.8 million or 28% over the comparative period. Factors impacting the growth came mainly as an increase of performance based compensation, partially offset by a decrease in professional fees.

OTHER NON-EBITDA ITEMS

	Three Months Ended March 31,	2016	2015	Variance	Variance %
Depreciation and amortization		$ 21,671	$ 18,515	$ 3,156	17%

The Corporation's depreciation and amortization for the current period was $21.7 million, an increase of $3.2 million or 17% over the comparative period. The current period amount consisted of $18.8 million of depreciation on the Corporation's capital assets and the remaining $2.9 million related to intangible asset amortization. The change is mostly attributable to the increase in the Aviation segment for both capital asset depreciation and intangible asset amortization, accounting for $2.2 million of the increase. In the first quarter of the 2015 period, there was no intangible asset amortization recorded relating to the acquisition of Provincial as the purchase price allocation was not complete. This resulted in intangible asset amortization increasing by $1.2 million in the current period. Regional One's depreciation increased by $1.0 million over the comparative period, with the most significant factor being the decrease in value of the Canadian dollar compared to the US dollar. The Manufacturing segment accounted for the remaining $1.0 million increase, most of which relates to Ben Machine, which was acquired during the third quarter of 2015 and as such, there is no comparative for the current period.

	Three Months Ended March 31,	2016	2015	Variance	Variance %
Finance costs - interest		$ 6,908	$ 8,398	$ (1,490)	-18%

The Corporation's interest incurred for the current period was $6.9 million, a decrease of $1.5 million or 18% from the comparative period. The Corporation redeemed early the Series I convertible debentures at the end of the first quarter of 2015 and the Series H convertible debentures at the beginning of the third quarter of 2015. Overall, the interest on the Corporation's convertible debentures decreased in the current period by $1.9 million as a result of the early redemptions.

The decrease in convertible debenture interest was partially offset by an increase in interest of $0.4 million on the Corporation's credit facility. The overall effective interest rate on the Corporation's credit facility is 3.47% for the current period, which includes standby charges on the unused portion of the credit facility. The Corporation strategically chooses to have significant available credit, giving the Corporation the opportunity to act quickly when the right opportunity presents itself, resulting in higher standby charges.

	Three Months Ended March 31,	2016	2015	Variance	Variance %
Acquisition Costs		$ 64	$ 2,194	$ (2,130)	-97%

The acquisition costs incurred by the Corporation for the current period totaled $0.1 million compared to $2.2 million in the comparative period. The Corporation incurred minimal external costs during the first quarter of 2016. The costs expensed in the comparative period relate almost entirely to the external costs incurred for the Provincial acquisition, which closed January 2, 2015.

Three Months Ended March 31,	2016	2015	Variance	Variance %
Current income tax expense	$ 4,476	$ 1,246	$ 3,230	259%
Deferred income tax expense	1,339	(207)	1,546	-747%
Income tax expense	$ 5,815	$ 1,039	$ 4,776	460%

The Corporation's income tax expense for the current period was $5.8 million, an increase of $4.8 million over the comparative period. Current tax expense increased in the current period due to an overall increase in the Corporation's earnings before taxes. The effective tax rate decreased to 37% from 53% in the 2015 comparative period primarily as a result of two offsetting factors. The 2016 effective tax rate was lower due to a smaller proportion of non-deductible permanent differences than in the 2015 comparative period which had included costs associated with the acquisition of Provincial. The effective tax rate was increased to 37% as a result of a $1.0 million charge to deferred income tax expense in 2016 arising from a change in the statutory tax rate in one of the jurisdictions in which the Corporation operates.

5. SUMMARY OF QUARTERLY RESULTS

The following summary of quarterly results reflects the continuing operations of the Corporation. During the fourth quarter of 2014, the Corporation closed the sale of WesTower US. As a result of the transaction, the Corporation's results for 2014 are presented with the financial results from WesTower US segregated in the Corporation's statement of income as discontinued operations. The discontinued operations are only included in the net earnings (loss) and related per share amounts in the bottom section of the table. There was no impact on results from discontinued operations for the 2016 and 2015 periods.

From continuing operations	2016 Q1	Q4	Q3	Q2	2015 Q1	Q4	Q3	Q2	2014 Q1
Total revenue	$ 217,898	$ 224,504	$ 212,750	$ 196,214	$ 173,935	$ 138,726	$ 143,499	$ 134,219	$ 126,059
EBITDA	44,331	46,055	54,052	48,053	31,080	26,151	27,872	22,262	17,993
Net earnings (loss) - continuing operations	9,873	9,923	15,983	13,394	934	(17,729)	5,172	1,282	(350)
Basic	0.36	0.36	0.64	0.58	0.04	(0.79)	0.23	0.06	(0.01)
Diluted	0.35	0.35	0.60	0.54	0.04	(0.79)	0.23	0.06	(0.01)
Adjusted net earnings (loss) - continuing operations(1)	12,008	12,636	18,811	16,516	3,651	5,915	6,061	2,990	(169)
Basic	0.43	0.46	0.76	0.71	0.16	0.26	0.27	0.14	(0.01)
Diluted	0.43	0.45	0.69	0.64	0.16	0.26	0.27	0.14	(0.01)
Free Cash Flow (FCF)	34,890	36,025	42,195	37,626	23,926	22,480	22,819	18,884	12,797
Basic	1.26	1.31	1.70	1.63	1.04	1.00	1.03	0.86	0.59
Diluted	1.10	1.14	1.43	1.33	0.88	0.84	0.86	0.73	0.54
FCF less maintenance capital expenditures	16,801	20,460	24,966	19,870	9,109	11,718	13,143	8,802	1,455
Basic	0.61	0.74	1.01	0.86	0.40	0.52	0.59	0.40	0.07
Diluted	0.58	0.69	0.89	0.75	0.39	0.50	0.54	0.40	0.07
From continuing & discontinuing operations									
Net earnings / (loss)	$ 9,873	$ 9,923	$ 15,983	$ 13,394	$ 934	$ (1,580)	$ 5,546	$ 4,122	$ 167
Basic	0.36	0.36	0.64	0.58	0.04	(0.07)	0.25	0.19	0.01
Diluted	0.35	0.35	0.60	0.54	0.04	(0.07)	0.25	0.19	0.01

(1) The Corporation's adjusted net earnings from continuing operations for the fourth quarter of 2014 includes an add back for the non-cash deferred tax expense of $22.9 million as a result of the settlement that the Corporation made with the Canada Revenue Agency ("CRA") on certain deferred tax assets associated with the conversion of the Corporation to a corporation from an income trust in 2009.

6. LIQUIDITY AND CAPITAL RESOURCES

Our financial position continued to strengthen in 2016. This strengthening is attributable to strong operational performance and the acquisitions of Provincial and Ben Machine in 2015. The Corporation's working capital, Free Cash Flow and capital resources are strong and we have no long-term debt or debentures maturing before 2018. As a result, we have sufficient liquidity and access to capital to make further acquisitions, invest in our operating subsidiaries and meet our obligations.

As at March 31, 2016, the Corporation had a net cash position of $29.4 million (December 31, 2015 of $15.5 million) and net working capital of $159.9 million (December 31, 2015 of $135.3 million), which represents a current ratio of 1.95 to 1 (December 31, 2015 of 1.74 to 1).

	March 31, 2016	December 31, 2015	Change
Cash and cash equivalents	$ 29,353	$ 15,497	$ 13,856
Accounts receivable	129,215	125,434	3,781
Costs incurred plus recognized profits in excess of billings	9,868	7,776	2,092
Inventory	109,337	118,645	(9,308)
Prepaid expenses and deposits	41,552	38,907	2,645
Income taxes receivable	8,241	10,955	(2,714)
Accounts payable and accrued expenses	(102,760)	(108,333)	5,573
Deferred revenue	(48,578)	(51,716)	3,138
Billings in excess of costs incurred plus recognized profits	(15,416)	(20,824)	5,408
Current portion of long-term debt and finance leases	(935)	(1,031)	96
Net working capital	$ 159,877	$ 135,310	$ 24,567

Working capital has increased by $24.6 million since December 31, 2015. The increase was caused by a variety of factors, but was most significantly impacted by the $13.9 million increase in the Corporation's consolidated cash position compared to December 31, 2015.

The Corporation obtained additional cash through the means described in this section, and also generated $34.9 million of Free Cash Flow from operations during the current quarter, a 46% improvement from the comparative period. The Corporation used these funds for its dividends and capital expenditures over that period. See Section 3 – *Key Performance Indicators* for more information on the capital expenditures made by the Corporation.

While payment of reliable and growing dividends is an objective of the Corporation, the Corporation does not have a formal dividend policy. The Corporation's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During the first quarter of 2016, the Corporation declared dividends totaling $13.3 million in comparison to $10.0 million during the comparative period. This was a result of an increased number of Shares outstanding and the $0.015 increase in the monthly dividend rate announced in August of 2015. Subsequent to the end of the first quarter but before the date of this report, the Corporation increased its monthly distribution by 5% ($2.01 annualized dividend). The monthly dividend declared in any given month is paid to shareholders at the middle of the following month.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	March 31 2016	December 31 2015
Total senior debt outstanding (principal value)	$ 355,392	$ 304,799
Convertible debentures outstanding (par value)	219,965	219,965
Shares	425,924	425,561
Total capital	$ 1,001,281	$ 950,325

Credit facility

The size of the Corporation's credit facility is $500 million allocated to the Corporation's Canadian head-office and US $50 million allocated to EIIF Management USA Inc. The facility allocated to head-office allows for borrowings to be denominated in either

Canadian or US funds. At March 31, 2016, the Corporation had drawn $284.7 million and US $54.5 million (December 31, 2015 - $248.0 million and US $41.0 million).

During the first quarter of 2016, the Corporation made additional draws on the credit facility to support capital purchases, mainly relating to the addition of two CRJ900 aircraft to Regional One's lease portfolio.

Subsequent to the end of the first quarter, but before the date of this report, the Corporation made a $5.0 million repayment against the outstanding credit facility.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at March 31, 2016 and the changes in the amount of convertible debentures outstanding during the three months ended March 31, 2016:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Series J - 2011	EIF.DB.D	May 31, 2018	6.25%	$30.60
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.5%	$36.80
Unsecured Debentures - 2013	EIF.DB.F	March 31, 2020	5.35%	$41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$31.70

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Series J	$ 57,477	$ -	$ -	$ -	$ 57,477
Unsecured Debentures - September 2012	57,500	-	-	-	57,500
Unsecured Debentures - March 2013	65,000	-	-	-	65,000
Unsecured Debentures - March 2014	39,988	-	-	-	39,988
Total	$ 219,965	$ -	$ -	$ -	$ 219,965

Share Capital

The following summarizes the changes in the Shares outstanding of the Corporation during the three months ended March 31, 2016:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		27,633,217
Issued under dividend reinvestment plan (DRIP)	various	52,910
Shares cancelled under NCIB	February 2, 2016	(57,710)
Shares outstanding, end of period		27,628,417

The Corporation's dividend reinvestment plan ("DRIP") continued during the first quarter of 2016 and the Corporation received $1.3 million throughout the period for an aggregate 52,910 Shares being issued in accordance with the DRIP.

The Corporation raised funds through a $75 million bought deal equity offering in the third quarter of 2015, resulting in 3,019,000 Shares issued at that time. This increase late in the year in 2015 is impacting all of the per share calculations during the current period, without the same impact on 2015 per share amounts.

Normal Course Issuers Bid

On December 31, 2015, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,381,659 Shares, representing 5% of the issued and outstanding Shares as at December 16, 2015. Purchases of Shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on January 5, 2016 and ending on January 4, 2017, or an earlier date in the event that the Corporation purchases the maximum number of the Shares available under the NCIB. The maximum number of Shares that may be purchased by the Corporation on a daily basis is 19,810 Shares, other than block purchase exemptions. As of the date of this report, there are 1,323,949 Shares available for purchase under the NCIB ending January 4, 2017.

During the first quarter of 2016, the Corporation purchased a total of 57,710 Shares through its NCIB over several days of trading. The Corporation paid $1.3 million to purchase these Shares, with an average purchase price of $22.25. All of these purchased Shares under the current NCIB were cancelled on February 2, 2016.

7. RELATED PARTY TRANSACTIONS

The related party transactions that the Corporation entered into during the three months ended March 31, 2016 are consistent with those described in the Corporation's MD&A for the year ended December 31, 2015.

8. CRITICAL ACCOUNTING ESTIMATES

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, 2015, except as noted below.

During the current period, the Corporation recognized an out of period adjustment in relation to the determination of goodwill associated with the acquisition of Provincial Aerospace Ltd. The Corporation incorrectly recorded a deferred tax benefit related to a provision for a non-deductible payment to the vendors. The out of period adjustment resulted in an increase to goodwill and deferred tax liabilities of $3.1 million and had no impact on net 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 three months ended March 31, 2016 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2015 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the three months ended March 31, 2016.

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 unaudited 2015 annual consolidated financial statements, except for the changes noted below:

a) *Changes in Accounting Policies*

Adoption of IFRS 9 – Financial Instruments

The Corporation has early adopted IFRS 9 – Financial Instruments, with a date of initial application of January 1, 2016. IFRS 9 introduces a principles-based approach to the classification and measurement of financial assets based on an entity's business model and the nature of a financial asset's cash flows. All financial assets, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. IFRS 9 introduces an expected loss impairment model for all financial assets not carried at FVTPL. IFRS 9 also introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

All financial assets previously classified as Loans and Receivables are now classified at amortized cost. There were no changes to the measurement category for financial liabilities at amortized cost.

At the date of adoption, the application of IFRS 9 had no impact on the Corporation's consolidated financial statements

Recognition

Financial assets and liabilities are recorded on the statement of financial position of the Corporation when the Corporation becomes a party to the financial instrument.

Classification

Effective the date of adoption, the Corporation classifies its financial assets and liabilities into the following measurement categories:

- those measured subsequently at fair value, either through profit or loss or through OCI
- those measured at amortized cost

The classification of the financial asset or liability is dependent on the business model and the nature of the cash flows associated with the financial asset or liability. The Corporation will only change the classification of financial assets when the model for managing those financial assets has changed. The classification of financial liabilities cannot be changed from the classification election chosen at the time of recognition.

The Corporation's cash and cash equivalents are classified as financial assets measured at FVTPL. Accounts receivable and prepaid expenses and deposits are classified as financial assets measured at amortized cost. Accounts payable, the Corporation's credit facility, and convertible debentures are classified as financial liabilities. All financial assets and liabilities measured at amortized cost use the effective interest rate method with interest expense recorded in the statement of operations, as applicable.

Measurement

IFRS requires that an entity measure a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, the entity shall measure a financial asset at one of amortized cost, fair value through OCI, or fair value through profit or loss. Measurement of financial liabilities is chosen at the time of initial recognition and unless specifically identified as FVTPL at the time of adoption, are subsequently measured at amortized cost. The requirements of IFRS 9 in relation to classification and measurement of financial liabilities are consistent with the requirements previously included under IAS 39, except that changes in fair value due to credit risk for liabilities designated as FVTPL under IFRS 9 are recorded in other comprehensive income.

Impairment

IFRS substitutes the incurred loss model under IAS 39 with the expected losses model. Expected credit losses are to be recognized at all times in a forward looking approach that reflects changes in credit risk of the financial instruments.

Hedge Accounting and Derivatives

On the date a derivative is entered into, the instrument is recognized at fair value and re-measured at the end of each reporting period. The accounting for a derivative contract depends on whether the derivative is designated as a hedging instrument. If it is designated as a hedging instrument, the accounting treatment is dependent on the nature of the hedged item and the hedging relationship. At the date of adoption and throughout the period, the Corporation was not party to any derivatives and therefore there was no impact to the financial statements of the Corporation.

The Corporation's hedging policy, which has not changed as a result of the adoption of IFRS 9, is included in Note 3 (g) of the Corporation's annual financial statements for the year ended December 31, 2015.

b) Accounting Standards Issued but not yet effective

IFRS 15 – Revenue

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 them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15 Revenue from Contracts with Customers. The Corporation is assessing the impact of adopting this standard on its financial statements.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design and operation of the Corporation's internal controls over financial reporting as at March 31, 2016, and has concluded that the internal controls over financial reporting are effective.

There have been no material changes to the Corporation's internal controls during the 2016 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 designed effectively as at March 31, 2016.

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, 2015.

12. OUTLOOK

Acquisition strategy

Last year's acquisitions of Provincial, Ben Machine and First Air's non-aircraft assets in the Kivalliq region, as well as the continued investment in growth opportunities within our portfolio of companies further advanced the Corporation's objectives of accretive investment and diversification.

The Corporation's disciplined approach to acquisitions is a key factor in the success that it has experienced to date. The current trend in the United States in certain industries are purchase multiples that are significantly higher than historical norms. The Corporation will not change its expectation for return on potential acquisitions based on these multiples in the marketplace and will only pursue an acquisition management believes is immediately and substantively accretive. The Corporation continues to develop and expand its network of referral sources that regularly present it with potential acquisitions. The Corporation also independently assesses certain markets and regions to identify potential opportunities. The Corporation's business development and acquisitions team remains focused on accretive acquisition and investment opportunities that can positively impact shareholder value. While the deal flow brought to the Corporation is considered strong, there can be no assurance target companies meeting the Corporation's standards will be identified.

The Corporation remains well positioned and well capitalized to move quickly when investment opportunities are identified. As of the end of the quarter, the Corporation has approximately $200 million of available capital.

Aviation Segment

The Aviation segment includes: the five Legacy Airlines, providing fixed and rotary wing, scheduled, charter, cargo, and medevac services in Manitoba, Ontario and Nunavut; Regional One, a leading provider of aircraft and engine aftermarket parts to regional airline operators in the global community; and Provincial, with three distinct business units: a scheduled airline, aerospace and fixed base operations.

Unlike most other North American and global airline carriers, a large percentage of the Corporation's Legacy Airlines and Provincial's airline service operate in remote communities where demand is relatively inelastic, mitigating the impact of changes in the economic climate. The essential nature of these services creates additional stability in a core part of the segment's business. In relation to our Legacy Airlines, demand from natural resources related industries for aviation services has been limited for a number of years due to the prolonged global weakness in commodity prices. As such, any further erosion in demand from natural resources related industries will be inconsequential to their financial performance. Provincial's airline business may be impacted, however, by further declines in the natural resources sector and decreases in government travel as the government of Newfoundland and Labrador are cutting expenditures. In the event that the recent renewed strength in global commodity prices is sustained, the Aviation segment companies are well positioned to take advantage of any potential increase in demand.

The Legacy Airlines remain well positioned to benefit from both positive external factors and their enhanced operational strengths over the remainder of 2016. Previous investments in growth capital expenditures in the Legacy Airlines aircraft and ground infrastructure assets have yielded ongoing revenue and EBITDA growth. Normal seasonal weather conditions persisted throughout the operating regions of the Legacy Airlines and Provincial through the first quarter and thus far are continuing through the second quarter.

The acquisition of First Air's Kivalliq non-aircraft assets in 2015 is expected to continue to positively impact revenue and margin through 2016. The acquisition resolved that region's chronic over capacity while improving both passenger and freight customer service and connectivity.

The margin enhancing 'tailwind' created by significantly reduced fuel prices persisted through the first quarter, positively impacting both Provincial and the Legacy Airlines' operations. However, offsetting this are Provincial's and the Legacy Airlines' parts, maintenance and flight training costs which have been negatively impacted by the decline of the Canadian dollar exchange rate against the US dollar, due in part to low energy prices.

The outlook for Regional One remains positive as consistent demand for parts and lease inventories has been augmented with additional growth in revenue and EBITDA as the CRJ700 aircraft are monetized. In addition, Regional One made investments during the first quarter into the CRJ900 aircraft series for the first time, adding two of these aircraft to its lease portfolio. The appreciation of the US dollar relative to most other currencies along with dramatically reduced global jet fuel prices have significantly improved the economic viability of airlines' continued operation of older aircraft. The extended economic viability of older aircraft is a positive driver of demand for Regional One's lease inventories, parts and components. Regional One's performance has been consistently strong since being acquired. However, the nature of the Regional One's business is such that individual quarters may experience variability of type of demand or customer demand that could lead to potentially lower profitability. The first quarter of 2016 included the sale of operating aircraft, resulting in a particularly strong first quarter. The sale of operating aircraft will not be repeatable every quarter, thus highlighting the uneven nature of quarterly results. As well, access to new purchase opportunities is required and cannot be assumed.

Persistent low commodity and energy prices continue to reduce demand for Provincial's airline services from natural resource related customers including travel by provincial governments reliant on natural resource related royalties. In addition, the Newfoundland and Labrador provincial government recently announced an austerity budget which will significantly reduce the disposable income for people and businesses throughout the region. These budgetary constraints will also place further downward pressure on government travel. Air travel service to the Lower Churchill Project continues to see strong demand, partially offsetting the negative impacts of low commodity prices and fiscal restraint programs. The commencement of expansion to underground operations at the Voisey's Bay nickel/copper/cobalt mine in northern Labrador will generate significant additional demand for airline services both during the multi-year construction phase of the project, starting mid-2016, and the extended life of the mine that is anticipated to run through 2040.

In addition to the recently launched five year Performance Based Logistics Contract, valued at in excess of $150 million of incremental revenue in the Middle East, Provincial's aerospace services division is pursuing a number of growth opportunities within Canada and internationally. These opportunities include Provincial's participation in one of three consortiums of aerospace companies pursuing the government of Canada's request for proposals to supply Fixed Wing Search and Rescue aircraft and associated support throughout Canada. However, the procurement process for many of these opportunities can be very lengthy and the binary "win/loss" nature of the contract awards makes forecasting the impact and timing of any specific opportunity challenging.

The Corporation's ongoing initiative to identify potential operational synergies amongst Provincial, Regional One and the Legacy Airlines will continue to grow as additional maintenance and procurement opportunities are realized. The "insourcing" of heavy checks on owned aircraft by the Aviation segment to Provincial's aerospace services group has been both operationally and economically successful.

The significant decline in the Canadian dollar exchange rate against the US dollar, impacting the Aviation segment's parts, maintenance and flight training costs, has recently begun to moderate. Regional One serves as a natural hedge for the segment's exposure to fluctuations in foreign currency as a result of the segment's dependency on aircraft and aircraft parts and services that are primarily incurred in US dollars. Regional One also creates a proxy for vertical integration into this major expense category. In addition, Provincial has several aerospace contracts that generate US dollars which also help mitigate the currency exposure.

Manufacturing Segment

The Manufacturing segment includes the operations of WesTower, Stainless, the Alberta Operations, Overlanders and Ben Machine, which was acquired in mid-2015. Each of these companies operate autonomously from one another in distinct, unrelated product or service market verticals; this attribute creates meaningful diversification within the segment and within the Corporation as a whole.

Due to its scale, WesTower remains the dominant national provider of communication infrastructure construction and support services in Canada and has a competitive advantage over its regional competitors. This nationwide scale allows WesTower the flexibility to reallocate its crews between regions to adapt to and match customer demand. As the Canadian telecommunications industry readies itself for the deployment of the next generation of technology so too does WesTower. Prior to this new demand starting there may be reduced demand for large scale services between when the carriers complete the 4G LTE equipment upgrade on the networks and when the next generation of technology is deployed. The timing of the next technology deployment in Canada is not known by the Corporation at this time; however WesTower continues to work closely with its customers to ensure it is well positioned when that increased demand arrives.

The impact of the past CRTC decision on 'sharing' of towers between competitive carriers has reduced demand for new tower construction provided by WesTower. This reduced demand for new tower construction is anticipated to persist for the balance of 2016. This change in the regulatory environment has caused a shift in the services WesTower is offering to the market, resulting in a higher proportion of higher margin tower maintenance work as compared to prior periods. This change in product mix is expected to somewhat offset the lost margin on decreased tower construction.

Although Stainless experienced a significant improvement in the number of small to midsize field projects being bid during the last half of 2015, there remains significant available capacity in the industry, creating negative pricing pressures. In addition, Stainless has been impacted by the lack of larger field projects. Stainless continues to focus on mitigating the impact of the competitive challenges and the lack of larger sized field projects by increasing the volume of shop built tanks. By utilizing innovative manufacturing processes Stainless has been able to expand its shop capacity to meet any increased demand for shop built tanks.

The weakness of the Alberta economy, impacted by low energy prices, continues to negatively impact the Alberta Operations' sales. The pervasive weakness in this region has had a significant impact on the demand for the Alberta Operations' products and services. The Alberta Operations' dependence on purchasing much of its inventory from a US supplier has further strained margins due to the weak Canadian dollar. The Corporation remains committed to this market and anticipates that, as it has experienced in past periods of weak demand, the Alberta Operations will emerge in an improved competitive position once the local market conditions eventually recover; as competitors may not have the financial resources to sustain their operations as the Alberta Operations have as part of the Corporation.

The demand for the products and services that Ben Machine provides to the aerospace and defense markets are uncorrelated to the demand for the products and services of the other companies in this segment and are unaffected by the conditions which have an impact to the rest of the companies in this segment. The demand for Ben Machine's products remains strong and the investment in additional capital equipment in 2015 has increased the capacity of Ben Machine to meet the growing customer demand. Opportunities for further investment into production capacity expansion at Ben Machine are being evaluated.

Due to excess production capacity currently being experienced in western Canada, Overlanders anticipates that demand will be softer than initially anticipated but is expecting that it will recover late in 2016. Overlanders continues to focus on maintaining quality and strengthening key customer relationships during this time.

13. NON-IFRS FINANCIAL MEASURES

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, impairment and restructuring charges (including accelerated depreciation charges), gains or losses recognized on the fair value of contingent consideration items, amortization of intangible assets that are purchased at the time of acquisition, and the non-cash charge to deferred income taxes incurred as a result of the Corporation's settlement with the CRA on certain tax loss carryforwards associated with the conversion of the Corporation from an income trust to a corporation.

Adjusted net earnings		2016 Q1
Net earnings	$	9,873
Adjusting items, net of tax		
Acquisition costs		49
Intangible asset amortization		2,086
Adjusted net earnings	$	12,008
		2015 Q1
Net earnings	$	934
Adjusting items, net of tax		
Acquisition costs		2,194
Intangible asset amortization		523
Adjusted net earnings	$	3,651

Free Cash Flow: for the period is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital and any unusual non-operating one-time items. Free Cash Flow is a performance measure used by 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: are 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 any of its finance leases. Other capital expenditures are classified as growth capital expenditures 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.

Investors are cautioned that EBITDA, Adjusted Net Earnings, Free Cash Flow and Maintenance 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 may differ from that of other entities and therefore may not be comparable to measures utilized by them.

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	March 31 2016	December 31 2015
ASSETS		
CURRENT		
Cash and cash equivalents	$ 29,353	$ 15,497
Accounts receivable	129,215	125,434
Costs incurred plus recognized profits in excess of billings	9,868	7,776
Inventory	109,337	118,645
Prepaid expenses and deposits	41,552	38,907
Income taxes receivable	8,241	10,955
	327,566	317,214
OTHER ASSETS	9,560	10,100
CAPITAL ASSETS	559,474	542,629
INTANGIBLE ASSETS	108,993	112,813
DEFERRED INCOME TAX ASSETS	237	226
GOODWILL	245,273	246,074
	$ 1,251,103	$ 1,229,056
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 102,760	$ 108,333
Deferred revenue	48,578	51,716
Billings in excess of costs incurred plus recognized profits	15,416	20,824
Current portion of long-term debt and finance leases (Note 6)	935	1,031
	167,689	181,904
LONG-TERM DEBT AND FINANCE LEASES (Note 6)	354,734	303,855
OTHER LONG-TERM LIABILITIES	16,116	16,779
CONVERTIBLE DEBENTURES (Note 7)	204,855	203,919
DEFERRED INCOME TAX LIABILITY	80,871	75,981
	824,265	782,438
EQUITY		
SHARE CAPITAL (Note 8)	425,924	425,561
CONVERTIBLE DEBENTURES - Equity Component (Note 7)	11,200	11,200
CONTRIBUTED SURPLUS	1,788	1,788
DEFERRED SHARE PLAN (Note 12)	5,600	5,123
RETAINED EARNINGS		
Cumulative Earnings	195,969	186,491
Cumulative Dividends (Note 9)	(247,558)	(234,300)
	(51,589)	(47,809)
ACCUMULATED OTHER COMPREHENSIVE INCOME	33,915	50,755
	426,838	446,618
	$ 1,251,103	$ 1,229,056

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)

For the periods ended March 31	2016	2015
REVENUE		
Aviation	$ 173,510	$ 133,458
Manufacturing	44,388	40,477
	217,898	173,935
EXPENSES		
Aviation expenses - excluding depreciation and amortization	109,533	84,960
Manufacturing expenses - excluding depreciation and amortization	33,782	32,150
General and administrative	30,252	25,745
	173,567	142,855
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	44,331	31,080
Depreciation and amortization	21,671	18,515
Finance costs - interest	6,908	8,398
Acquisition costs	64	2,194
EARNINGS BEFORE INCOME TAXES	15,688	1,973
INCOME TAX EXPENSE (RECOVERY)		
Current	4,476	1,246
Deferred	1,339	(207)
	5,815	1,039
NET EARNINGS	$ 9,873	$ 934
EARNINGS PER SHARE (Note 11)		
Basic	$ 0.36	$ 0.04
Diluted	$ 0.35	$ 0.04

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

For the periods ended March 31	2016	2015
NET EARNINGS	$ 9,873	$ 934
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that are or may be reclassified to the Statement of Income		
Cumulative translation adjustment, net of tax	(20,209)	18,984
Net gain (loss) on hedge of net investment in foreign operation	3,369	(2,232)
	(16,840)	16,752
COMPREHENSIVE INCOME (LOSS)	$ (6,967)	$ 17,686

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	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2015	$ 308,919	$ 13,877	$ 124	$ 3,802	$ 146,257	$ (189,073)	$ 15,687	$ 299,593
Shares issued to acquisition vendors	12,138	-	-	-	-	-	-	12,138
Convertible debentures								
Converted into shares	101	(7)	-	-	-	-	-	94
Matured	-	(1,489)	1,489	-	-	-	-	-
Shares issued under dividend reinvestment plan	946	-	-	-	-	-	-	946
Deferred share plan vesting	-	-	-	458	-	-	-	458
Deferred share plan issuance	482	-	-	(482)	-	-	-	-
Comprehensive income	-	-	-	-	934	-	16,752	17,686
Dividends declared	-	-	-	-	-	(10,038)	-	(10,038)
Balance, March 31, 2015	$ 322,586	$ 12,381	$ 1,613	$ 3,778	$ 147,191	$ (199,111)	$ 32,439	$ 320,877
Balance, January 1, 2016	$ 425,561	$ 11,200	$ 1,788	$ 5,123	$ 186,491	$ (234,300)	$ 50,755	$ 446,618
Shares issued under dividend reinvestment plan (Note 8)	1,252	-	-	-	-	-	-	1,252
Deferred share plan vesting	-	-	-	477	-	-	-	477
Shares cancelled under NCIB (Note 8)	(889)	-	-	-	(395)	-	-	(1,284)
Comprehensive income	-	-	-	-	9,873	-	(16,840)	(6,967)
Dividends declared (Note 9)	-	-	-	-	-	(13,258)	-	(13,258)
Balance, March 31, 2016	$ 425,924	$ 11,200	$ 1,788	$ 5,600	$ 195,969	$ (247,558)	$ 33,915	$ 426,838

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 March 31	2016	2015
OPERATING ACTIVITIES		
Net earnings for the period	$ 9,873	$ 934
Items not affecting cash:		
Depreciation and amortization	21,671	18,515
Accretion of interest	1,114	2,101
Long-term debt discount	246	(82)
Gain on sale of disposal of capital assets	106	13
Deferred income tax expense	1,339	(207)
Deferred share program share-based vesting	477	458
	34,826	21,732
Changes in non-cash operating working capital items (Note 14)	(16,213)	(1,493)
	18,613	20,239
FINANCING ACTIVITIES		
Net proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	53,884	314,623
Redemption of convertible debentures	-	(34,944)
Issuance of shares, net of issuance costs	1,252	946
Payment for repurchase of Shares under NCIB	(1,284)	-
Cash dividends (Note 9)	(13,258)	(10,038)
	40,594	270,587
INVESTING ACTIVITIES		
Purchase of capital assets, net of disposals	(45,365)	(36,717)
Purchase of intangible assets	(406)	(57)
Investment in other assets	(283)	(81)
Cash outflow for acquisitions, net of cash acquired	-	(201,764)
Finance lease receivable payments, net of reserves	703	1,096
	(45,351)	(237,523)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,856	53,303
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,497	14,968
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 29,353	$ 68,271
Supplementary cash flow information		
Interest paid	$ 6,932	$ 8,282
Income taxes paid	$ 1,518	$ 1,024

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 two sectors: aviation services and equipment, and manufacturing. In particular, the Corporation is focused on businesses that are suited for public markets, except, in certain circumstances, for their size. 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 March 31, 2016, the principal wholly-owned operating subsidiaries of the Corporation are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom Helicopters"), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA"), EIC Ireland Leasing Ltd. ("EIC Ireland"), R1 Canada LP ("Regional One Canada"), EIC Luxembourg Sarl ("EIC Luxembourg"), EIC Ireland Leasing No. Two Limited ("EIC Ireland Two"), Provincial Aerospace Ltd. ("Provincial"), Ben Machine Products Company Inc. ("Ben Machine"), R1 GP Inc. ("R1 GP"), Central Point Procurement Inc. ("CPPI"), and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless"), Dallas Sailer Enterprises, Inc. ("Water Blast Dakota"), and Regional One, Inc. ("Regional One") are wholly owned subsidiaries of EIIF USA. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

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.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on May 10, 2016.

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 for the changes noted below:

a) *Changes in Accounting Policies*

Adoption of IFRS 9 – Financial Instruments

The Corporation has early adopted IFRS 9 – Financial Instruments, with a date of initial application of January 1, 2016. IFRS 9 introduces a principles-based approach to the classification and measurement of financial assets based on an entity's business model and the nature of a financial asset's cash flows. All financial assets, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. IFRS 9 introduces an expected loss impairment model for all financial assets not carried at FVTPL. IFRS 9 also introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

All financial assets previously classified as Loans and Receivables are now classified at amortized cost. There were no changes to the measurement category for financial liabilities at amortized cost.

At the date of adoption, the application of IFRS 9 had no impact on the Corporation's consolidated financial statements

Recognition

Financial assets and liabilities are recorded on the statement of financial position of the Corporation when the Corporation becomes a party to the financial instrument.

Classification

Effective the date of adoption, the Corporation classifies its financial assets and liabilities into the following measurement categories:

- those measured subsequently at fair value, either through profit or loss or through OCI
- those measured at amortized cost

The classification of the financial asset or liability is dependent on the business model and the nature of the cash flows associated with the financial asset or liability. The Corporation will only change the classification of financial assets when the model for managing those financial assets has changed. The classification of financial liabilities cannot be changed from the classification election chosen at the time of recognition.

The Corporation's cash and cash equivalents are classified as financial assets measured at FVTPL. Accounts receivable and prepaid expenses and deposits are classified as financial assets measured at amortized cost. Accounts payable, the Corporation's credit facility, and convertible debentures are classified as financial liabilities. All financial assets and liabilities measured at amortized cost use the effective interest rate method with interest expense recorded in the statement of operations, as applicable.

Measurement

IFRS requires that an entity measure a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, the entity shall measure a financial asset at one of amortized cost, fair value through OCI, or fair value through profit or loss. Measurement of financial liabilities is chosen at the time of initial recognition and unless specifically identified as FVTPL at the time of adoption, are subsequently measured at amortized cost. The requirements of IFRS 9 in relation to classification and measurement of financial liabilities are consistent with the requirements previously included under IAS 39, except that changes in fair value due to credit risk for liabilities designated as FVTPL under IFRS 9 are recorded in other comprehensive income.

Impairment

IFRS substitutes the incurred loss model under IAS 39 with the expected losses model. Expected credit losses are to be recognized at all times in a forward looking approach that reflects changes in credit risk of the financial instruments.

Hedge Accounting and Derivatives

On the date a derivative is entered into, the instrument is recognized at fair value and re-measured at the end of each reporting period. The accounting for a derivative contract depends on whether the derivative is designated as a hedging instrument. If it is designated as a hedging instrument, the accounting treatment is dependent on the nature of the hedged item and the hedging relationship. At the date of adoption and throughout the period, the Corporation was not party to any derivatives and therefore there was no impact to the financial statements of the Corporation.

The Corporation's hedging policy, which has not changed as a result of the adoption of IFRS 9, is included in Note 3 (g) of the Corporation's annual financial statements for the year ended December 31, 2015.

b) *Accounting Standards Issued but not yet Effective*

IFRS 15 – Revenue

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 them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15 Revenue from Contracts with Customers. The Corporation is assessing the impact of adopting this standard on its financial statements.

(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 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 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 JUDGEMENTS

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:

During the current period, the Corporation recognized an out of period adjustment in relation to the determination of goodwill associated with the acquisition of Provincial Aerospace Ltd. The Corporation incorrectly recorded a deferred tax benefit related to a provision for a non-deductible payment to the vendors. The out of period adjustment resulted in an increase to goodwill and deferred tax liabilities of $3,138 and had no impact on net income.

6. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at March 31, 2016 and December 31, 2015:

	March 31 2016	December 31 2015
Revolving term facility:		
Canadian dollar amounts drawn	$ 284,700	$ 248,000
United States dollar amounts drawn (US$54,500 and US$41,040, respectively)	70,692	56,799
Total credit facility debt outstanding, principal value	355,392	304,799
less: unamortized transaction costs	(1,604)	(1,789)
less: unamortized discount on outstanding Banker's Acceptances	(111)	(355)
Net credit facility debt	353,677	302,655
Finance leases	1,992	2,231
Total net credit facility debt and finance leases	355,669	304,886
less: current portion of finance leases	(935)	(1,031)
Long-term debt and finance leases	$ 354,734	$ 303,855

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 March 31, 2016.

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

Interest expense recorded by the Corporation during the three months ended March 31, 2016 for the long-term debt and finance leases was $2,831 (2015 – $2,462).

Credit Facility

The following is the continuity of long-term debt for the three months ended March 31, 2016:

	Three Months Ended March 31, 2016				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 248,000	$ 36,700	$ -	$ -	$ 284,700
United States dollar portion	56,799	51,922	(34,494)	(3,535)	70,692
	$ 304,799				$ 355,392

Subsequent to March 31, 2016 and before these consolidated financial statements were authorized, the Corporation made credit facility repayments of $5,000.

7. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Series J - 2011	EIF.DB.D	May 31, 2018	6.25%	$ 30.60
Unsecured Debentures - 2012	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures - 2013	EIF.DB.F	March 31, 2020	5.35%	$ 41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$ 31.70

Summary of the debt component of the convertible debentures:

	2016 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2016 Balance, End of Period
Series J	$ 55,595	$ -	$ 178	$ -	$ -	$ 55,773
Unsecured - 2012	54,700	-	163	-	-	54,863
Unsecured - 2013	62,034	-	151	-	-	62,185
Unsecured - 2014	37,822	-	85	-	-	37,907
						210,728
less: unamortized transaction costs						(5,873)
Convertible Debentures - Debt Component, end of period						$ 204,855

During the three months ended March 31, 2016, convertible debentures totaling a face value of nil were converted by the holders at various times into zero Shares of the Corporation (2015 – $100 face value into 5,000 Shares).

Interest expense recorded during the three months ended March 31, 2016 for the convertible debentures was $4,077 (2015 – $5,936).

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.

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

Summary of the equity component of the convertible debentures:

	March 31 2016	December 31 2015
Series J - 2011	$ 3,136	$ 3,136
Unsecured Debentures - 2012	3,204	3,204
Unsecured Debentures - 2013	3,063	3,063
Unsecured Debentures - 2014	1,797	1,797
Convertible Debentures - Equity Component, end of period	$ 11,200	$ 11,200

The Series J debentures are secured, subordinate only to the Corporation's credit facility, by a charge on the assets and undertakings of the Corporation and it subsidiaries. The September 2012, March 2013 and March 2014 convertible debenture offerings represent direct unsecured debt obligations of the Corporation.

8. SHARE CAPITAL

Changes in the Shares issued and outstanding during the three months ended March 31, 2016 are as follows:

		2016
	Number of Shares	Amount
Share capital, beginning of period	27,633,217	$ 425,561
Issued under dividend reinvestment plan	52,910	1,252
Shares cancelled under NCIB	(57,710)	(889)
Share capital, end of period	27,628,417	$ 425,924

During the first quarter, the Corporation purchased a total of 57,710 Shares through several days of trading. As of the date of this report, there are 1,323,949 Shares available for purchase under the NCIB ending January 4, 2017. The Corporation purchased the Shares at an average cost of $22.25 per Share for aggregate consideration of $1,284. The excess of the cost over the average book value of $395 was charged to retained earnings.

9. DIVIDENDS DECLARED

The Corporation's dividend policy is to pay 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.

Cumulative dividends during the three months ended March 31, 2016 and the comparative 2015 period are as follows:

Three Months Ended March 31	2016	2015
Cumulative dividends, beginning of period	$ 234,300	$ 189,073
Dividends during the period	13,258	10,038
Cumulative dividends, end of period	$ 247,558	$ 199,111

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

The amounts and record dates of the dividends during the three months ended March 31, 2016 and the comparative 2015 period are as follows:

						2016 Dividends					2015 Dividends
Month	Record date	Per Share			Amount	Record date	Per Share			Amount	
January	January 29, 2016	$	0.16	$	4,424	January 30, 2015	$	0.145	$	3,342	
February	February 29, 2016		0.16		4,416	February 27, 2015		0.145		3,347	
March	March 31, 2016		0.16		4,418	March 31, 2015		0.145		3,349	
Total		$	0.48	$	13,258		$	0.435	$	10,038	

Subsequent to March 31, 2016 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.16 per Share for April 2016.

10. 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: Aviation and Manufacturing. The 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. Provincial is included in the Aviation segment. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

The Corporation evaluates each segment's performance based on 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. There are no inter-segment revenues, 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 enterprise 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 March 31, 2016			
	Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 173,510	$ 44,388	$ -	$ 217,898
Expenses	129,955	39,841	3,771	173,567
EBITDA	43,555	4,547	(3,771)	44,331
Depreciation and amortization				21,671
Finance costs - interest				6,908
Acquisition costs				64
Earnings before income tax				15,688
Current income tax expense				4,476
Deferred income tax expense				1,339
Net earnings				$ 9,873

	Three Months Ended March 31, 2015			
	Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 133,458	$ 40,477	$ -	$ 173,935
Expenses	102,237	37,675	2,943	142,855
EBITDA	31,221	2,802	(2,943)	31,080
Depreciation and amortization				18,515
Finance costs - interest				8,398
Acquisition costs				2,194
Earnings before income tax				1,973
Current income tax expense				1,246
Deferred income tax recovery				(207)
Net earnings				$ 934

				March 31, 2016
	Aviation	Manufacturing	Head Office	Consolidated
Total assets	$ 979,751	$ 191,927	$ 79,425	$ 1,251,103
Net capital asset additions	44,880	485	-	45,365

				December 31, 2015
	Aviation	Manufacturing	Head Office	Consolidated
Total assets	$ 971,126	$ 195,201	$ 62,729	$ 1,229,056
Net capital asset additions	120,111	3,596	438	124,145

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

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to owners of the Corporation by the weighted average number of common 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 the net income is adjusted to eliminate the interest expense from the convertible debentures less the tax effect.

The computation for basic and diluted earnings per share for the three months ended March 31, 2016 and comparative period in 2015 are as follows:

Three Months Ended March 31	2016	2015
Net earnings	$ 9,873	$ 934
Effect of dilutive securities		
Convertible debentures	-	-
Diluted earnings	$ 9,873	$ 934
Basic weighted average number of shares	27,623,261	23,058,447
Effect of dilutive securities		
Deferred shares	390,267	370,727
Convertible debentures	-	-
Diluted basis average number of shares	28,013,528	23,429,174
Earnings per share:		
Basic	$ 0.36	$ 0.04
Diluted	$ 0.35	$ 0.04

12. DEFERRED SHARE PLAN

During the three months ended March 31, 2016, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $3,173 (2015 - $2,173) at the time of the grant and was based on the market price of the Corporation's Shares at that time. During the three months ended March 31, 2016, the Corporation recorded compensation expense of $477 for the Corporation's Deferred Share Plan within the general and administrative expenses of head-office (2015 - $458).

13. 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, 2015 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 $54,500 or $70,692 (December 31, 2015 - US $41,040 or $56,799) 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.

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The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $54,500 (December 31, 2015 - US $40,500) 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 three months ended March 31, 2016.

Interest Rates

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 6) 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 London Inter Bank Offer Rate ("LIBOR"). At March 31, 2016, US $25,000 (December 31, 2015 - US $33,000) was outstanding under US LIBOR, US $29,500 (December 31, 2015 - US $8,040) was outstanding under USD Prime, $131,700 (December 31, 2015 - $232,000) was outstanding under Bankers Acceptances and $153,000 (December 31, 2015 - $16,000) was outstanding under Prime.

The interest rates of the convertible debentures (Note 7) 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 March 31, 2016	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Other financial liabilities	$ (459)	$ -	$ -	$ (459)
Fair Value Disclosures				
Other assets - Loans and receivables	2,704	-	2,704	
Other assets - Equity method investment	6,856	-	-	6,856
Long term debt - Other financial liabilities	(353,677)	-	-	(355,392)
Convertible debt - Other financial liabilities	(204,855)	(216,795)	-	-

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2015	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities - Other financial liabilities	$ (484)	$ -	$ -	$ (484)
Fair Value Disclosures				
Other assets - Loans and receivables	3,335	-	3,335	-
Other assets - Equity method investment	6,765	-	-	6,765
Long term debt - Other financial liabilities	(302,655)	-	-	(304,799)
Convertible debt - Other financial liabilities	(203,919)	(212,991)	-	-

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

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

The following table summarizes the changes in the consideration liability originally recorded on the acquisition of Regional One, including any changes for settlements, changes in fair value and foreign currency:

Consideration Liability Summary For the periods ended		March 31 2016		December 31 2015
Opening	$	484	$	2,162
Accretion		5		23
Settled during the period		-		(2,009)
Translation (gain)/loss		(30)		308
Ending	$	459	$	484

The remaining consideration liability outstanding at March 31, 2016 consists of certain tax related liabilities owing to the vendors. Additionally, there were 438,209 Shares of the Corporation that were originally issued into escrow at the time of acquisition and relate to the retention of the vendor as CEO. The remaining Shares are anticipated to be settled and released from escrow evenly on each of the next three anniversaries of closing the acquisition (262,925 Shares in escrow as at March 31, 2016).

Financial Instrument Fair Value Disclosures

The fair values of cash and cash equivalents, accounts receivable, other assets, 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 March 31, 2016, management had determined that the fair value of its long term debt approximates its carrying value as such debt is subject to floating interest rates and the Corporation's credit risk profile has not significantly changed in current market conditions as the debt was recently amended.

As at March 31, 2016, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $216,795 (December 31, 2015 - $212,991) and a carrying value of $204,855 (December 31, 2015 - $203,919).

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

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

14. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2016 and the comparative periods in 2015 are as follows:

Period Ended March 31	2016	2015
Accounts receivable	$ (3,781)	$ 148
Costs incurred plus recognized profits in excess of billings	(2,092)	2,111
Inventory	9,308	(3,523)
Prepaid expenses and deposits	(2,645)	(4,894)
Accounts payable and accrued charges	(5,573)	446
Income taxes receivable/payable	2,714	(5,580)
Deferred revenue	(3,138)	2,456
Billings in excess of costs incurred plus recognized profits	(5,408)	701
Foreign currency impact	(5,598)	6,642
Net change in working capital items	$ (16,213)	$ (1,493)