Exchange Income Corporation

Second Quarter Report

For the three and six months ended June 30, 2016

CEO's Message

In our Q1 report I outlined how EIC's fundamental investment thesis was unchanged from our IPO prospectus in 2004. Over the last twelve years, we have spoken consistently about the importance of discipline in how we implement our business model. Discipline in what we buy, how much we pay, how we finance the purchase, how we operate the business…. you get the picture. We have experienced strong, profitable, growth throughout our twelve years of operation, and in particular over the last 2 years. The most significant driver of our recent growth has been the acquisition of Provincial at the beginning of last year. Since that date we have completed one smaller acquisition, Ben Machine, and while it has been a great addition to EIC, it is simply not large enough to drive a material increase in our consolidated results. However, even without a significant acquisition we have been able to meet and exceed the Corporation's growth objectives and targets. Growth in revenues, growth in profitability and most importantly growth in dividends are all evident in our Q2 results. How we accomplished this is the strength of EIC and our business model.

Second Quarter Highlights

- Revenue grew by 16% to $226.9 million
- EBITDA increased by 18% to $56.9 million
- Net Earnings reached $17.2 million, up 29%
- Adjusted Net Earnings grew by 23% to $20.4 million
- On a per share basis net earnings were $0.62 up 7%
- Free Cash Flow less maintenance capital expenditure increased 28% to $25.5 million
- On a per share basis Free Cash Flow less maintenance capital expenditure increased 7% to $0.92, the best second quarter in the Corporation's history.
- Our dividend per share increased by 14% to $0.495 per share
- With a dividend increase of 14%, our payout ratio increased only slightly to 54%

The combination of record low interest rates and high liquidity in financial markets has resulted in an escalation of the price of target companies to levels which exceed our financial guidelines and, in the opinion of our acquisition team, are not sustainable. This trend is particularly evident in the United States and on larger transactions. As always, we will maintain our discipline to wait for deals that are accretive to our shareholders. In some periods, such as in the first six months of 2016, this means that our focus shifts to growth opportunities within our existing portfolio of companies. In the first half of 2016 at Regional One we purchased and or entered into agreements to acquire 11 CRJ aircraft (200's, 700's and 900's) as well as a wide variety of other aircraft and parts inventories. At Provincial, we have begun construction of a surveillance aircraft for our own inventory as a capability demonstrator to potential customers. It will also enable us to provide services on very short notice when required anywhere in the world. The Legacy Airlines has expanded its service offering by acquiring a twin engine Eurocopter EC135 helicopter near the end of the second quarter. We also recently closed the acquisition of CarteNav, which will augment Provincial's information technology capabilities and further ensconce it as the industry leader.

The Corporation's performance in 2016 has been solid. Even after taking into account the impact of a 14% increase in dividends per share, and a 38% increase in the total dividends, our quarterly payout ratio was 54% and our trailing twelve payout ratio was 59%. Strong dividend growth and solid payout ratios are indisputable validation that we have delivered accretive sustainable growth for our shareholders.

Both of our operating segments contributed to the growth we experienced in the second quarter. Revenues and EBITDA increased by 18% and 15% respectively at our Aerospace & Aviation business, respectively, while Manufacturing generated growth of 7% and 32%, respectively,.

Aerospace & Aviation results were driven by sustained strong revenue and EBITDA growth at Provincial, Regional One and the Legacy Airlines. Provincial continues to reap the benefit from the ramp up of its aerospace division's new multi-year Middle Eastern contract. Regional One, having successfully deployed the CRJ700 aircraft acquired from the Lufthansa City Line CRJ-700 investment, is now moving decisively into the CRJ-900 regional jet market with significant investments in aircraft and components.

Manufacturing results reflect the contribution of approximately $2.4 million in EBITDA from Ben Machine which we did not own in the same period in 2015, but this was offset by a weakness in our other manufacturing subsidiaries. Continued weakness in energy markets has resulted in poor demand at our Alberta Operations.

Late in the quarter we completed an offering of $69 million in convertible debentures with a seven year term. This enabled us to redeem existing debentures which were due in less than two years. In addition to extending the maturity of this capital by 5 years, reducing the interest rate and significantly increasing the conversion strike price, approximately 47% of the debenture holders chose to convert to equity at a strike price of $30.60. This was the highest issue price of equity in our history. In short, this transaction reduced our average borrowing cost, lengthened the term of our debt and increased liquidity with the issuance of record priced common shares. One of the key tenets of our business strategy is to maintain a strong balance sheet and this series of transactions enabled us to advance and solidify the Corporation's financial position.

Our business model at EIC remains clear and consistent: to provide our shareholders with a reliable growing dividend. We are pleased with our execution on this model in 2016 and are excited about the future. I want to thank all of our shareholders for their continuing support and look forward to updating you on our performance throughout the balance of 2016.

Mike Pyle
Chief Executive Officer

Management’s Discussion and Analysis

August 9, 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 and six months ended June 30, 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 and six months ended June 30, 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 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 June 30						
Revenue	$ 226,851			$ 196,214		
EBITDA	56,928			48,053		
Net earnings	17,214	$ 0.62	$ 0.59	13,394	$ 0.58	$ 0.54
Adjusted net earnings	20,388	0.74	0.69	16,516	0.71	0.64
Free Cash Flow	42,683	1.54	1.34	37,626	1.63	1.33
Free Cash Flow less maintenance capital expenditures	25,476	0.92	0.84	19,870	0.86	0.75
Free Cash Flow less maintenance capital expenditures payout ratio		54%	59%		51%	58%
Dividends declared	13,839	0.495		10,064	0.435	
For the six months ended June 30						
Revenue	$ 444,749			$ 370,149		
EBITDA	101,259			79,133		
Net earnings	27,087	$ 0.98	$ 0.96	14,328	$ 0.62	$ 0.61
Adjusted net earnings	32,396	1.17	1.13	20,815	0.90	0.89
Free Cash Flow	77,573	2.80	2.44	61,552	2.67	2.20
Free Cash Flow less maintenance capital expenditures	42,277	1.53	1.42	28,979	1.25	1.16
Free Cash Flow less maintenance capital expenditures payout ratio		64%	69%		70%	75%
Dividends declared	27,097	0.975		20,102	0.87	
FINANCIAL POSITION	June 30, 2016			December 31, 2015		
Working capital	$ 145,345			$ 135,310		
Capital assets	590,289			542,629		
Total assets	1,265,001			1,229,056		
Senior debt and finance leases	326,067			304,886		
Equity	462,622			446,618		
SHARE INFORMATION	June 30, 2016			December 31, 2015		
Common shares outstanding	28,558,670			27,633,217		
	June 30, 2016			June 30, 2015		
Weighted average shares outstanding during the period - basic	27,656,525			23,093,099		

2. OVERVIEW

EXCHANGE INCOME CORPORATION

The Corporation is a diversified, acquisition-oriented corporation focused on opportunities in aerospace & 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: Aerospace & Aviation and Manufacturing. As of the date of this report, the Corporation has changed the name of one of its operating segments. The segment previously referred to as the Aviation segment has been renamed the Aerospace & Aviation segment to better reflect the product mix offered by the subsidiaries within the segment.

(a) Aerospace & Aviation – includes a variety of operations within the aerospace and aviation industries. 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 Aerospace & Aviation segment. To assist in further explaining the results of the segment, the Corporation may refer to the Legacy Airlines, Regional One and Provincial.

(b) Manufacturing – provides a variety of manufactured goods and related services in a number of industries and geographic markets throughout North America. The operations of WesTower 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.

SIGNIFICANT EVENTS

Convertible Debenture Issuance – Unsecured 2016 Series

On June 7, 2016, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued $69 million principal amount of debentures. This amount includes the exercise of the $9 million over-allotment granted to the underwriters of the offering. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $44.75 per share. The maturity date of the debentures is June 30, 2023.

Convertible Debenture Early Redemption – Series J

On June 30, 2016, the Corporation exercised its right to call the Series J convertible debentures. Before the redemption date, $27.1 million of convertible debentures were converted into 886,264 common shares at a price of $30.60 per share of the Corporation. The remaining convertible debentures in the principal amount of $30.4 million were repaid on June 30, 2016 using funds from the Corporation's credit facility.

Subsequent Event – Acquisition of CarteNav Solutions Inc.

On August 8, 2016, the Corporation signed a stock purchase agreement to acquire the shares of CarteNav Solutions Inc. ("CarteNav"), a Canadian corporation based in Halifax, Nova Scotia. CarteNav is a leading software developer providing intelligence, surveillance, reconnaissance ("ISR") and situational awareness software solutions for the maritime, land and air environments to defense, security and commercial clients. CarteNav is strategically complementary to Provincial's aerospace business and, as of the close of the transaction, is a wholly-owned subsidiary of Provincial.

The total purchase price is up to $17 million, and is subject to customary post-closing adjustments and the achievement of certain earnings targets. The purchase price will be paid in cash. CarteNav's financial results will be included in the Corporation's consolidated financial statements commencing in the third quarter of 2016.

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		Six Months Ended	
periods ending June 30	2016	2015	2016	2015
Earnings before income taxes	$ 24,668	$ 19,325	$ 40,356	$ 21,298
Depreciation and amortization	23,503	20,615	45,174	39,130
Finance costs - interest	8,449	7,119	15,357	15,517
Acquisition costs	308	994	372	3,188
	$ 56,928	$ 48,053	$ 101,259	$ 79,133

Three Month EBITDA

The EBITDA generated by the Corporation during the current quarter was $56.9 million, an increase of $8.9 million or 18% over the comparative period. The increase in EBITDA is the result of improved performance in the Aerospace & Aviation segment ($7.3 million increase) and an increase in EBITDA generated by the Manufacturing segment ($1.6 million increase). The increase in EBITDA for the Aerospace & Aviation segment is attributed to Regional One, Provincial and the Legacy Airlines. 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 increase at the Legacy Airlines is largely attributable to the acquisition of First Air's Kivalliq non-aircraft assets in the third quarter of 2015 and margin enhancement initiatives across the Legacy Arilines. 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. Lower EBITDA in the pre-existing entities in the Manufacturing segment partially offset the positive impact of the addition of Ben Machine.

Six Month EBITDA

The EBITDA generated by the Corporation during the first six months of 2016 was $101.3 million, an increase of $22.1 million or 28% over the comparative period. Consistent with the second quarter discussion, the increase in EBITDA is a result of improved performance in the Aerospace & Aviation segment ($19.6 million increase), an increase in EBITDA generated by the Manufacturing segment ($3.3 million increase), offset slightly by higher head office costs. Consistent with the three month discussion, the increase in EBITDA for the Aerospace & Aviation segment is attributed to Regional One, Provincial, and the Legacy Airlines. 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 increase at the Legacy Airlines is largely attributable to the acquisition of First Air's Kivalliq non-aircraft assets in the third quarter of 2015 and margin enhancement initiatives across the Legacy Arilines. 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. Lower EBITDA in the pre-existing entities in the Manufacturing segment partially offset the positive impact of the addition of Ben Machine.

FREE CASH FLOW

FREE CASH FLOW	Three Months Ended		Six Months Ended	
periods ending June 30	2016	2015	2016	2015
Cash flows from operations	$ 43,434	$ 3,841	$ 62,047	$ 24,080
Change in non-cash working capital items	(1,059)	32,791	15,154	34,284
Acquisition costs	308	994	372	3,188
	$ 42,683	$ 37,626	$ 77,573	$ 61,552
per share - Basic	$ 1.54	$ 1.63	$ 2.80	$ 2.67
per share - Fully Diluted	$ 1.34	$ 1.33	$ 2.44	$ 2.20

Three Month Free Cash Flow

The Free Cash Flow generated by the Corporation for the second quarter of 2016 was $42.7 million, an increase of $5.1 million or 13% over the comparative period. The increase in Free Cash Flow is a result of a number of factors, but is primarily due to the increase in EBITDA generated during the period. As discussed above, the increase in EBITDA primarily relates to Regional One, Provincial, the Legacy Airlines and the addition of Ben Machine with no comparative.

An increase of $0.5 million in cash interest on the Corporation's credit facility reduced free cash flow. The increase in interest on the Corporation's credit facility was partially offset by a decrease of $0.2 million of cash interest on the Corporation's convertible debentures. The cash interest on the Corporation's convertible debentures was lower in the current quarter as a result of the early redemption of the Series H convertible debentures in the third quarter 2015. As a result of these factors, the Corporation's cash interest overall increased $0.3 million in the current quarter.

The Corporation's cash taxes increased by $4.2 million in the current quarter, which reduced Free Cash Flow. The higher cash taxes are a result of the increased earnings generated in the current quarter.

On a basic per share basis, the increase in absolute Free Cash Flow was offset by the higher number of Shares outstanding in the current quarter. The combined impact resulted in Free Cash Flow of $1.54 per share for the current quarter, a decrease of $0.09 per share or 6% over the comparative period (fully diluted $1.34, an increase of $0.01 or 1%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

Six Month Free Cash Flow

The Free Cash Flow generated by the Corporation for the six months ended June 30, 2016 was $77.6 million, an increase of $16.0 million or 26% over the comparative period. Consistent with the second quarter discussion, the change in Free Cash Flow is the result of a number of factors but primarily as a result of the increase in EBITDA generated in the six months ended June 30, 2016. The increase in EBITDA comes from the strong performance of Regional One, Provincial, the Legacy Airlines and the addition of Ben Machine with no comparative.

In addition to the increase in EBITDA, a decrease of $1.1 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 first six months of 2016 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 $0.8 million in cash interest on the Corporation's credit facility. As a result of these factors, the Corporation's cash interest decreased overall by $0.3 million.

The Corporation's cash taxes increased by $7.5 million in the first six months of 2016, which reduced Free Cash Flow. The higher cash taxes are a result of the increased earnings generated.

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 first six months of 2016. The combined impact resulted in Free Cash Flow of $2.80 per share for the six months ended June 30, 2016, an increase of $0.13 per share or 5% over the comparative period (fully diluted $2.44, an increase of $0.24 or 11%). Details around the increase 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		Six Months Ended	
periods ending June 30	2016	2015	2016	2015
Free Cash Flow	$ 42,683	$ 37,626	$ 77,573	$ 61,552
Maintenance Capital Expenditures	17,207	17,756	35,296	32,573
	$ 25,476	$ 19,870	$ 42,277	$ 28,979
per share - Basic	$ 0.92	$ 0.86	$ 1.53	$ 1.25
per share - Fully Diluted	$ 0.84	$ 0.75	$ 1.42	$ 1.16

Three Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current quarter was $25.5 million, an increase of $5.6 million or 28% over the comparative period. The increase is due to the increase in Free Cash Flow as described above and the $0.5 million or 3% decrease 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 quarter. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $0.92 per share for the current quarter, an increase of $0.06 per share or 7% over the comparative period (fully diluted $0.84, increase of $0.09 or 12%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

Six Month Free Cash Flow Less Maintenance Capital Expenditures

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current period was $42.3 million, an increase of $13.3 million or 46% over the comparative period. The increase is due to the increase in Free Cash Flow as described above, partially offset by the $2.7 million or 8% increase in maintenance capital expenditures, which is described in detail in the Capital Expenditures section.

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 first six months of 2016. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $1.53 per share for the six months ended June 30, 2016, an increase of $0.28 per share or 22% over the comparative period (fully diluted $1.42, increase of $0.26 or 22%). Details around the change in Shares outstanding can be found in Section 6 – *Liquidity and Capital Resources*.

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Three Months Ended		Six Months Ended	
periods ending June 30	2016	2015	2016	2015
Cash maintenance capital expenditures	$ 17,023	$ 17,542	$ 34,928	$ 32,102
add: finance lease principal payments	184	214	368	471
Maintenance capital expenditures	17,207	17,756	35,296	32,573
Growth capital expenditures	33,489	20,285	61,355	42,499
Capital expenditures	$ 50,696	$ 38,041	$ 96,651	$ 75,072
Maintenance capital expenditures per share - Basic	$ 0.62	$ 0.77	$ 1.28	$ 1.42
Growth capital expenditures per share - Basic	1.21	0.88	2.22	1.84
Total capital expenditures per share - Basic	$ 1.83	$ 1.65	$ 3.50	$ 3.26

Maintenance Capital Expenditures

The Corporation's maintenance capital expenditures in the second quarter totaled $17.2 million, a decrease of $0.5 million or 3% from the comparative period. The majority of the expenditures occurred in the Aerospace & Aviation segment, as it spent $15.6 million, while the Manufacturing segment spent $1.1 million. Head-office incurred $0.5 million of maintenance capital expenditures.

The $15.6 million of maintenance capital expenditures invested by the Aerospace & Aviation segment was $1.5 million or 9% lower than the comparative period. The Legacy Airlines' maintenance capital expenditures decreased by $1.1 million from the comparative period, and Provincial's maintenance capital expenditures decreased $1.9 million. The majority of these variances are caused by the timing of different maintenance events. Partially offsetting these decreases, Regional One's maintenance capital expenditures increased by $1.5 million over the comparative period due to a larger pool of leased aircraft.

The Manufacturing segment's maintenance capital expenditures in the second quarter were $1.1 million or 79% higher than the comparative period. The increase is primarily attributable to the timing of investments in replacement production equipment at Stainless.

Maintenance capital expenditures for the six month period ended June 30, 2016 totaled $35.3 million, an increase of $2.7 million or 8% over the comparative period. The Aerospace & Aviation segment spent $33.1 million, the Manufacturing segment spent $1.7 million, and head office spent $0.5 million. The majority of the increase relates to Regional One and Provincial, offset by a decrease in maintenance capital expenditures in the Legacy Airlines.

Growth Capital Expenditures

The Corporation's growth capital expenditures in the second quarter totaled $33.5 million, an increase of $13.2 million or 65% over the comparative period. The growth capital expenditures were made entirely by the Aerospace & Aviation segment. The most significant investments were the purchases of CRJ aircraft and other turboprop aircraft by Regional One, adding to its lease and parts portfolio. In addition, the Legacy Airlines purchased a Eurocopter EC135, a twin engine helicopter. The EC135 introduces significant additional capabilities to the rotary wing operation, including IFR (instrument flight rules) and night authorization.

Growth capital expenditures for the six month period ended June 30, 2016 totaled $61.4 million, an increase of $18.9 million or 44% over the comparative period. The growth capital expenditures were made entirely by the Aerospace & Aviation segment. The most significant investments were the purchase of CRJ900 aircraft by Regional One, adding to its portfolio of leased aircraft and expanding to include a new series of CRJ aircraft.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the six months ended June 30, 2016 and the comparative period in 2015 were as follows:

Month	Record date	Per Share	2016 Dividends Amount	Record date	Per Share	2015 Dividends Amount
January	January 30, 2016	$ 0.16	$ 4,424	January 31, 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
April	April 29, 2016	0.16	4,423	April 30, 2015	0.145	3,352
May	May 31, 2016	0.1675	4,633	May 31, 2015	0.145	3,354
June	June 30, 2016	0.1675	4,783	June 30, 2015	0.145	3,358
Total		$ 0.975	$ 27,097		$ 0.87	$ 20,102

Dividends declared for both the three and six month periods ended June 30, 2016 have increased over the comparative period. The increases are due to the increase in the dividend rate per month in the current period 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) and $0.0075 in the second quarter of 2016 (5% increase). This resulted in the dividends declared for the first six months of 2016 totaling $0.975 per share compared to $0.87 per share in the comparative period, an increase of 12%. Dividends declared during the first six months of 2016 totaled $27.1 million. Impacting the dividends declared in 2016 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.

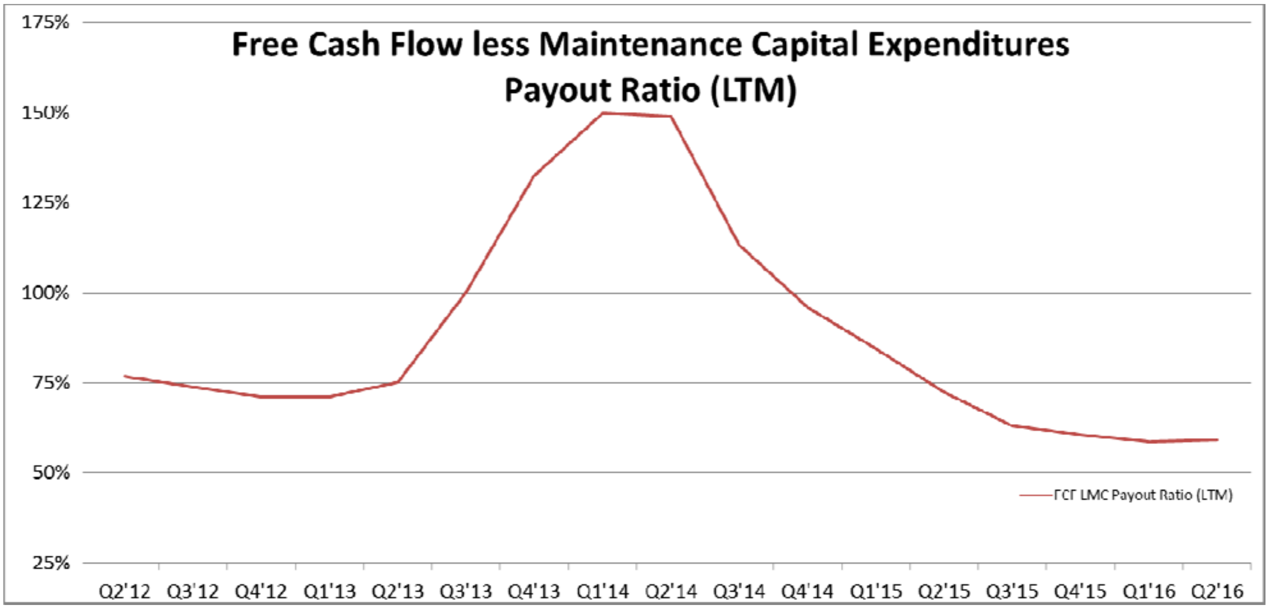
The Corporation compares the dividends declared in the period to the amount of cash flows generated by the Corporation in that period to determine a payout ratio. The dividends declared by the Corporation are presented as financing activities within the Corporation's statement of cash flows whereas Free 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	2016	Per share basic	Per share fully diluted	2015	Per share basic	Per share fully diluted
For the three months ended June 30						
Free Cash Flow		*32%*	*37%*		*27%*	*33%*
Free Cash Flow less maintenance capital expenditures		*54%*	*59%*		*51%*	*58%*
For the six months ended June 30						
Free Cash Flow		*35%*	*40%*		*33%*	*40%*
Free Cash Flow less maintenance capital expenditures		*64%*	*69%*		*70%*	*75%*

The Corporation's Free Cash Flow and Free Cash Flow less maintenance capital expenditures payout ratios increased to 32% and 54% for the second quarter of 2016, compared to 27% and 51% in the prior year. These increases were caused by the increase in the monthly dividend rate declared by the Corporation. Compared to the prior quarter, dividends declared per share have increased by 14%, from $0.435 per share in 2015 to $0.495 per share in 2016.

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 and 2016. 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 increased the monthly dividend paid to shareholders by 5% during the second quarter of 2016, reflecting an annualized dividend of $2.01 per Share.

4. ANALYSIS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Corporation's operations for the three months ended June 30, 2016 and the comparative 2015 period.

	Three Months Ended June 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 177,108	$ 49,743	$ -	$ 226,851
Expenses(1)	122,632	43,087	4,204	169,923
EBITDA	54,476	6,656	(4,204)	56,928
Depreciation and amortization				23,503
Finance costs - interest				8,449
Acquisition costs				308
Earnings before tax				24,668
Current income tax expense				8,509
Deferred income tax expense				(1,055)
Net earnings for the period				$ 17,214

	Three Months Ended June 30, 2015			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 149,837	$ 46,377	$ -	$ 196,214
Expenses(1)	102,635	41,316	4,210	148,161
EBITDA	47,202	5,061	(4,210)	48,053
Depreciation and amortization				20,615
Finance costs - interest				7,119
Acquisition costs				994
Earnings before tax				19,325
Current income tax expense				4,283
Deferred income tax expense				1,648
Net earnings				$ 13,394

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

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

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment	Three Months Ended June 30,	2016	2015	Variance	Variance %
Revenue		$ 177,108	$ 149,837	$ 27,271	18%
Expenses		122,632	102,635	19,997	19%
EBITDA		$ 54,476	$ 47,202	$ 7,274	15%

The revenue of the Aerospace & Aviation segment for the current quarter was $177.1 million, an increase of $27.3 million or 18% over the comparative period. The overall increase in revenue is attributable to growth in aerospace at Provincial and Regional One, and growth within the Legacy Airlines. The growth in revenue from the Legacy Airlines is partially attributable 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 Aerospace & Aviation segment for the current quarter was $54.5 million, an increase of $7.3 million or 15% over the comparative period. EBITDA margins were 30.8% in the current period versus 31.5% in the comparative period. The majority of the growth in EBITDA was driven by growth in Regional One and Provincial, increasing their EBITDA by 22% over the comparative period. The Legacy Airlines generated a 7% increase in EBITDA over the prior period due to margin enhancement initiatives across the Legacy Airlines, despite fire suppression work within the segment decreasing significantly compared to the prior period due to a particularly wet season in Manitoba during the latter part of the quarter, a situation that has continued into the third quarter.

Provincial's strong revenue and EBITDA growth during the current quarter were primarily driven by growth in the Middle East operations resulting from the new multi-year contract announced in November 2015. This strong aerospace revenue, however, was partially offset by the impact of a very weak Newfoundland economy. Airline revenues decreased as a result of the negative impact to customer demand associated with weakness in the oil and gas and mining industries and reductions in government spending.

Regional One generated significant revenue and EBITDA growth in the second quarter, driven by strong lease revenue and increased asset and part sales. This growth was largely driven by the previous investments made in CRJ700 aircraft and expansion of Regional One's portfolio of aircraft and components for lease, which Regional One continued to monetize during the second quarter. The second quarter of 2016 included the sale of operating aircraft, resulting in a particularly strong second quarter. The sale of operating aircraft will not occur in every quarter, thus highlighting the uneven nature of quarterly results.

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. Implementation of the initiatives to improve operational efficiencies did result in one-time severance costs during the quarter. Improvement in EBITDA was partially offset by shortfalls due to the lack of fire suppression work during the quarter.

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 reduced value of the Canadian dollar versus the US dollar. Overall, the Aerospace & 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 June 30,		2016		2015		Variance	Variance %
Revenue		$	49,743	$	46,377	$	3,366	7%
Expenses			43,087		41,316		1,771	4%
EBITDA		$	6,656	$	5,061	$	1,595	32%

The revenue of the Manufacturing segment for the current quarter was $49.7 million, an increase of $3.4 million or 7% over the comparative period. The Manufacturing segment generated EBITDA of $6.7 million for the current quarter, an increase of $1.6 million or 32% 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 in the prior period and revenue and EBITDA growth at WesTower. The growth in both revenue and EBITDA were partially offset by declines within the remainder of the segment. EBITDA margins for the segment increased to 13.4% in the current quarter from 10.9% in the prior period. The increase is largely driven by the change in product mix with the acquisition of Ben Machine.

Ben Machine generated revenue and EBITDA in line with expectations during the current quarter. Investments were made in equipment late in 2015 for Ben Machine to expand production capacity along with growing demand from its customers.

WesTower's revenue and EBITDA in the current quarter grew over the comparative period. The ongoing shift in demand arising from the past CRTC decision on 'sharing' of towers between competitive carriers increased demand for higher margin, more labour intense, equipment upgrade and service work type projects, partially offset by reduced demand for new tower construction. Regional variations in customer demand persisted during the current quarter with a higher volume of activity in western Canada and lower volumes of activity in eastern Canada.

Stainless' revenue was off marginally from the comparative period as market demand weakened and heightened competitive pressures persisted during the current quarter.

Weak economic conditions that worsened throughout 2015 and the first quarter persisted into the current quarter throughout the Alberta Operations' regions. The ongoing weakness throughout the Alberta economy was further exacerbated by the economic disruption caused by the evacuation and partial destruction of Fort McMurray due to wildfires during the current quarter. This reduced demand and tough economic conditions contributed to the Alberta Operations' EBITDA decreasing significantly from the comparative 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. The addition of Ben Machine to the Manufacturing segment will continue to enhance the segment's performance.

HEAD-OFFICE

Head-office Costs	Three Months Ended June 30,	2016	2015	Variance	Variance %
Expenses		$ 4,204	$ 4,210	$ (6)	0%

The head-office costs of the Corporation were flat over the comparative period.

OTHER NON-EBITDA ITEMS

	Three Months Ended June 30,	2016	2015	Variance	Variance %
Depreciation and amortization		$ 23,503	$ 20,615	$ 2,888	14%

The Corporation's depreciation and amortization for the current quarter was $23.5 million, an increase of $2.9 million or 14% over the comparative period. Depreciation on the Corporation's capital assets was $20.7 million of the current amount and the remaining $2.8 million related to intangible asset amortization. The change is mostly attributable to the increase in the Aerospace & Aviation segment for capital asset depreciation, accounting for $2.0 million of the increase. The main factors causing the increase are the expansion of Regional One's lease portfolio and the decreased value of the Canadian dollar compared to the prior period. The remainder of the increase was a result of a $0.9 million increase of depreciation and amortization within the Manufacturing segment over the comparative period. Ben Machine's depreciation and amortization expense in the current quarter is $0.9 million, including $0.7 million relating to the amortization of intangible assets that were recognized as part of the purchase price allocation for which there is no comparative in the prior period.

	Three Months Ended June 30,	2016	2015	Variance	Variance %
Finance costs - interest		$ 8,449	$ 7,119	$ 1,330	19%

The Corporation's interest incurred for the current quarter was $8.4 million, an increase of $1.3 million or 19% from the comparative period. With the early redemption of the Series J convertible debentures, the Corporation recorded additional non-cash interest accretion of $1.1 million that would not have been recorded but for the early redemption of the debentures. Offsetting this increase, the redemption of the Series H convertible debentures at the beginning of the third quarter of 2015 resulted in interest savings of $0.5 million. Overall, the interest on the Corporation's convertible debentures increased in the current quarter by $0.8 million as a result of the early redemptions.

During the period, interest on the Corporation's credit facility increased by $0.5 million over the prior period. The overall effective interest rate on the Corporation's credit facility is 3.48% for the current quarter, 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 June 30,	2016	2015	Variance	Variance %
Acquisition Costs	$ 308	$ 994	$ (686)	-69%

The acquisition costs incurred by the Corporation for the current quarter were $0.3 million compared to $1.0 million in the comparative period. Professional fees are expensed as acquisition costs are incurred and this can fluctuate based on the acquisition activities of the Corporation.

Three Months Ended June 30,	2016	2015	Variance	Variance %
Current income tax expense	$ 8,509	$ 4,283	$ 4,226	99%
Deferred income tax expense	(1,055)	1,648	(2,703)	-164%
Income tax expense	$ 7,454	$ 5,931	$ 1,523	26%

The Corporation's income tax expense for the current quarter was $7.5 million, an increase of $1.5 million over the comparative period. Current tax expense increased in the current quarter due to an overall increase in the Corporation's earnings before taxes. The effective tax rate decreased slightly to 30% from 31% in the comparable period.

The deferred tax recovery in the current quarter resulted primarily from amounts deducted from accounting income during the period that will not be deductible for tax purposes until a future period and a deferred tax benefit arising from transactions between subsidiaries of the Corporation for which no profit is currently recognized in the financial statements but which would be taxable in the current period.

Six Month Results

The following section analyzes the financial results of the Corporation for the six months ended June 30, 2016 and the comparative 2015 period.

				Six Months Ended June 30, 2016
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 350,618	$ 94,131	$ -	$ 444,749
Expenses[1]	252,587	82,928	7,975	343,490
EBITDA	98,031	11,203	(7,975)	101,259
Depreciation and amortization				45,174
Finance costs - interest				15,357
Acquisition costs				372
Earnings before income tax				40,356
Current income tax expense				12,985
Deferred income tax expense				284
Net earnings				$ 27,087

	Six Months Ended June 30, 2015			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 283,295	$ 86,854	$ -	$ 370,149
Expenses(1)	204,872	78,991	7,153	291,016
EBITDA	78,423	7,863	(7,153)	79,133
Depreciation and amortization				39,130
Finance costs - interest				15,517
Acquisition costs				3,188
Earnings before income tax				21,298
Current income tax expense				5,529
Deferred income tax recovery				1,441
Net earnings				$ 14,328

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

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

AEROSPACE & AVIATION SEGMENT

Aerospace & Aviation Segment	Six Months Ended June 30,	2016	2015	Variance	Variance %
Revenue		$ 350,618	$ 283,295	$ 67,323	24%
Expenses		252,587	204,872	47,715	23%
EBITDA		$ 98,031	$ 78,423	$ 19,608	25%

The revenue of the Aerospace & Aviation segment for the six month period ended June 30, 2016 was $350.6 million, an increase of $67.3 million or 24% over the comparative period. Consistent with the three month discussion, the growth in revenue for the segment is attributable to the continued growth of aerospace at Provincial and Regional One, and growth at the Legacy Airlines. The revenue growth from the Legacy Airlines is partially 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 Aerospace & Aviation segment for six month period ended June 30, 2016 was $98.0 million, an increase of $19.6 million or 25% over the comparative period. EBITDA margins were 28.0% in the six months ended June 30, 2016 versus 27.7% in the comparative period. Consistent with the three month discussion, the majority of the growth in EBITDA was driven by growth in Regional One and Provincial, increasing their EBITDA by 39% over the comparative period. The Legacy Airlines generated a 6% increase in EBITDA over the prior period due to margin enhancement initiatives across the Legacy Airlines, despite fire suppression work within the segment decreasing significantly compared to prior period due to a particularly wet season in Manitoba during the latter part of the second quarter, a situation that has continued into the third quarter.

Consistent with the three month discussion, Provincial's strong revenue and EBITDA growth during the six month period 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 lower fuel prices. This decline in costs, however, was partially offset by decreased airline revenues from the negative impact to customer demand associated with weakness in 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.

Consistent with the three month discussion, Regional One generated significant revenue and EBITDA growth in six month period, driven by strong lease revenue and increased asset and part sales. This growth was largely driven by the investments made in 13 CRJ700 aircraft, which Regional One continued to monetize during the first six months of 2016. The first six months of 2016 included the sale of operating aircraft, resulting in particularly strong revenue and EBITDA performance. 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.

Consistent with the three month discussion, the Legacy Airlines strong revenue growth over the first six months of 2016 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 first six months of 2016 due to prior investments in operational assets and ongoing management initiatives to improve efficiency and cost controls. Implementation of the initiatives to improve operational efficiencies did result in one-time severance costs relating to layoffs during the first half of 2016. 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 partially offset by shortfalls due to the closure of a mine the Legacy Airlines had serviced, surplus competitive capacity in one region in which the Legacy Airlines operate, and decreased fire suppression work due to a particularly wet season in Manitoba.

MANUFACTURING SEGMENT

Manufacturing Segment	Six Months Ended June 30,	2016	2015	Variance	Variance %
Revenue		$ 94,131	$ 86,854	$ 7,277	8%
Expenses		82,928	78,991	3,937	5%
EBITDA		$ 11,203	$ 7,863	$ 3,340	42%

The revenue of the Manufacturing segment for the six month period ended June 30, 2016 was $94.1 million, an increase of $7.3 million or 8% from the comparative period. The Manufacturing segment generated EBITDA of $11.2 million for the six months ended June 30, 2016, an increase of $3.3 million or 42% 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 in the prior period. Revenue growth at WesTower in the six months ended June 30, 2016 was insufficient to cover some lower margins experienced in early 2016, resulting in a marginal decline in EBITDA. Stainless benefited early in 2016 from the weaker value of the Canadian dollar, a strong order book at the end of 2015, and some higher levels of field projects. This combination resulted in an increase in EBITDA for Stainless compared to prior period. EBITDA margins for the segment increased to 11.9% in the current quarter from 9.1% in the prior period. The increase is largely driven by the change in product mix with the acquisition of Ben Machine.

Consistent with the three month discussion, the Alberta Operations were negatively impacted by low oil and natural gas prices that persisted over the first six months of the year, negatively impacting demand for the Alberta Operations' products and services. Economic challenges, compounded by the disruption caused by the evacuation and partial destruction of Fort McMurray due to wildfires, were the primary contributors to the Alberta Operations' revenue and EBITDA shortfall from the comparative 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. The addition of Ben Machine to the Manufacturing segment will continue to enhance the segment's performance.

HEAD-OFFICE

Head-office Costs	Six Months Ended June 30,	2016	2015	Variance	Variance %
Expenses		$ 7,975	$ 7,153	$ 822	11%

The head-office costs of the Corporation increased for the first six months of 2016 by $0.8 million or 11% from the comparative period as a result of an increase in compensation, partially offset by a decrease in professional fees.

OTHER NON-EBITDA ITEMS

	Six Months Ended June 30,	2016	2015	Variance	Variance %
Depreciation and amortization		$ 45,174	$ 39,130	$ 6,044	15%

The Corporation's depreciation and amortization for the six months ended June 30, 2016 was $45.2 million, an increase of $6.0 million or 15% over the comparative period. The first six months of 2016 included $39.5 million of depreciation on the Corporation's capital assets and the remaining $5.7 million related to intangible asset amortization. The change is mostly attributable to the increase in the Aerospace & Aviation segment for capital asset depreciation, accounting for $4.1 million of the increase. The main factors causing the increase are the expansion of Regional One's lease portfolio and the decreased value of the Canadian dollar compared to the prior period. The Manufacturing segment accounted for the remaining $1.9 million increase, which relates to Ben Machine, which was acquired during the third quarter of 2015 and as such, there is no comparative for the first six months of 2016. Ben Machine's depreciation and amortization expense in the current quarter is $1.9 million, including $1.6 million relating to the amortization of intangible assets that were recognized as part of the purchase price allocation for which there is no comparative in the prior period.

Six Months Ended June 30,		2016		2015		Variance	Variance %
Finance costs - interest	$	15,357	$	15,517	$	(160)	-1%

The Corporation's interest incurred for the six months ended June 30, 2016 was $15.4 million, a decrease of $0.2 million or 1% from the comparative period. Interest on the Corporation's convertible debentures decreased by $1.0 million from the prior period. The decrease is a result of interest savings from the early redemption of 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. This resulted in $2.4 million in interest savings. Offsetting these savings was increased non-cash interest accretion of $1.1 million as a result of the early redemption of the Series J convertible debentures that would not have been incurred during the period but for the early redemption.

The decrease in convertible debenture interest was partially offset by an increase in interest of $0.8 million on the Corporation's credit facility. The overall effective interest rate on the Corporation's credit facility is 3.45% for the first six months of 2016, 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.

Six Months Ended June 30,		2016		2015		Variance	Variance %
Acquisition Costs	$	372	$	3,188	$	(2,816)	-88%

The acquisition costs incurred by the Corporation for the six months ended June 30, 2016 totaled $0.4 million compared to $3.2 million in the comparative period. The Corporation incurred minimal external costs during the first six months of 2016. The costs expensed in the comparative period relate mainly to the external costs incurred for the Provincial acquisition and development opportunities within Provincial's business.

Six Months Ended June 30,		2016		2015		Variance	Variance %
Current income tax expense	$	12,985	$	5,529	$	7,456	135%
Deferred income tax expense		284		1,441		(1,157)	-80%
Income tax expense	$	13,269	$	6,970	$	6,299	90%

The Corporation's income tax expense for the six months ended June 30, 2016 was $13.3 million, an increase of $6.3 million over the comparative period. The effective tax rate remained consistent with the comparable period at 33%. The effective tax rate for the six months ended June 30, 2016 reflects 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. The increase to the effective tax rate caused by the change in statutory rate was offset by lower income tax expense in the period resulting from 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 reduction in deferred tax expense in the six months ended June 30, 2016 from the comparative period resulted primarily from amounts deducted from accounting income during the period that will not be deductible for tax purposes until a future period and a deferred tax benefit arising from transactions between subsidiaries of the Corporation for which no profit is currently recognized in the financial statements but which would be taxable in the current period.

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.

		2016				2015			2014
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	$ 226,851	$ 217,898	$ 224,504	$ 212,750	$ 196,214	$ 173,935	$ 138,726	$ 143,499	$ 134,219
EBITDA	56,928	44,331	46,055	54,052	48,053	31,080	26,151	27,872	22,262
Net earnings (loss) - continuing operations	17,214	9,873	9,923	15,983	13,394	934	(17,729)	5,172	1,282
Basic	0.62	0.36	0.36	0.64	0.58	0.04	(0.79)	0.23	0.06
Diluted	0.59	0.35	0.35	0.60	0.54	0.04	(0.79)	0.23	0.06
Adjusted net earnings (loss) - continuing operations(1)	20,388	12,008	12,636	18,811	16,516	4,299	5,915	6,061	2,990
Basic	0.74	0.43	0.46	0.76	0.71	0.19	0.26	0.27	0.14
Diluted	0.69	0.43	0.45	0.69	0.64	0.18	0.26	0.27	0.14
Free Cash Flow (FCF)	42,683	34,890	36,025	42,195	37,626	23,926	22,480	22,819	18,884
Basic	1.54	1.26	1.31	1.70	1.63	1.04	1.00	1.03	0.86
Diluted	1.34	1.10	1.14	1.43	1.33	0.88	0.84	0.86	0.73
FCF less maintenance capital expenditures	25,476	16,801	20,460	24,966	19,870	9,109	11,718	13,143	8,802
Basic	0.92	0.61	0.74	1.01	0.86	0.40	0.52	0.59	0.40
Diluted	0.84	0.58	0.69	0.89	0.75	0.39	0.50	0.54	0.40
From continuing & discontinuing operations									
Net earnings / (loss)	$ 17,214	$ 9,873	$ 9,923	$ 15,983	$ 13,394	$ 934	$ (1,580)	$ 5,546	$ 4,122
Basic	0.62	0.36	0.36	0.64	0.58	0.04	(0.07)	0.25	0.19
Diluted	0.59	0.35	0.35	0.60	0.54	0.04	(0.07)	0.25	0.19

(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 June 30, 2016, the Corporation had a cash position of $15.5 million (December 31, 2015 of $15.5 million) and net working capital of $145.3 million (December 31, 2015 of $135.3 million), which represents a current ratio of 1.86 to 1 (December 31, 2015 of 1.74 to 1).

	June 30, 2016	December 31, 2015	Change
Cash and cash equivalents	$ 15,513	$ 15,497	$ 16
Accounts receivable	142,620	125,434	17,186
Costs incurred plus recognized profits in excess of billings	11,142	7,776	3,366
Inventory	111,678	118,645	(6,967)
Prepaid expenses and deposits	31,493	38,907	(7,414)
Income taxes receivable	965	10,955	(9,990)
Accounts payable and accrued expenses	(112,892)	(108,333)	(4,559)
Deferred revenue	(45,085)	(51,716)	6,631
Billings in excess of costs incurred plus recognized profits	(9,132)	(20,824)	11,692
Current portion of long-term debt and finance leases	(957)	(1,031)	74
Net working capital	$ 145,345	$ 135,310	$ 10,035

Working capital has increased by $10.0 million since December 31, 2015. Working capital has increased by $7.8 million at the Corporation's Legacy Airlines, which is consistent with expectations as the entities ramp up for the busier summer months.

The Corporation obtained additional cash through the means described in this section, and also generated $77.6 million of Free Cash Flow from operations during the first six months of 2016, a 26% 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 six months of 2016, the Corporation declared dividends totaling $27.1 million in comparison to $20.1 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 and the $0.0075 increase in the monthly dividend rate announced in May of 2016. 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.

	June 30 2016	December 31 2015
Total senior debt outstanding (principal value)	$ 325,558	$ 304,799
Convertible debentures outstanding (par value)	231,488	219,965
Shares	455,116	425,561
Total capital	$ 1,012,162	$ 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 June 30, 2016, the Corporation had drawn $242.3 million and US $64.0 million (December 31, 2015 - $248.0 million and US $41.0 million).

During the first six months quarter of 2016, the Corporation made additional draws on the credit facility to support capital purchases, mainly relating to the addition of three CRJ900 aircraft to Regional One's lease portfolio. In addition, the Corporation used the net proceeds from the issuance of the 2016 unsecured debenture series to pay down its credit facility. Partially offsetting this repayment was a draw on the credit facility to repay the Series J debenture series on June 30, 2016.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at June 30, 2016 and the changes in the amount of convertible debentures outstanding during the six months ended June 30, 2016:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
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
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$44.75

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Series J	$ 57,477	$ -	$ (27,120)	$ (30,357)	$ -
Unsecured Debentures - September 2012	57,500	-	-	-	57,500
Unsecured Debentures - March 2013	65,000	-	-	-	65,000
Unsecured Debentures - March 2014	39,988	-	-	-	39,988
Unsecured Debentures - June 2016	-	69,000	-	-	69,000
Total	$ 219,965	$ 69,000	$ (27,120)	$ (30,357)	$ 231,488

During the second quarter, the early redemption of the Series J Convertible Senior Secured Debentures resulted in the Corporation settling the respective outstanding principal at June 30, 2016. During the second quarter, the Corporation issued 886,264 Shares associated with the conversion of $27.1 million of principal and the remaining $30.4 million, plus accrued interest, was paid in cash to the debentureholders on the redemption date.

During the second quarter, the Corporation closed the offering of its June 2016 Unsecured Series 5.25% seven year convertible debentures with a par value of $69.0 million and generated net proceeds of $65.6 million. The majority of the funds generated were used by the Corporation as a payment against its outstanding credit facility and increased the liquidity of the Corporation. The debentures have a seven year term with a 5.25% fixed interest rate paid semi-annually. The conversion price for these debentures is $44.75 and will mature in June 2023.

Share Capital

The following summarizes the changes in the Shares outstanding of the Corporation during the six months ended June 30, 2016:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of period		27,633,217
Issued upon conversion of convertible debentures	various	886,264
Issued under dividend reinvestment plan (DRIP)	various	96,899
Shares cancelled under NCIB	February 2, 2016	(57,710)
Shares outstanding, end of period		28,558,670

The Corporation's dividend reinvestment plan ("DRIP") continued during the first six months of 2016 and the Corporation received $2.5 million throughout the period for an aggregate 96,899 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 2016, 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 six months 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 six months ended June 30, 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 2016, 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 six months ended June 30, 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 six months ended June 30, 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 June 30, 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 June 30, 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

The Corporation's disciplined approach to acquisitions is a key factor in the success that it has experienced to date. Despite the current trend in the United States and in certain industries of purchase multiples that are significantly higher than historical norms, the Corporation will not change its expectation for return on potential acquisitions 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 $220 million of available capital.

Aerospace & Aviation Segment

The Aerospace & 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.

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 stability in a core part of the segment's business. Demand from natural resources related industries for aviation services provided by our Legacy airlines 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.

The Legacy Airlines also remain well positioned to benefit from both positive external factors and their enhanced operational capabilities through the remainder of 2016. Previous investments in growth capital expenditures in the Legacy Airlines aircraft and ground infrastructure assets as well as the acquisition of First Air's Kivalliq non-aircraft assets in 2015, have yielded ongoing revenue and EBITDA growth. Normal seasonal weather conditions early in the year throughout the operating regions of the Legacy Airlines gave way to rainy, wet conditions in a significant portion of the operating regions in the second quarter. These conditions had a negative impact on the demand for rotary wing fire suppression services. To date these wet conditions have worsened in the third quarter, which has historically been the strongest first suppression period.

The acquisition of a Eurocopter EC135 twin engine helicopter was completed in the second quarter of 2016 and will go into service by the end of the third quarter. The EC135 introduces significant additional capabilities to the rotary wing operation, including IFR (instrument flight rules) and night authorization. These expanded operational capabilities combined with the enhanced range, lift and the safety of the twin engine EC135 will enable the rotary wing operation to pursue new opportunities, including specific work for powerline construction and maintenance, oil and gas, and Emergency Medical Services.

The weaker economy driven by the low commodity and energy prices continues 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's austerity budget has significantly reduced the disposable income for people and businesses throughout the region. Increased competition has further impacted margins in the region. 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.

Provincial's aerospace services division is pursuing a number of growth opportunities within Canada and internationally, in addition to the Performance Based Logistics Contract in the Middle East valued at in excess of $150 million of incremental revenue over the next five years. These opportunities include Provincial's expansion of its information technology capabilities through the acquisition of CarteNav along with its development of its own surveillance aircraft allowing Provincial to increase its ability to demonstrate its capabilities around the world and provide services where required with rapid response.

Provincial is actively involved with its 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 outlook for Regional One remains positive as consistent demand for lease and parts inventories has been augmented with additional growth in revenue and EBITDA as the stock of CRJ700 aircraft are monetized. In addition, Regional One continues to invest in its aircraft platforms. The timing of such investments is fluid based on market conditions. Durign the first six months of 2016, Regional One has invested or has commitments to purchase 11 CRJ aircraft (200's, 700's and 900's) as additions to its lease & parts portfolio. The appreciation of the US dollar relative to most other currencies along with reduced global jet fuel prices has 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 half of 2016 included the sale of operating aircraft, resulting in a particularly strong first half. The sale of operating aircraft will not be repeated every quarter, thus highlighting the uneven nature of quarterly results. As well, access to new purchase opportunities is required and cannot be assumed.

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, administrative and procurement opportunities are realized.

Maintenance capital expenditures have been lower than expected during the first six months of 2016, and in particular in the three months ended June 30, 2016. Maintenance capital expenditures are subject to quarterly variability as a result of the uneven timing of maintenance capital expenditures and therefore needs to be evaluated over longer period of time.

The Canadian dollar exchange rate against the US dollar has strengthened and stabilized during the 2016, as global energy and commodity prices recovered from the low prices experienced during the first quarter. The strengthening of the Canadian dollar reduced the impact on the Aerospace & Aviation segment's parts, maintenance and flight training costs that are primarily incurred in US dollars. Regional One and Provincial aerospace's US dollar denominated contracts serve as natural hedges for the segment's exposure to fluctuations in foreign currency. Regional One also creates a proxy for vertical integration into this major expense category.

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.

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 national presence allows WesTower to respond to the demands of their customers from region to region by reallocating its crews where needed. As technology requirements change in the Canadian telecommunications industry WesTower has adapted to changing demands of its customers. 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.

While there has been some impact on the demand for new towers for wireless customers WesTower has continued to focus on manufacturing and erection of towers for non-wireless customers along with a rebalancing of services for its wireless and wireline customers.

Stainless continues to be challenged by the lack of procurement activity in the industry for its products and in particular its field related products and services. Significant available capacity in the industry has created an environment of persistent negative pricing pressures. The focus continues to be utilizing innovative manufacturing processes to increase capacity within the shop. Management continues to evaluate the market conditions and should there be strong indications of extended pricing pressures, then a rebalancing of the business will be required.

Low energy prices continue to have a significant negative impact on the economy in the regions serviced by our Alberta Operations. The result of the impact has been lower demand for the products and services offered by the Alberta Operations. The lower Canadian dollar impacts margins in this operation as the majority of the inventory is sourced from the US. 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. Ben Machine is entering a slower season as some of its major customers have summer production shut downs. The demand overall, however, for Ben Machine's products remains strong and the investment in additional capital equipment to increase capacity in 2015 has enabled Ben Machine to meet growing customer demand. Opportunities for further investment into production capacity expansion at Ben Machine are being evaluated.

Overlanders anticipates that softer than anticipated demand during the first half of 2016 will start to show recovery in the fourth quarter. Overlanders continues to focus on maintaining quality, strengthening key customer relationships and adding new customers into its production plans.

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, one-time non-cash accelerated accretion charges as a result of convertible debenture redemptions, 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
	Q2	Q1
Net earnings	17,214 $	9,873
Adjusting items, net of tax		
Acquisition costs	293	49
Intangible asset amortization	2,054	2,086
Interest accretion on matured debentures	827	-
Adjusted net earnings	20,388 $	12,008
		2015
	Q2	Q1
Net earnings	13,394 $	934
Adjusting items, net of tax		
Acquisition costs	994	2,194
Intangible asset amortization	2,128	523
Interest accretion on matured debentures	-	648
Adjusted net earnings	16,516 $	4,299

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	June 30 2016	December 31 2015
ASSETS		
CURRENT		
Cash and cash equivalents	$ 15,513	$ 15,497
Accounts receivable	142,620	125,434
Costs incurred plus recognized profits in excess of billings	11,142	7,776
Inventory	111,678	118,645
Prepaid expenses and deposits	31,493	38,907
Income taxes receivable	965	10,955
	313,411	317,214
OTHER ASSETS	9,351	10,100
CAPITAL ASSETS	590,289	542,629
INTANGIBLE ASSETS	106,297	112,813
DEFERRED INCOME TAX ASSETS	236	226
GOODWILL	245,417	246,074
	$ 1,265,001	$ 1,229,056
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 112,892	$ 108,333
Deferred revenue	45,085	51,716
Billings in excess of costs incurred plus recognized profits	9,132	20,824
Current portion of long-term debt and finance leases (Note 6)	957	1,031
	168,066	181,904
LONG-TERM DEBT AND FINANCE LEASES (Note 6)	325,110	303,855
OTHER LONG-TERM LIABILITIES	16,679	16,779
CONVERTIBLE DEBENTURES (Note 7)	211,829	203,919
DEFERRED INCOME TAX LIABILITY	80,695	75,981
	802,379	782,438
EQUITY		
SHARE CAPITAL (Note 8)	455,116	425,561
CONVERTIBLE DEBENTURES - Equity Component (Note 7)	11,326	11,200
CONTRIBUTED SURPLUS	3,478	1,788
DEFERRED SHARE PLAN (Note 12)	6,164	5,123
RETAINED EARNINGS		
Cumulative Earnings	213,183	186,491
Cumulative Dividends (Note 9)	(261,397)	(234,300)
	(48,214)	(47,809)
ACCUMULATED OTHER COMPREHENSIVE INCOME	34,752	50,755
	462,622	446,618
	$ 1,265,001	$ 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 June 30	Three Months Ended 2016	Three Months Ended 2015	Six Months Ended 2016	Six Months Ended 2015
REVENUE				
Aerospace & Aviation	$ 177,108	$ 149,837	$ 350,618	$ 283,295
Manufacturing	49,743	46,377	94,131	86,854
	226,851	196,214	444,749	370,149
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	102,006	85,700	211,539	170,660
Manufacturing expenses - excluding depreciation and amortization	37,486	35,781	71,268	67,931
General and administrative	30,431	26,680	60,683	52,425
	169,923	148,161	343,490	291,016
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	56,928	48,053	101,259	79,133
Depreciation and amortization	23,503	20,615	45,174	39,130
Finance costs - interest	8,449	7,119	15,357	15,517
Acquisition costs	308	994	372	3,188
EARNINGS BEFORE INCOME TAXES	24,668	19,325	40,356	21,298
INCOME TAX EXPENSE (RECOVERY)				
Current	8,509	4,283	12,985	5,529
Deferred	(1,055)	1,648	284	1,441
	7,454	5,931	13,269	6,970
NET EARNINGS	$ 17,214	$ 13,394	$ 27,087	$ 14,328
EARNINGS PER SHARE (Note 11)				
Basic	$ 0.62	$ 0.58	$ 0.98	$ 0.62
Diluted	$ 0.59	$ 0.54	$ 0.96	$ 0.61

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 June 30	Three Months Ended 2016	Three Months Ended 2015	Six Months Ended 2016	Six Months Ended 2015
NET EARNINGS	$ 17,214	$ 13,394	$ 27,087	$ 14,328
OTHER COMPREHENSIVE INCOME (LOSS),				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax	1,044	(3,668)	(19,165)	15,316
Net gain (loss) on hedge of net investment in foreign operation	(207)	772	3,162	(1,460)
	837	(2,896)	(16,003)	13,856
COMPREHENSIVE INCOME FOR THE PERIOD	$ 18,051	$ 10,498	$ 11,084	$ 28,184

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	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	241	(16)	-	-	-	-	-	225
Matured	-	(1,489)	1,521	-	-	-	-	32
Shares issued under dividend reinvestment plan	1,850	-	-	-	-	-	-	1,850
partnership agreements	98	-	-	-	-	-	-	98
Deferred share plan vesting	-	-	-	928	-	-	-	928
Deferred share plan issuance	482	-	-	(482)	-	-	-	-
Comprehensive income	-	-	-	-	14,328	-	13,856	28,184
Dividends declared	-	-	-	-	-	(20,102)	-	(20,102)
Balance, June 30, 2015	$ 323,728	$ 12,372	$ 1,645	$ 4,248	$ 160,585	$ (209,175)	$ 29,543	$ 322,946
Balance, January 1, 2016	$ 425,561	$ 11,200	$ 1,788	$ 5,123	$ 186,491	$ (234,300)	$ 50,755	$ 446,618
Convertible debentures (Note 7)								
Converted into shares	27,899	(1,446)	-	-	-	-	-	26,453
Issued	-	3,262	-	-	-	-	-	3,262
Matured/Redeemed	-	(1,690)	1,690	-	-	-	-	-
Shares issued under dividend reinvestment plan (Note 8)	2,545	-	-	-	-	-	-	2,545
Deferred share plan vesting	-	-	-	1,041	-	-	-	1,041
Shares cancelled under NCIB (Note 8)	(889)	-	-	-	(395)	-	-	(1,284)
Comprehensive income	-	-	-	-	27,087	-	(16,003)	11,084
Dividends declared (Note 9)	-	-	-	-	-	(27,097)	-	(27,097)
Balance, June 30, 2016	$ 455,116	$ 11,326	$ 3,478	$ 6,164	$ 213,183	$ (261,397)	$ 34,752	$ 462,622

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

	Three Months Ended		Six Months Ended	
For the periods ended June 30	2016	2015	2016	2015
OPERATING ACTIVITIES				
Net earnings for the period	$ 17,214	$ 13,394	$ 27,087	$ 14,328
Items not affecting cash:				
Depreciation and amortization	23,503	20,615	45,174	39,130
Accretion of interest	2,278	1,161	3,392	3,262
Long-term debt discount (paid) accretion	(57)	(59)	189	(141)
(Gain)/loss on sale of disposal of capital assets	(72)	(597)	34	(584)
Deferred income tax	(1,055)	1,648	284	1,441
Deferred share program share-based vesting	564	470	1,041	928
	42,375	36,632	77,201	58,364
Changes in non-cash operating working capital items (Note 14)	1,059	(32,791)	(15,154)	(34,284)
	43,434	3,841	62,047	24,080
FINANCING ACTIVITIES				
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	(30,234)	6,493	23,650	321,116
Proceeds from issuance of debentures, net of issuance costs	65,623	-	65,623	-
Redemption of convertible debentures (Note 8)	(30,357)	-	(30,357)	(34,944)
Issuance of shares, net of issuance costs	1,293	1,002	2,545	1,948
Payment for repurchase of Shares under NCIB	-	-	(1,284)	-
Cash dividends (Note 9)	(13,839)	(10,064)	(27,097)	(20,102)
	(7,514)	(2,569)	33,080	268,018
INVESTING ACTIVITIES				
Purchase of capital assets, net of disposals	(50,442)	(37,459)	(95,807)	(74,176)
Purchase of intangible assets	(70)	(368)	(476)	(425)
Cash outflow for acquisitions, net of cash acquired	-	-	-	(201,764)
Investment in other assets	529	206	246	125
Finance lease receivable payments, net of reserves	223	1,324	926	2,420
	(49,760)	(36,297)	(95,111)	(273,820)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,840)	(35,025)	16	18,278
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	29,353	68,271	15,497	14,968
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 15,513	$ 33,246	$ 15,513	$ 33,246
Supplementary cash flow information				
Interest paid	$ 3,070	$ 5,112	$ 10,002	$ 13,394
Income taxes paid	$ 1,127	$ 15,871	$ 2,645	$ 16,895

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

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

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Corporation") is a diversified, acquisition-oriented corporation focused on opportunities in aerospace & aviation 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 June 30, 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: Aerospace & Aviation and Manufacturing.

As of the date of this report, the Corporation has changed the name of one of its operating segments. The segment previously referred to as the Aviation segment has been renamed the Aerospace & Aviation segment to better reflect the product mix offered by the subsidiaries within the segment.

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 August 9, 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.

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

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.

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

The Corporation presents, as an additional IFRS measure, operating profit before depreciation, amortization, finance costs and other in the consolidated statement of income to assist users in assessing financial performance. The Corporation's management and the Board use this measure to evaluate consolidated operating results and assess the ability of the Corporation to incur and service debt. In addition, this measure is used to make operating decisions as it is an indicator of 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 2016, 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 June 30, 2016 and December 31, 2015:

	June 30 2016	December 31 2015
Revolving term facility:		
Canadian dollar amounts drawn	$ 242,300	$ 248,000
United States dollar amounts drawn (US$64,000 and US$41,040, respectively)	83,258	56,799
Total credit facility debt outstanding, principal value	325,558	304,799
less: unamortized transaction costs	(1,433)	(1,789)
less: unamortized discount on outstanding Banker's Acceptances	(166)	(355)
Net credit facility debt	323,959	302,655
Finance leases	2,108	2,231
Total net credit facility debt and finance leases	326,067	304,886
less: current portion of finance leases	(957)	(1,031)
Long-term debt and finance leases	$ 325,110	$ 303,855

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The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at June 30, 2016.

Interest expense recorded by the Corporation during the three and six months ended June 30, 2016 for the long-term debt and finance leases was $3,088 and $5,919, respectively (2015 – $2,605 and $5,067, respectively).

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2016:

	Six Months Ended June 30, 2016				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 248,000	$ 92,300	$ (98,000)	$ -	$ 242,300
United States dollar portion	56,799	64,275	(34,494)	(3,322)	83,258
	$ 304,799				$ 325,558

7. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
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
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75

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	$ -	$ 1,153	$ (26,391)	$ (30,357)	$ -
Unsecured - 2012	54,700	-	331	-	-	55,031
Unsecured - 2013	62,034	-	306	-	-	62,340
Unsecured - 2014	37,822	-	172	-	-	37,994
Unsecured - 2016	-	64,211	30	-	-	64,241
						219,606
less: unamortized transaction costs						(7,777)
Convertible Debentures - Debt Component, end of period						$ 211,829

During the six months ended June 30, 2016, convertible debentures totaling a face value of $27,120 were converted by the holders at various times into 886,264 Shares of the Corporation (2015 – $235 face value into 11,750 Shares).

Interest expense recorded during the three and six months ended June 30, 2016 for the convertible debentures was $5,361 and $9,438, respectively (2015 – $4,514 and $10,450, respectively).

On June 30, 2016, the Corporation exercised its right to call the Series J convertible debentures. Before the redemption date, $27,120 of convertible debentures were converted into 886,264 common shares at a price of $30.60 per share of the Corporation. The remaining convertible debentures in the principal amount of $30,357 were repaid on June 30, 2016 using funds from the Corporation's credit facility.

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

June 2016 Unsecured Convertible Debenture Offering

The Corporation issued the $69.0 million Seven Year 5.25% Convertible Unsecured Subordinated Debentures on June 7, 2016. These debentures bear interest at the rate of 5.25% per annum payable semi-annually in arrears, in cash, on June 30 and December 31 of each year. The maturity date of the debentures is June 30, 2023. Each debenture is convertible, at the debentureholder's option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $44.75.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The debentures will not be redeemable on or before June 30, 2019. After June 30, 2019, but prior to June 30, 2021, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after June 30, 2021 but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Corporation at the conversion price.

Transaction costs of $3,377 were incurred during the six months ended June 30, 2016 in relation to the issuance of these debentures.

Convertible Debentures Equity Component

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

Summary of the equity component of the convertible debentures:

	June 30 2016	December 31 2015
Series J - 2011	$ -	$ 3,136
Unsecured Debentures - 2012	3,204	3,204
Unsecured Debentures - 2013	3,063	3,063
Unsecured Debentures - 2014	1,797	1,797
Unsecured Debentures - 2016	3,262	-
Convertible Debentures - Equity Component, end of period	$ 11,326	$ 11,200

All convertible debentures outstanding at June 30, 2016 represent direct unsecured debt obligations of the Corporation.

8. SHARE CAPITAL

Changes in the Shares issued and outstanding during the six months ended June 30, 2016 are as follows:

	Number of Shares	2016 Amount
Share capital, beginning of period	27,633,217	$ 425,561
Issued upon conversion of convertible debentures	886,264	27,899
Issued under dividend reinvestment plan	96,899	2,545
Shares cancelled under NCIB	(57,710)	(889)
Share capital, end of period	28,558,670	$ 455,116

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

During the second quarter, the Corporation issued a total of 886,264 Shares upon conversion of Series J Secured Convertible Debentures prior to redemption (Note 7).

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 six months ended June 30, 2016 and the comparative 2015 period are as follows:

Six Months Ended June 30	2016	2015
Cumulative dividends, beginning of period	$ 234,300	$ 189,073
Dividends during the period	27,097	20,102
Cumulative dividends, end of period	$ 261,397	$ 209,175

The amounts and record dates of the dividends during the six months ended June 30, 2016 and the comparative 2015 period are as follows:

Month	Record date	Per Share	2016 Dividends Amount	Record date	Per Share	2015 Dividends 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
April	April 29, 2016	0.16	4,423	April 30, 2015	0.145	3,352
May	May 31, 2016	0.1675	4,633	May 31, 2015	0.145	3,354
June	June 30, 2016	0.1675	4,783	June 30, 2015	0.145	3,358
Total		$ 0.975	$ 27,097		$ 0.87	$ 20,102

Subsequent to June 30, 2016 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.1675 per Share for July 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.

Effective June 30, 2016, the Corporation has changed the name of one of its operating segments. The segment previously referred to as the Aviation segment has been renamed the Aerospace & Aviation segment to better reflect the product mix offered by the subsidiaries within the segment.

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment provides airline services to communities in Manitoba, Ontario, Nunavut and eastern Canada and also provides aircraft and engine aftermarket parts to regional airline operators around the world. In addition, Provincial's aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft. 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. All inter-segment revenues are eliminated, and all segment revenues presented in the tables below are from external customers.

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

"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.

	Three Months Ended June 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 177,108	$ 49,743	$ -	$ 226,851
Expenses	122,632	43,087	4,204	169,923
EBITDA	54,476	6,656	(4,204)	56,928
Depreciation and amortization				23,503
Finance costs - interest				8,449
Acquisition costs				308
Earnings before tax				24,668
Current income tax expense				8,509
Deferred income tax recovery				(1,055)
Net earnings				$ 17,214

	Three Months Ended June 30, 2015			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 149,837	$ 46,377	$ -	$ 196,214
Expenses	102,635	41,316	4,210	148,161
EBITDA	47,202	5,061	(4,210)	48,053
Depreciation and amortization				20,615
Finance costs - interest				7,119
Acquisition costs				994
Earnings before tax				19,325
Current income tax expense				4,283
Deferred income tax expense				1,648
Net earnings				$ 13,394

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

	Six Months Ended June 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 350,618	$ 94,131	$ -	$ 444,749
Expenses	252,587	82,928	7,975	343,490
EBITDA	98,031	11,203	(7,975)	101,259
Depreciation and amortization				45,174
Finance costs - interest				15,357
Acquisition costs				372
Earnings before income tax				40,356
Current income tax expense				12,985
Deferred income tax expense				284
Net earnings				$ 27,087

	Six Months Ended June 30, 2015			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 283,295	$ 86,854	$ -	$ 370,149
Expenses	204,872	78,991	7,153	291,016
EBITDA	78,423	7,863	(7,153)	79,133
Depreciation and amortization				39,130
Finance costs - interest				15,517
Acquisition costs				3,188
Earnings before income tax				21,298
Current income tax expense				5,529
Deferred income tax expense				1,441
Net earnings				$ 14,328

	June 30, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Total assets	$ 1,004,517	$ 193,873	$ 66,611	$ 1,265,001
Net capital asset additions	93,946	1,361	500	95,807

	December 31, 2015			
	Aerospace & 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 net earnings by the weighted average number of Shares outstanding during the period.

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

The computation for basic and diluted earnings per share for the Corporation for the three and six months ended June 30, 2016 and comparative periods in 2015 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	2016	2015	2016	2015
Net earnings for the period, available to common shareholders	$ 17,214	$ 13,394	$ 27,087	$ 14,328
Effect of dilutive securities				
Convertible debentures	2,254	3,294	2,738	-
Diluted earnings for the period	$ 19,468	$ 16,688	$ 29,825	$ 14,328
Basic weighted average number of Shares	27,689,788	23,127,371	27,656,525	23,093,099
Effect of dilutive securities				
Vested deferred shares	534,598	379,581	534,598	379,581
Convertible debentures	4,793,105	7,358,011	3,027,279	-
Diluted basis average number of Shares	33,017,491	30,864,963	31,218,402	23,472,680
Earnings per share:				
Basic	$ 0.62	$ 0.58	$ 0.98	$ 0.62
Diluted	$ 0.59	$ 0.54	$ 0.96	$ 0.61

12. DEFERRED SHARE PLAN

During the six months ended June 30, 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 and six months ended June 30, 2016, the Corporation recorded compensation expense of $564 and $1,041, respectively, for the Corporation's Deferred Share Plan within the general and administrative expenses of head-office (2015 - $470 and 928, respectively).

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.

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

Currency Risk

The Corporation has US $64,000 or $83,258 (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.

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 six months ended June 30, 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 June 30, 2016, US $54,500 (December 31, 2015 - US $33,000) was outstanding under US LIBOR, US $9,500 (December 31, 2015 - US $8,040) was outstanding under USD Prime, $209,700 (December 31, 2015 - $232,000) was outstanding under Bankers Acceptances and $32,600 (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 June 30, 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	$ (205)	$ -	$ -	$ (205)
Fair Value Disclosures				
Other assets - Loans and receivables	2,983	-	2,983	
Other assets - Equity method investment	6,368	-	-	6,368
Long term debt - Other financial liabilities	(323,959)	-	-	(325,558)
Convertible debt - Other financial liabilities	(211,829)	(236,189)	-	-

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

Recurring fair value measurements	Carrying Value December 31, 2015	Fair Value: Quoted prices in an active market Level 1	Fair Value: Significant other observable inputs Level 2	Fair Value: 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)	-	-

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	June 30 2016	December 31 2015
Opening	$ 484	$ 2,162
Accretion	9	23
Settled during the period	(260)	(2,009)
Translation (gain)/loss	(28)	308
Ending	$ 205	$ 484

The remaining consideration liability outstanding at June 30, 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 two anniversaries of closing the acquisition (175,283 Shares in escrow as at June 30, 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 June 30, 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 June 30, 2016, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $236,189 (December 31, 2015 - $212,991) and a carrying value of $211,829 (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 and six months ended June 30, 2016 and the comparative periods in 2015 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	2016	2015	2016	2015
Accounts receivable	$ (13,405)	$ (3,383)	$ (17,186)	$ (3,235)
Costs incurred plus recognized profits in excess of billings	(1,274)	(2,727)	(3,366)	(616)
Inventory	(2,341)	(14,843)	6,967	(18,366)
Prepaid expenses	10,059	96	7,414	(4,798)
Accounts payable and accrued charges	10,132	1,373	4,559	1,819
Income taxes receivable (payable)	7,276	(8,125)	9,990	(13,705)
Deferred revenue	(3,493)	422	(6,631)	2,878
Billings in excess of costs incurred plus recognized profits	(6,284)	(3,981)	(11,692)	(3,280)
Foreign currency adjustments	389	(1,623)	(5,209)	5,019
Net change in working capital items	$ 1,059	$ (32,791)	$ (15,154)	$ (34,284)

15. SUBSEQUENT EVENTS

On August 8, 2016, the Corporation signed a stock purchase agreement to acquire the shares of CarteNav Solutions Inc. (“CarteNav”), a Canadian corporation based in Halifax, Nova Scotia. CarteNav is a leading software developer providing intelligence, surveillance, reconnaissance (“ISR”) and situational awareness software solutions for the maritime, land and air environments to defense, security and commercial clients. CarteNav is strategically complementary to Provincial’s aerospace business and, as of the close of the transaction, is a wholly-owned subsidiary of Provincial.

The total purchase price is up to $17 million, and is subject to customary post-closing adjustments and the achievement of certain earnings targets. The purchase price will be paid in cash. CarteNav’s financial results will be included in the Corporation’s consolidated financial statements commencing in the third quarter of 2016.