Exchange
Income
Corporation

Second Quarter Report

For the six months ended
June 30, 2023

CEO's Message

The second quarter continued on the path we have seen in the post pandemic period with strong operating performance coupled with the execution of multiple initiatives to facilitate further expansion in 2024 and beyond. EIC has always prided itself on our focus on the future, while managing for today, but the second quarter has seen this future focus taken to a level not experienced in the past. The Company delivered a number of record financial metrics in the second quarter, and I will return to those shortly, but I would like to first focus on the long-term initiatives completed during and immediately subsequent to the quarter. This was the busiest period in our history by a wide margin. We closed two acquisitions, BVGlazing and Hansen Industries in our Manufacturing segment, we signed long term 10 year plus medevac contracts with the governments of British Columbia and Manitoba, and we signed a new maritime surveillance contract with the United Kingdom for the Force Multiplier Aircraft in our Aerospace & Aviation segment. We also entered into a contract with Air Canada to provide regional connectivity for up to a five year term. Finally, we increased the size of our syndicated bank facility by approximately 15% to $2 billion and completed the largest equity offering in our history with a bought deal common share offering of $173 million. Our 20-year track record of investing today will bear fruit for years to come.

Highlights from EIC's 2023 Second Quarter Financial Performance

- Revenue increased 19% to a record high of $627 million, up from $529 million last year.
- Adjusted EBITDA grew to a second quarter high of $147 million from $115 million last year, an increase of 28%.
- Free Cash Flow increased 10% to $98 million, while remaining essentially unchanged on a per share basis at $2.25.
- Free Cash Flow less Maintenance Capital Expenditures increased by 24% to $59 million versus $47 million last year while on a per share basis it improved 12% to $1.34 from $1.20.
- Net Earnings was $37 million or $0.85 per share up from $30 million or $0.76 per share, an increase of 23% and 12%, respectively.
- Adjusted Net Earnings was $43 million or $1.00 per share, an increase of 13% and 2% respectively.
- The second quarter and trailing twelve-month Free Cash Flow less Maintenance Capital Expenditures payout ratio were essentially unchanged at 47% and 57% respectively.

The second quarter of the year showed the power of our diversified model as despite our strong aggregate results, they were achieved with some subsidiaries delivering strong performance to help other subsidiaries experiencing a more challenging period. Essential Air Services had a very strong quarter as strengthening demand and increased capacity from previous Growth Capital Expenditures drove higher revenue and combined with strong cost management, higher margins in both absolute and percentage terms. Aerospace was also very strong driven by the new maritime surveillance contracts in the Netherlands and the United Kingdom. Demand for training services in Canada and the United States remained strong resulting in both higher revenue and Adjusted EBITDA. Offsetting this performance somewhat was Aircraft Sales & Leasing, where there were fewer large transactions in the period compared to the prior year, although the leasing portfolio continued to strengthen as expected.

In the Manufacturing segment, Multi-Storey Window Solutions continued to improve. The order book remained steady at approximately $1 billion while the active inquiries continued to grow. We expect continued short, medium and long-term growth in this business. Precision Manufacturing & Engineering continued its consistent performance. Environmental Access Solutions experienced headwinds as compared to the second quarter of 2022 where there was a perfect alignment of price, supply, demand and weather. The second quarter of this year experienced unfavourable dry and hot spring weather conditions, historic wildfire activity across the country and increased competitive mat supply leading to reduced matting scopes and projects delays. However, given that our ownership of Environmental Access Solutions began part way through the second quarter of 2022, current period results are still higher than the comparative period and continue to exceed the financial metrics on which we acquired Northern Mat.

Our future success is driven by more than operating excellence, but rather is driven by a focus on the future and investments to drive future growth. During the quarter we closed two acquisitions in our Manufacturing segment, which will be accretive to our results on a standalone basis and have considerable synergy opportunities in the medium term. In March we announced an agreement to acquire BVGlazing, and after approval under the Competition Act (Canada), closed the transaction on May 1, 2023. Like Quest, BVGlazing has a long track record of success in the high-rise window wall business with a proven management team who will stay on to lead this performance into the future.

Quest and BVGlazing have slightly different product offerings in addition to the core window wall product line which will provide opportunities to cross sell between companies. For example, Quest has the capability to install product in the US market, while BVGlazing does not. BVGlazing, however, has internal curtain wall and balcony railing system manufacturing capability, while Quest outsources these products. Both companies will be better placed to compete in the North American market with the complementary product offerings available from one another.

There are also considerable opportunities to enhance efficiency in the manufacturing process. The companies currently have a combined six manufacturing facilities in Southern Ontario and a new state of the art facility in Texas. The CEO's of the two companies will work with EIC's Chief Operating Officer, Darwin Sparrow, to build a plan to streamline production into fewer and more efficient production plants.

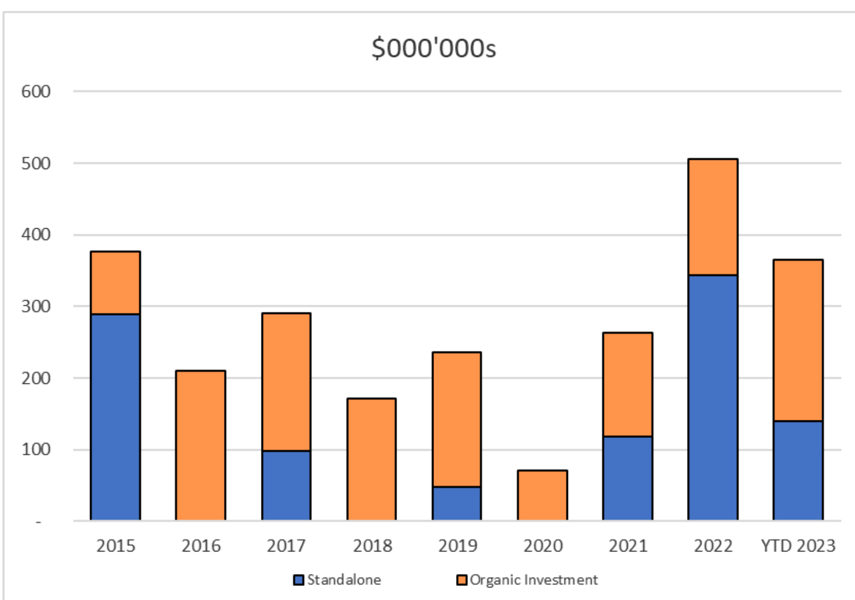
We also acquired Hansen Industries at the beginning of the second quarter on April 1, 2023. Hansen will augment Precision Manufacturing & Engineering. Led by an exceptional management team, it will strengthen our footprint in the lower mainland of British Columbia. Together with our Overlanders operation, the companies will provide additional surge capacity to each other to manage excess demand in given periods. We have long looked to grow our metal business in the West as we have seen tremendous performance from Overlanders for over 15 years. Hansen is the first company we have uncovered that has the track record and proven management team that we require at EIC.

The beginning of 2023 marked the first time that both maritime surveillance aircraft built for the contract in the Netherlands were in full operation. The impact of these aircraft is clear in our financial results. During the second quarter we signed an 18-month contract and began operation of our Force Multiplier Aircraft for the Government of the United Kingdom. The Force Multiplier was built to provide Governments around the world access to a fully staffed solution for short term needs. This contract is exactly what Force Multiplier was made for and showcases the credibility PAL Aerospace has earned around the world.

EIC has been involved in the medevac business since our first acquisition of Perimeter in 2004. It has proven to be resilient and reliable during both good and bad financial times, and largely unaffected even during the pandemic. We have invested in it regularly whenever we had the opportunity and have grown to be Canada's largest provider. When British Columbia and Manitoba put out RFPs to look after exclusive portions of the Province's requirements, we were of course very interested in putting forth solutions that would meet the needs of these Governments. In both situations we were selected as the preferred supplier and signed contracts that have an initial term of 10 years together with renewal options. These are large contracts which will require aggregate capital of approximately $275 million. These contracts will not begin immediately, as it will take the balance of 2023, all of 2024 and into 2025 to acquire the aircraft, install medical interiors and acquire ground facilities. The capital will be invested over the next six quarters and will make a small contribution to our results towards the end of 2024, but will be fully evident in the decade beginning in 2025.

On July 1, 2023, PAL Airlines finalized its agreement with Air Canada to provide regional air services in Eastern Canada. The agreement will see PAL Airlines acquire up to six additional Dash 8-400 aircraft to be operated as Air Canada Express flights for a term of up to five years. PAL Airlines has commenced flying on a limited basis using existing capacity and is expected to acquire the first four aircraft and have them online in the middle of the fourth quarter. This agreement preserves the existing PAL Airlines commercial network, substantially expands our Maritime airline operation, and supports our long-held strategy of building our business by staying attuned to the markets we serve.

I would like to take a moment to deal with what I believe is a misunderstanding held by many about EIC's investment model. When I meet with our shareholders and other stakeholders, I am regularly asked questions about how we will continue to grow if we are unable to find a sufficient number or size of acquisitions that meet our criteria. EIC is not now, nor has it ever been reliant on acquisitions as the sole source of our growth. We have always been very opportunistic when it comes to acquisitions, but at the same time we have invested capital in the companies we already owned to help them take advantage of their competitive opportunities. The recent four aviation contracts (Netherlands, United Kingdom, British Columbia and Manitoba) are great examples of our ability to grow through investment in ourselves. This philosophy is evident in the chart below which shows that over the last eight and a half years we have invested more capital in growing our existing subsidiaries than in new cornerstone acquisitions. We are not reliant on any one way to grow, and this has served us well for 20 years.



In order to move quickly on acquisitions and growth opportunities, we require a strong liquid balance sheet. To that end, during the second quarter, we extended our syndicated bank facility and increased it by approximately $250 million to $2 billion. In spite of the turmoil in credit markets, we were able to complete this transaction at the same pricing and on the same terms and conditions as the previous arrangement. Debt, however, is only half of the capital equation. Knowing that we had a deep pool of acquisition opportunities, and large long-term contract proposals, we realized that we also needed to strengthen our equity box. As such, we went to the market with a $100 million common share bought deal. Demand was so strong that we increased the offering to $150 million plus a 15% overallotment option bringing the total capital raised to $173 million. Not only did the transaction have demand that allowed us to upsize it to $173 million, but it also had the largest proportion of institutional participation in our history.

Interest rates remain very high, and this has had a clear and obvious impact on our income statement. Our interest expense has grown by approximately 79% to $54 million and while a portion of this increase is explained by the increase in debt levels incurred to fund the acquisition of Northern Mat and Bridge, the majority relates to the increase in rates. Not only were we able to fund this increase in costs, but we also generated sufficient profits to grow our bottom line in the same period by 30% to $44 million. Our model is resilient enough to withstand such general market challenges while still increasing the return to our shareholders.

Interest rates have also been a positive development for EIC in some respects. The higher rates have brought a level of sanity to the acquisition markets where financial buyers, who base their acquisition model on far higher levels of debt than EIC is comfortable with, have had trouble funding their purchases. This has in turn served to bring a moderation in acquisition prices. While there is still plenty of competition for good companies with proven management teams, a new sense of rationality has entered the marketplace. This has in turn made EIC competitive on a larger number of transactions, particularly larger transactions. Our pipeline is currently the strongest it has been in our history, and while this does not mean that we will complete any acquisitions, we are excited about the opportunities in front of us.

None of this would be possible without the team of exceptional people we have at each and every one of our operations. I want to thank them for the dedication, effort and loyalty that they demonstrate each day. We look forward to the future and are excited about continuing to deliver income and growth to our shareholders.

Mike Pyle

Chief Executive Officer

August 10, 2023

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PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2023 ("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, 2023, its annual financial statements for the year ended December 31, 2022, and its annual MD&A for the year ended December 31, 2022. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of the interim financial statements.

FORWARD-LOOKING STATEMENTS

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

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

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

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

EXCHANGE INCOME CORPORATION

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

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

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

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

Segment Summary

The Corporation's operating segments are strategic business units that offer different products and services. The Corporation has two operating segments: Aerospace & Aviation and Manufacturing. As previously communicated in our Chairman's year end message in our 2022 annual report, we have moved away from describing our businesses through individual brand names or geographies and are instead discussing them through six business lines that they fall within.

All consolidated revenue percentages noted below have been calculated by adjusting revenues for acquisitions that were completed in fiscal 2022 to reflect a full year contribution. Acquisitions completed in the current year are not included.

Aerospace & Aviation Segment

The Aerospace & Aviation segment is comprised of three lines of business: Essential Air Services, Aerospace, and Aircraft Sales & Leasing.

Essential Air Services includes both fixed wing and rotary wing operations. Under various brand names across Canada, our subsidiaries provide essential services to Canada's northern and remote communities, including medevac, passenger, charter, freight services, and auxiliary services. The majority of the communities served are not accessible year-round by ground transportation, meaning our airlines provide a vital link into these communities. Our operations span across Canada, and more specifically include operations in Manitoba, Nunavut, Ontario, British Columbia, Alberta, Newfoundland and Labrador, Quebec, New Brunswick, and Nova Scotia. The Corporation also operates two flight schools, training pilots both for our own airlines and for airlines around the world.

The Essential Air Services accounted for approximately 33% of the Corporation's consolidated revenues in fiscal 2022. Items impacting margins within this business are fuel prices, load factors, weather, and, in the current operating environment, the ability to source a full complement of pilots and aircraft mechanics. Labour costs in these areas have increased well above the rate of inflation and in certain circumstances cannot be immediately flowed through to the customer.

Essential Air Services includes the operations of Calm Air International LP, CANLink Aviation Inc. (MFC Training), Carson Air Ltd, Custom Helicopters Ltd., Keewatin Air LP, PAL Airlines Ltd., and Perimeter Aviation LP (including its operating division, Bearskin Airlines).

Aerospace includes our vertically integrated aerospace offerings that provide customized and integrated special mission aircraft solutions primarily to governments across the globe. These services encompass mission systems design and integration, aircraft modifications, intelligence, surveillance, reconnaissance operations ("ISR"), software development, logistics and in-service support. Most of these services are provided pursuant to long term government contracts. In addition, our subsidiaries deliver training solutions across an array of aviation platforms and have in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft for governmental agencies.

Aerospace accounted for approximately 14% of the Corporation's consolidated revenues in fiscal 2022. Training solutions typically generate lower margins as there are low capital requirements outside of working capital, whereas ISR flying operations typically have higher margins as the upfront investment in the owned assets to perform the ISR flying operations is reflected as an expense through depreciation.

Aerospace includes the operations of Crew Training International, Inc. and PAL Aerospace Ltd.

Aircraft Sales & Leasing includes aftermarket aircraft, engine and parts sales and aircraft and engine leasing along with aircraft management services. Our subsidiaries specialize in regional and commuter aircraft, and seek to monetize their portfolio over the full life cycle of the asset. Our subsidiaries are not typical finance lessors; rather, assets are leased for shorter durations to consume the available green time on those assets. Once the green time has been consumed, the assets can then either be overhauled and leased out again, or torn down into piece parts and sold to airlines around the world to generate further cash flows. Revenue streams include selling whole aircraft, engines and components of those assets, leasing of aircraft and engines and fee income earned through the provision of services for third parties such as asset management or consignment sales. Our expertise in understanding the value of each component of an aircraft and the anticipated demand for those components, including the next major shop visits and next major overhaul event for each platform we specialize in, provides a competitive advantage on what to buy and what to pay.

Aircraft Sales & Leasing accounted for approximately 16% of the Corporation's consolidated revenues in fiscal 2022. The most significant item impacting margins in this line of business is sales mix. Leasing contributes very high margins and therefore variability in leasing revenue has the largest impact on margin. Within this business line, parts revenue is the most predictable and stable from both sales and margin perspectives; whereas the sale of aircraft and engines vary on a period to period basis, both in volume and in price, but are generally higher dollar and lower margin transactions.

Aircraft Sales & Leasing includes the operations of EIC Aircraft Leasing Limited and Regional One, Inc.

Manufacturing Segment

The Manufacturing segment is comprised of three lines of business: Environmental Access Solutions, Multi-Storey Window Solutions and Precision Manufacturing & Engineering.

Environmental Access Solutions is the largest provider of temporary access solutions in Canada, providing a turnkey service which includes planning, consultation, delivery and installation, logistical support, and removal and washing solutions. Our access solutions and related services provide temporary ground protection that allows customers to access job sites or use heavy machinery and equipment on wet, loose, or otherwise unstable or environmentally sensitive ground. Access mats and bridges provide access to remote areas in a much more environmentally friendly way than the construction of temporary gravel roads and installation of culverts and water-diversion devices, which are difficult to remove and remediate and can cause cross-contamination of soil. As the largest operator in this industry, we provide a one-stop solution for our clients with a vertically integrated platform including in-house mat manufacturing capabilities, a sizable fleet of trucks and equipment, and a portable, patented closed-loop mat washing system.

Environmental Access Solutions accounted for approximately 12% of the Corporation's consolidated revenues in fiscal 2022. Rentals generate higher margins than other lines of business within Environmental Access Solutions. Rental activity is influenced by several factors, such as the supply of mats in the marketplace, the availability and pricing of timber used in mat production, and weather conditions, including the amount of precipitation and temperature. In addition to rentals, the sale of mats and the overall sales mix in a given period can also have a significant impact on margins. These mat sale transactions are generally higher dollar value and lower margin transactions when compared to rental revenue.

Environmental Access Solutions includes the operations of Northern Mat and Bridge LP.

Multi-Storey Window Solutions includes the design, manufacture and installation of the exteriors of residential and mixed-use high rises which integrate residential, retail, and office spaces. Our subsidiaries manufacture an advanced unitized window wall system. With the acquisition of BVGlazing, we have added curtain wall and railing solution capabilities to our product offering. This provides solutions for the entire façade, including the windows, operable elements and opaque areas that surround the exterior envelope of a building. Our vertically integrated offering within the Multi-Storey Window Solutions includes installation services in both Canada and in the United States. In the United States, we have the capability to install both our internally manufactured window solutions and those manufactured by others.

Multi-Storey Window Solutions accounted for approximately 10% of the Corporation's consolidated revenues in fiscal 2022. The most significant items impacting margins within this line of business are the cost of raw materials and product mix. Since our subsidiaries both manufacture and install exteriors of high-rise buildings, the margins realized in a particular period can vary based on the type of work performed. Installation, particularly on jobs completed with non-Quest/BVGlazing product, generate lower margins than for supply and install projects.

Multi-Storey Window Solutions includes the operations of BVGlazing Systems Inc., and Quest Window Systems Inc.

Precision Manufacturing & Engineering provides engineering and precision manufacturing services throughout North America in a wide variety of industries. These services include: wireless and wireline construction and maintenance services; the manufacturing of precision parts and components for a variety of industries; the manufacture of specialized stainless steel tanks, vessels, and processing equipment; electrical and control systems integration focused on the agricultural material handling segment; and the manufacture of specialized heavy-duty pressure washing and steam systems, commercial water recycling systems, and custom tanks.

Precision Manufacturing & Engineering accounted for approximately 15% of the Corporation's consolidated revenues in fiscal 2022. Margins in this line of business are typically stable. While there may be margin pressure in times of rapid escalation of prices of raw materials, generally our subsidiaries have the ability to pass on these costs to customers over time due to the specialty nature of the products that are being provided.

Precision Manufacturing & Engineering includes the operations of Ben Machine Products Company Incorporated, Hansen Industries Ltd., LV Control Mfg. Ltd., Overlanders Manufacturing LP, Stainless Fabrication, Inc., Water Blast Manufacturing LP, and WesTower Communications Ltd.

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE		2023	per share basic		per share diluted		2022		per share basic		per share diluted
For the three months ended June 30											
Revenue	$	627,222				$	529,017				
Adjusted EBITDA(1)		147,036					115,055				
Net Earnings		36,896	$ 0.85	$	0.80		29,990	$	0.76	$	0.73
Adjusted Net Earnings(1)		43,480	1.00		0.93		38,501		0.98		0.90
Free Cash Flow(1)		98,002	2.25		1.96		89,251		2.26		1.95
Free Cash Flow less Maintenance Capital Expenditures(1)		58,592	1.34		1.21		47,356		1.20		1.09
Dividends declared		27,809	0.63				23,334		0.59		
For the six months ended June 30											
Revenue		1,154,066				$	929,243				
Adjusted EBITDA(1)		244,153					182,011				
Net Earnings		43,757	1.02		1.00		33,743	$	0.86	$	0.84
Adjusted Net Earnings(1)		55,020	1.28		1.25		46,336		1.18		1.16
Free Cash Flow(1)		157,710	3.66		3.23		136,660		3.49		3.05
Free Cash Flow less Maintenance Capital Expenditures(1)		77,515	1.80		1.69		66,852		1.71		1.61
Dividends declared		54,614	1.26				45,454		1.16		
Trailing Twelve months as at June 30											
Adjusted Net Earnings payout ratio(1)			75%						87%		
Free Cash Flow less Maintenance Capital Expenditures payout ratio(1)			57%						56%		
FINANCIAL POSITION		June 30, 2023					December 31, 2022				
Working capital	$	530,128				$	465,481				
Capital assets		1,398,019					1,284,409				
Total assets		3,806,912					3,548,836				
Long-term debt		1,269,529					1,214,764				
Equity		1,212,074					1,019,054				
SHARE INFORMATION		June 30, 2023					December 31, 2022				
Common shares outstanding		46,543,253					42,479,063				
		June 30, 2023					June 30, 2022				
Weighted average shares outstanding during the period - basic		43,086,401					39,112,144				

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

SIGNIFICANT EVENTS

Normal Course Issuer Bid ("NCIB")

On March 10, 2023, the Corporation renewed its NCIB for common shares and certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on March 15, 2023, and ending on March 14, 2024. The Corporation can purchase a maximum of 3,958,307 shares and daily purchases will be limited to 25,561 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital.

The Corporation can purchase a maximum of $8,038 principal amount of 7 year 5.35% convertible unsecured subordinated debentures of EIC (June 2018), $8,625 principal amount of 7 year 5.75% convertible unsecured subordinated debentures of EIC (March 2019), $14,375 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC (July 2021), and $11,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC (December 2021), with daily purchases of principal amount, other than block purchase exceptions, limited to $33, $33, $25, and $24, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

Acquisition of Hansen Industries Ltd.

On April 1, 2023, the Corporation completed the acquisition of Hansen for $44 million, including purchase price consideration of $4 million in EIC common shares, subject to customary post closing adjustments. Hansen, located in Richmond, B.C., provides custom fabrication of precision metal components and assemblies using automated equipment within its two key divisions: sheet metal, its largest division, and machining. Hansen also has a high-volume metal stamping shop in order to be a full-service solution provider for its customers.

Acquisition of BVGlazing Systems Ltd.

On March 16, 2023, the Corporation announced that it had entered into an agreement to acquire BVGlazing for a purchase price of $96 million, including EIC share consideration of $23 million, subject to customary post closing adjustments, following receipt of regulatory approval under the Competition Act (Canada). On May 1, 2023, the Corporation completed the acquisition of BVGlazing after receiving the necessary approvals to close.

BVGlazing, located in Southern Ontario, designs, engineers, manufactures, and supplies window, door, and railing systems for mid-rise and high-rise building projects in Canada and the US. BVGlazing manufactures unitized and stick curtain wall systems and railing systems, in addition to window wall glazing systems similar to those produced by EIC existing subsidiary Quest. BVGlazing's added capability to provide curtain wall and railing products together with Quest's integrated installation capability will allow our collective window operations to offer complete solutions to their customers, an increasingly important attribute as developers turn to mixed-use projects that integrate residential, office and retail spaces to make more efficient use of their properties.

Credit Facility Upsize and Extension

On May 9, 2023, the Corporation amended its credit facility. The enhanced credit facility increased to approximately $2 billion and its term extended to May 9, 2027. The increased size of the facility provides the Corporation capacity to continue to execute on its core strategy of pursuing accretive growth through investment in its operating subsidiaries and through acquisition.

PAL Airlines to Provide Regional Service in Eastern Canada on behalf of Air Canada

On May 30, 2023, the Corporation announced the completion of a Letter of Intent between PAL Airlines and Air Canada as a preliminary step towards the finalization of a commercial agreement between the two airlines for the provision of regional air services in Eastern Canada. PAL Airlines and Air Canada subsequently executed this contract, and PAL Airlines commenced service under the agreement on July 1, 2023. The finalized agreement allows for PAL Airlines to operate up to six Dash-8 Q400 aircraft on behalf of Air Canada, serving regional markets in Eastern Canada.

Fixed Wing Medevac Contract for the Province of British Columbia

On June 5, 2023, Carson Air was awarded a long-term contract by the Province of British Columbia to provide fixed wing medevac coverage for the entire Province of British Columbia for ten years plus renewal options. This contract requires Carson Air to purchase new King Air aircraft which will result in EIC being one of the largest King Air operators in the world. These new King Air aircraft have been ordered from the OEM and we expect to be delivered over several quarters starting in the fourth quarter of 2023.

Bought Deal Financing of Common Shares

On June 14, 2023, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 3,306,250 shares of the Corporation at $52.25 per share, for gross proceeds of approximately $173 million. The net proceeds of the offering will be used to fund the Corporation's growth initiatives, including partially funding the investments associated with the recent announcements of the agreement with Air Canada and long-term medevac contracts.

Deployment of Force Multiplier Aircraft on 18 Month Contract

On June 19, 2023, PAL Aerospace announced the deployment of its Force Multiplier Program to deliver airborne Intelligence, Surveillance and Reconnaissance support for the United Kingdom Home Office's Small Boats Operation Command. Equipped with advanced imaging and radar systems, the PAL Aerospace Dash 8 aircraft is tasked with surveillance of maritime activity in support of the United Kingdom's ongoing fight against illegal migration and small boat crossings of the English Channel. The aircraft will be deployed for an initial period of eighteen months.

SUBSEQUENT EVENTS

Province of Manitoba Fixed Wing Critical Care Medevac Contract Award

On July 17, 2023, the Corporation announced it was the successful bidder to provide critical care fixed wing medevac coverage for the Province of Manitoba. The tendered 10-year contract requires a fleet of five planes which will be a combination of jet and turbo prop aircraft.

The aircraft are in the process of being acquired and are expected to be phased into service with the first aircraft going into service near the end of the first quarter of 2024.

2. RESULTS OF OPERATIONS

Three Month Results

The following section analyzes the financial results of the Corporation for the three months ended June 30, 2023, and the comparative 2022 period.

				Three Months Ended June 30, 2023
	Aerospace & Aviation	Manufacturing	Head Office [(2)]	Consolidated
Revenue	$ 372,361	$ 254,861	$ -	$ 627,222
Expenses [(1)]	264,670	205,821	9,695	480,186
Adjusted EBITDA	107,691	49,040	(9,695)	147,036
Depreciation of capital assets				50,032
Amortization of intangible assets				5,432
Finance costs - interest				28,158
Depreciation of right of use assets				8,579
Interest expense on right of use lease liabilities				1,738
Acquisition costs				2,603
Earnings before income taxes				50,494
Current income tax expense				9,814
Deferred income tax expense				3,784
Net Earnings				$ 36,896
Net Earnings per share (basic)				$ 0.85
Adjusted Net Earnings				$ 43,480
Adjusted Net Earnings per share (basic)				$ 1.00

				Three Months Ended June 30, 2022
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 352,354	$ 176,663	$ -	$ 529,017
Expenses [(1)]	266,774	137,697	9,491	413,962
Adjusted EBITDA	85,580	38,966	(9,491)	115,055
Depreciation of capital assets				39,476
Amortization of intangible assets				5,776
Finance costs - interest				15,211
Depreciation of right of use assets				7,411
Interest expense on right of use lease liabilities				935
Acquisition costs				4,449
Earnings before income taxes				41,797
Current income tax expense				3,508
Deferred income tax expense				8,299
Net Earnings				$ 29,990
Net Earnings per share (basic)				$ 0.76
Adjusted Net Earnings				$ 38,501
Adjusted Net Earnings per share (basic)				$ 0.98

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

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

REVENUE AND ADJUSTED EBITDA *(Section 12 – Non-IFRS Financial Measures and Glossary)*

On a consolidated basis, the Corporation generated revenue of $627 million, an increase of $98 million, or 19% over the prior period. The increase was driven by both of the Corporation's segments, with the Aerospace & Aviation segment increasing by $20 million over the prior period and the Manufacturing segment increasing by $78 million over the prior period.

Adjusted EBITDA of $147 million was generated by the Corporation during the period, an increase of $32 million or 28% over the prior period. The increase was attributable to both segments, as the Aerospace & Aviation segment increased by $22 million over the prior period and the Manufacturing segment increased by $10 million over the prior period. Head Office costs were relatively consistent with the prior period.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $20 million to $372 million.

Revenue within Essential Air Services increased 20% over the prior period. While all revenue streams have increased over the prior period, the most notable increase is in passenger revenue as the start of the second quarter in 2022 was significantly impacted by the Omicron variant. In addition, investments made in our fleet of fixed wing aircraft over the last couple of years have increased capacity within our operations as we looked to take advantage of opportunities in our markets and those investments are now driving the expected returns as passenger volumes have returned to normal levels. These investments have also driven increased charter revenue within our operations. In addition, investments made in our rotary-wing operations, including the purchase of additional helicopters for both our fire suppression and medevac operations, increased revenue over the prior period.

Revenue within Aircraft Sales & Leasing declined by 32% from the prior period. In the prior period, large asset sales were well above historical norms which, consistent with our expectations, were high-dollar, lower margin sales. This decline was partially offset by increased lease revenue as utilization continues to recover. The decline in large asset sales in the current period has a larger impact on revenue than it does on Adjusted EBITDA, as discussed below. Lease revenue for the period was $13 million (2022 - $9 million) and Sales and Service revenue was $56 million (2022 - $94 million).

Revenue within Aerospace increased 25% over the prior period primarily due to the Netherlands Coast Guard Contract that was previously awarded and started in the fourth quarter of 2022, and the United Kingdom Home-Office contract that was awarded in May 2023 and started contributing during the period.

Adjusted EBITDA generated by the Aerospace & Aviation segment increased by $22 million to $108 million.

Adjusted EBITDA within Essential Air Services increased 46% over the prior period. The increase in revenue discussed above drove the increase in Adjusted EBITDA. The percentage increase in Adjusted EBITDA outpaced the percentage increase in revenue within Essential Air Services due to increased passenger load factors and expanded routes. In the second quarter of the prior period, the Omicron variant impacted passenger load factors, negatively impacting Adjusted EBITDA in the prior period. In addition, a change in product mix in the current period has increased Adjusted EBITDA over the prior period. Finally, a decline in fuel prices from the prior period improved margins. Fuel price escalators that were implemented in prior periods, which lagged the increase in fuel and had a negative impact on margins at that time, were reduced at the same lagged rate as fuel prices declined.

Adjusted EBITDA within Aircraft Sales & Leasing decreased by 16% from the prior period. The decrease in revenue discussed above resulted in a decline to Adjusted EBITDA in the current period. The continued rebound in Adjusted EBITDA contribution from our leasing operations was more than offset by the decline in large asset sales. The large asset sales seen in the first half of 2022 were well above historical levels.

Adjusted EBITDA within Aerospace increased 28% over the prior period. The increase is attributable to increased flying for new contracts that have been awarded to the Corporation. These new contracts changed the product mix in Aerospace to include more ISR operations on owned aircraft compared to the prior period. The percentage increase in Adjusted EBITDA outpaced the percentage increase in revenue due to the higher capital intensity nature of ISR flying revenue as the capital cost is recognized as an expense through depreciation. Finally, Aerospace experienced increased utilization of its ISR assets compared to the prior period.

Manufacturing Segment

The Manufacturing segment revenue increased by $78 million or 44% over the prior period to $255 million.

Revenue within the Environmental Access Solutions increased by 31% over the prior period as Northern Mat was acquired on May 10, 2022. Although strong results have been achieved by Environmental Access Solutions, in excess of those upon which the acquisition was priced, the combination of forest fires and a very dry spring has resulted in a decrease in demand for mats when compared to the prior period. In addition, an increased industry wide supply of mats has resulted in lower rental mat fleet utilization compared to the prior period. The second quarter of 2022 was the perfect alignment of price, demand, supply and weather that drove results above our expectations but was not sustainable at that level.

Revenue within Multi-Storey Window Solutions increased by 100% over the prior period which is attributable to three factors. Firstly, manufacturing of windows increased as we experienced a more normal production schedule compared to the prior period. This is the beginning of the improvements that we expect to continue over the ensuing quarters. Secondly, the business is now starting to manufacture and install projects where prices reflect rates negotiated after the start of the pandemic and that reflect the higher inflationary pressure created by supply chain issues, higher labour costs, and increased interest costs. Finally, the acquisition of BVGlazing on May 1, 2023 contributed to the increase in revenue over the prior period.

Revenue within Precision Manufacturing & Engineering increased 12% over the prior period. Investments made in the prior periods increased capacity and created production efficiencies, positively impacting revenue. This increased capacity combined with strong demand in the defence industry contributed to the increase in revenue. Finally, the acquisition of Hansen on April 1, 2023, increased revenue over the prior period.

Adjusted EBITDA in the Manufacturing segment increased by $10 million or 26% to $49 million for the period.

Adjusted EBITDA within Environmental Access Solutions increased by 9% over the prior period as Northern Mat was acquired partway through 2022. Northern Mat continues to perform ahead of the economics upon which the deal was priced despite some external challenges in 2023. The prior year experienced higher than normal demand for rental mats and bridges driven by the perfect alignment of price, demand, supply and weather, and as a result our rental mats experienced near practical capacity for the utilization during the prior period. In the current period, mat and bridge rentals, which generates higher margins than other revenue streams, made up a smaller portion of revenue than in the prior period. This change in sales mix resulted in revenues increasing at a faster pace than Adjusted EBITDA. Factors discussed in the revenue discussion above impacted Adjusted EBITDA in the similar manner in the current period.

Adjusted EBITDA within Multi-Storey Window Solutions increased by 58% over the prior period. The current period results include the acquisition of BVGlazing on May 1, 2023, contributing to the increase in Adjusted EBITDA. In addition, Adjusted EBITDA increased due to improved pricing implemented in prior periods that is being realized in the current period and increased window manufacturing in our facilities as we move to a more normal production schedule.

Adjusted EBITDA within Precision Metal & Engineering increased 36% primarily due to the acquisition of Hansen on April 1, 2023. In addition, increased demand in the telecommunications and defence industries combined with additional capacity from investments made in prior periods to increase output are contributing positively to Adjusted EBITDA. Finally, product mix at certain subsidiaries resulted in increased margins over the prior period, positively contributing to Adjusted EBITDA.

NET EARNINGS

Three Months Ended June 30,		2023		2022
Net Earnings	**$**	**36,896**	$	29,990
Net Earnings per share	**$**	**0.85**	$	0.76

Net Earnings was $37 million, an increase of $7 million or 23% over the prior period. The $32 million increase in Adjusted EBITDA during the current period contributed to the increase in Net Earnings. This increase was partially offset by two main items. First, interest costs increased over the prior period by $13 million due to the increased benchmark borrowing rates as well as the increase in long-term debt to fund the acquisition activity of the Corporation. If not for the interest rate swaps the Corporation entered during 2023, where the fixed rate of interest is well below the floating rate of interest, the increase in interest costs would have been higher. Second, depreciation on capital assets increased by $11 million over the prior period due to the acquisition activity and Growth Capital Expenditures over the past 12 months.

Income tax expense increased by $2 million over the comparative period as the Corporation generated higher earnings before taxes. The Corporation's effective rate of tax decreased marginally compared to the prior period primarily because in the prior period the Corporation incurred a greater proportion of acquisition costs relative to its earnings before taxes that were not able to be expensed for tax purposes.

Net Earnings per share increased by 12% over the prior period to $0.85 due to increased Net Earnings generated in the period. The weighted average number of shares increased by 11%, which partially offset the increased Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Three Months Ended June 30,		2023		2022
Net Earnings	**$**	**36,896**	$	29,990
Acquisition costs (net of tax $35 and $154)		**2,568**		4,295
Amortization of intangible assets (net of tax $1,416 and $1,560)		**4,016**		4,216
Adjusted Net Earnings	**$**	**43,480**	$	38,501
per share - Basic	**$**	**1.00**	$	0.98
per share - Diluted	**$**	**0.93**	$	0.90

Adjusted Net Earnings was $43 million, an increase of $5 million or 13% over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $4 million in intangible asset amortization and $3 million in acquisition costs (all net of tax). Details around the calculation of Adjusted Net Earnings can be found in *Section 12 – Non-IFRS Financial Measures and Glossary.*

Adjusted Net Earnings per share increased by 2% over the prior period to $1.00 due to higher Adjusted Net Earnings generated in the period. The weighted average number of shares increased by 11%, which partially offset the increased Adjusted Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Three Months Ended June 30,		2023		2022
Cash flows from operations	**$**	**76,986**	$	35,281
Change in non-cash working capital		**27,559**		57,290
Acquisition costs (net of tax $35 and $154)		**2,568**		4,295
Principal payments on right of use lease liabilities		**(9,111)**		(7,615)
	$	**98,002**	$	89,251
per share - Basic	**$**	**2.25**	$	2.26
per share - Diluted	**$**	**1.96**	$	1.95

The Free Cash Flow generated by the Corporation during the period was $98 million, an increase of $9 million or 10% over the prior period. The increase in Adjusted EBITDA of $32 million is the primary reason for the increase in Free Cash Flow for the period. This was partially offset by an increase in cash interest costs and current taxes. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Financial Measures and Glossary*.

Free Cash Flow on a basic per share basis remained relatively unchanged from the prior period at $2.25. The weighted average number of shares increased by 11%, which offset the increase in Free Cash Flow. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Six Month Results

The following section analyzes the financial results of the Corporation for the six months ended June 30, 2023, and the comparative 2022 period.

								Six Months Ended June 30, 2023
		Aerospace & Aviation		**Manufacturing**		**Head Office (2)**		**Consolidated**
Revenue	**$**	**698,290**	**$**	**455,776**	**$**	**-**	**$**	**1,154,066**
Expenses (1)		**516,792**		**374,591**		**18,530**		**909,913**
Adjusted EBITDA		**181,498**		**81,185**		**(18,530)**		**244,153**
Depreciation of capital assets								**97,540**
Amortization of intangible assets								**10,229**
Finance costs - interest								**53,877**
Depreciation of right of use assets								**16,706**
Interest expense on right of use liabilities								**3,329**
Acquisition costs								**3,968**
Other (Note 5)								**(951)**
Earnings before taxes								**59,455**
Current income tax expense								**12,899**
Deferred income tax expense								**2,799**
Net Earnings							**$**	**43,757**
Net Earnings per share (basic)							**$**	**1.02**
Adjusted Net Earnings							**$**	**55,020**
Adjusted Net Earnings per share (basic)							**$**	**1.28**

								Six Months Ended June 30, 2022
		Aerospace & Aviation		Manufacturing		Head Office (2)		Consolidated
Revenue	$	633,946	$	295,297	$	-	$	929,243
Expenses (1)		485,507		245,418		16,307		747,232
Adjusted EBITDA		148,439		49,879		(16,307)		182,011
Depreciation of capital assets								76,367
Amortization of intangible assets								8,617
Finance costs - interest								30,063
Depreciation of right of use assets								13,947
Interest expense on right of use lease liabilities								1,687
Acquisition costs								4,904
Earnings before taxes								46,426
Current income tax expense								4,745
Deferred income tax expense								7,938
Net Earnings							$	33,743
Net Earnings per share (basic)							$	0.86
Adjusted Net Earnings							$	46,336
Adjusted Net Earnings per share (basic)							$	1.18

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

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

REVENUE AND ADJUSTED EBITDA *(Section 12 – Non-IFRS Financial Measures and Glossary)*

On a consolidated basis, the Corporation generated revenue of $1,154 million, an increase of $225 million, or 24% over the prior period. The increase was driven by both of the Corporation's segments, with the Aerospace & Aviation segment increasing by $64 million over the prior period and the Manufacturing segment increasing by $161 million over the prior period.

Adjusted EBITDA of $244 million was generated by the Corporation during the period, an increase of $62 million or 34% over the prior period. The increase was attributable to both segments, as the Aerospace & Aviation segment increased by $33 million over the prior period and the Manufacturing segment increased by $31 million over the prior period. Head Office costs increased $2 million over the prior period primarily due to increased investments in cybersecurity and increased performance-based compensation. The Corporation did not receive any government assistance during the period, compared to $11 million received in the prior period. Excluding the impact of subsidies in the prior period, Adjusted EBITDA increased 43% over the prior period.

The Corporation's first quarter is the most seasonally challenging as demand within Essential Air Services and Environmental Access Solutions are seasonally slowest in the first quarter. For Essential Air Services, winter roads into Northern communities lessen demand. For Environmental Access Solutions, colder weather reduces demand for access solutions due to lower potential risk of environmental impact when the ground is frozen. The colder weather also generally results in a seasonal slowdown in large infrastructure projects across Canada.

<u>Aerospace & Aviation Segment</u>

Revenue generated by the Aerospace & Aviation segment increased by $64 million to $698 million.

Revenue within Essential Air Services increased 26% over the prior period. The first quarter and the first part of the second quarter of 2022 were impacted by the emergence of the Omicron variant, reducing travel in and out of Northern communities. In the current period, demand for passenger travel has increased to normal volumes resulting in the increase in revenue over the prior period. Investments in increasing our capacity over the last number of years means that current revenues are higher than pre-pandemic. In addition, expanded routes on the East Coast have increased passenger volumes and revenue. Increased charter activity and strong rotary wing and medevac operations positively contributed to the revenue generated in the period. The increase was partially offset by government funding of $11 million that was received in the prior period and included in revenue as no such support was received in the current period.

Revenue within Aircraft Sales & Leasing decreased 26% from the prior period. Consistent with the three month discussion above, in the prior period the demand for aircraft and engines was well above historical norms resulting in higher revenue than the current period. The sale of aircraft and engines are generally high dollar value and lower margin transactions when compared to leasing or parts revenue. Leasing revenue has continued to increase, showing steady improvements as more assets are deployed. Leasing revenue during the period was $23 million (2022 - $17 million) and Sales and Service revenue was $107 million (2022 - $159 million).

Revenue within Aerospace increased 21% over the prior period. The increase in revenue is driven by additional ISR contracts that have been awarded to the Corporation and started to contribute during the current period, consistent with the three month discussion above.

Adjusted EBITDA generated by the Aerospace & Aviation segment increased $33 million to $181 million for the period.

Adjusted EBITDA within Essential Air Services increased 40% over the prior period. The increase in passenger volumes contributed significantly to the increase in Adjusted EBITDA over the prior period as well as improved margins on rotary-wing services. Investments made previously in our fleets of fixed wing and rotary wing aircraft are now producing returns that were expected when the capital was deployed. A decline in fuel prices from the prior period also improved margins. Fuel price escalators that were implemented in prior periods, which lagged the increase in fuel and had a negative impact on margins at that time, were reduced at the same lagged rate as fuel prices declined.

Adjusted EBITDA within Aircraft Sales & Leasing decreased by 16% from the prior period. Consistent with the three-month section, leasing revenues are continuing to increase in line with management's expectations as more assets are deployed and leasing generates higher margins when compared to sales and service revenues. Lower aircraft and engine sales in the current period decreased Adjusted EBITDA, although the impact of this decline has a lesser impact on Adjusted EBITDA than on revenue.

Adjusted EBITDA within Aerospace increased 34% over the prior period. The impacts on Adjusted EBITDA for the six month period are consistent with those as described in the three month section above, including the impacts of new contracts, expanded flying with existing assets, and the impact of product mix changes in Aerospace that has seen more owned ISR assets deployed compared to the prior period.

<u>Manufacturing Segment</u>

The Manufacturing segment revenue increased by $160 million or 54% over the prior period to $456 million.

Revenue generated within Environmental Access Solutions increased by 169% over the prior period. Northern Mat was acquired May 10, 2022, resulting in only partial comparatives in the prior period. Forest fires and dry weather conditions tempered the demand for access solutions during the second quarter, and an industry wide increase in mat supply reduced mat fleet utilization resulting in softer market conditions than experienced in the prior period.

Revenue generated within Multi-Storey Window Solutions increased 77% over the prior period. The Corporation acquired BVGlazing on May 1, 2023, for which there is no comparative in the prior period, contributing to the increase in revenue. In addition, the business is now starting to manufacture and install projects where prices reflect rates negotiated after the start of the pandemic and that reflect the higher inflationary pressure created by supply chain issues, higher labour costs, and increased interest costs.

Revenue generated within Precision Manufacturing & Engineering increased 10% over the prior period. The increase is primarily driven by the acquisition of Hansen on April 1, 2023 with no comparative in the prior period. In addition, increased demand in the defence industry and for metal fabrication have contributed to increased revenue over the prior period.

The Manufacturing segment Adjusted EBITDA increased by $31 million or 63% over the prior period to $81 million.

Adjusted EBITDA within Environmental Access Solutions increased 101% over the prior period. The reason for the increase is consistent with the revenue discussion above as Northern Mat was acquired midway through the second quarter of 2022. The second quarter of 2022 had the perfect alignment of price, demand, supply and weather that drove results higher than our expectations. In the current period, in contrast, forest fires, a dry spring in 2023, and an industry wide increase in mat supply provided headwinds. Even with those challenges, results have exceeded the economics upon which the deal was priced. In the current period, mat and bridge rentals, which generates higher margins than other revenue streams, made up a smaller portion of revenue than in the prior period. This change in sales mix resulted in revenues increasing at a faster pace than Adjusted EBITDA.

Adjusted EBITDA within Multi-Storey Window Solutions increased 50% over the prior period due to the acquisition of BVGlazing in 2023 and improved performance of our pre-exiting entities. Improved scheduling, increased throughput in our facilities, and increased pricing quoted in prior periods being realized in the current period all contributed to strengthening margins, increasing Adjusted EBITDA.

Adjusted EBITDA within the Precision Manufacturing & Engineering increased 34% over the prior period due to improved contributions from the pre-existing subsidiaries and the acquisition of Hansen on April 1, 2023. Sales mix across the business line was skewed towards higher margin products, and investments in prior periods benefitted the business line, both increasing Adjusted EBITDA compared to the prior period.

NET EARNINGS

Six Months Ended June 30,		**2023**		2022
Net Earnings	**$**	**43,757**	$	33,743
Net Earnings per share	**$**	**1.02**	$	0.86

Net Earnings was $44 million, an increase of $10 million or 30% over the prior period. The $62 million increase in Adjusted EBITDA during the current period contributed to the increase in Net Earnings. This increase was partially offset by several items. Depreciation on capital assets increased by $21 million over the prior period due to assets acquired through the Corporation's acquisitions over the last 12 months, investments made in Growth Capital Expenditures over the same period, and increased flying by the Corporation's airlines. Additionally, interest costs increased over the prior period by $24 million due to increased benchmark borrowing rates and higher levels of debt from the Corporation's acquisition activity. If not for the interest rate swaps the Corporation entered during 2023, where the fixed rate of interest is well below the floating rate of interest, the increase in interest costs would have been higher.

Income tax expense increased by $3 million over the prior period due to increased earnings before tax. The Corporation's effective rate of tax remained flat compared to the prior period.

Net Earnings per share increased by 19% over the prior period to $1.02 due to increased Net Earnings generated in the period. The weighted average number of shares increased by 10%, which partially offset the increased Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

Six Months Ended June 30,		2023		2022
Net Earnings	**$**	**43,757**	$	33,743
Acquisition costs (net of tax $223 and $219)		**3,745**		4,685
Amortization of intangible assets (net of tax $2,711 and $2,327)		**7,518**		6,290
Accelerated interest accretion on redeemed debentures (net of tax nil and $599)		**-**		1,618
Adjusted Net Earnings	**$**	**55,020**	$	46,336
per share - Basic	**$**	**1.28**	$	1.18
per share - Diluted	**$**	**1.25**	$	1.16

Adjusted Net Earnings was $55 million, an increase of $9 million or 19% over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $8 million in intangible asset amortization and $4 million in acquisition costs (all net of tax). In the prior period, Adjusted Net Earnings included the add-back of non-cash accelerated interest accretion on the early redemption of convertible debentures of $2 million (net of tax), which did not recur in the current period.

Adjusted Net Earnings per share increased by 8% to $1.28 over the prior period due to higher Adjusted Net Earnings generated in the period. The weighted average number of shares increased by 10%, which partially offset the increased Adjusted Net Earnings. Details around the change in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Six Months Ended June 30,		2023		2022
Cash flows from operations	**$**	**66,212**	$	60,335
Change in non-cash working capital items		**105,138**		85,789
Acquisition costs (net of tax $223 and $219)		**3,745**		4,685
Principal payments on right of use lease liabilities		**(17,385)**		(14,149)
	$	**157,710**	$	136,660
per share - Basic	**$**	**3.66**	$	3.49
per share - Diluted	**$**	**3.23**	$	3.05

The Free Cash Flow generated by the Corporation during the period was $158 million, an increase of $21 million, or 15% over the prior period. The primary reason for this increase is the $62 million increase in Adjusted EBITDA, which was partially offset by increases in current taxes, cash interest and principal payments on right of use lease liabilities. Free Cash Flow is discussed further in *Section 12 – Non-IFRS Financial Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow on a basic per share basis increased by 5% to $3.66 The weighted average number of shares increased by 10%, which partially offset the increased Free Cash Flow. Details around the increase in shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

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

3. INVESTING ACTIVITIES

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

ACQUISITIONS

Hansen Industries Ltd.

On April 1, 2023, the Corporation acquired the shares of Hansen, located in Richmond B.C., specializing in custom fabrication of precision metal components and assemblies using automated equipment within its two key divisions: sheet metal, its largest division, and machining. Hansen also has a high-volume metal shop in order to be a full-service solution provider for its customers.

The components of the consideration paid to acquire Hansen are outlined in the table below.

Consideration given:		
Cash	**$**	**39,469**
Issuance of 85,102 shares of the Corporation at $52.29 per share		**4,450**
Total purchase consideration	**$**	**43,919**

BVGlazing Systems Ltd.

On May 1, 2023, the Corporation acquired the shares of BVGlazing. BVGlazing designs, engineers, manufactures, and supplies window, door, and railing systems for mid-rise and high-rise building projects in Canada and the US. BVGlazing manufactures unitized and stick curtain wall systems and railing systems, in addition to window wall glazing systems similar to those produced by EIC existing subsidiary Quest. The acquisition is strategic to EIC to allow the collective window operations to offer complete solutions to their customers.

The components of the consideration paid to acquire BVGlazing are outlined in the table below.

Consideration given:		
Cash	**$**	**73,024**
Issuance of 431,598 shares of the Corporation at $53.29 per share		**23,000**
Total purchase consideration	**$**	**96,024**

CAPITAL EXPENDITURES

	Three Months Ended June 30, 2023			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 33,081**	**$ 6,034**	**$ 295**	**$ 39,410**
Growth Capital Expenditures	**69,985**	**15,967**	**-**	**85,952**
	$ 103,066	**$ 22,001**	**$ 295**	**$ 125,362**

	Three Months Ended June 30, 2022			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 36,848	$ 4,947	$ 100	$ 41,895
Growth Capital Expenditures	34,366	6,144	798	41,308
	$ 71,214	$ 11,091	$ 898	$ 83,203

		Six Months Ended June 30, 2023						
CAPITAL EXPENDITURES		**Aerospace & Aviation**		**Manufacturing**		**Head Office**		**Total**
Maintenance Capital Expenditures	**$**	**68,625**	**$**	**11,208**	**$**	**362**	**$**	**80,195**
Growth Capital Expenditures		**106,592**		**13,771**		**-**		**120,363**
	$	**175,217**	**$**	**24,979**	**$**	**362**	**$**	**200,558**

		Six Months Ended June 30, 2022						
CAPITAL EXPENDITURES		Aerospace & Aviation		Manufacturing		Head Office		Total
Maintenance Capital Expenditures	$	64,092	$	5,581	$	135	$	69,808
Growth Capital Expenditures		42,521		6,157		798		49,476
	$	106,613	$	11,738	$	933	$	119,284

Maintenance Capital Expenditures for the six month period ended June 30, 2023, increased by $10 million or 15% over the prior period. The increase in the Aerospace & Aviation segment was $5 million and the increase in the Manufacturing segment was $6 million over the prior period. Maintenance Capital Expenditures for the Corporation's Essential Air Services are generally weighted more towards the first half of the year as heavy checks, overhauls, and engine maintenance events are scheduled at a time when demand is lowest. Maintenance Capital Expenditures for the Manufacturing segment can vary from period to period due to the capital required to maintain production equipment, with the exception of Maintenance Capital Expenditures for the Environmental Access Solutions rental portfolio, which is calculated using depreciation as a proxy.

Aerospace & Aviation Segment

Maintenance Capital Expenditures for Essential Air Services for the three and six months ended June 30, 2023, were $24 million and $51 million, respectively, an increase of 1% and 11%, respectively, over the prior period. The prior period was materially impacted by the Omicron variant and therefore prior year Maintenance Capital Expenditures, particularly in the first quarter of 2022, were lower than planned prior to the onset of the Omicron variant. The first half of a year is generally the busiest time for large overhauls to occur in the Essential Air Services and the investments in 2023 were in line with our expectations. In addition, parts inflation and increased labour rates have resulted in increased Maintenance Capital Expenditures. Finally, as the Corporation has invested to meet increased demand over the last number of years, our fleet size has increased, necessitating additional Maintenance Capital Expenditures. Growth Capital Expenditures for the three and six months ended June 30, 2023, within Essential Air Services were $36 million and $55 million, respectively. The investment includes the purchase of additional aircraft to expand the fleet including deposits for new aircraft for recently announced medevac contracts. Additionally, investments were made for the construction of a new hangar to support our passenger, charter and cargo growth and deposits were made for the purchase of a King Air simulator.

Maintenance Capital Expenditures for Aerospace for the three and six months ended June 30, 2023, were $3 million and $8 million, respectively, an increase of 34% and 117%, respectively. An increased number of heavy checks and overhauls to support increased levels of flying and higher overhaul costs experienced by the business due to inflationary pressures and labour costs both drove the increase. Growth Capital Expenditures for the three and six months ended June 30, 2023 were $7 million and $10 million, respectively, which relates primarily to the preparation of assets for the upgrade of the surveillance aircraft for the renewed Curaçao contract.

Maintenance Capital Expenditures for Aircraft Sales & Leasing for the three and six months ended June 30, 2023, were $5 million and $10 million, respectively, a decrease of 47% and 34%, respectively. In the current period, Regional One made investments to prepare certain aircraft and engines within its lease portfolio as demand for these assets is recovering, although the reinvestment required was lower than in the prior period. Growth Capital Expenditures for the three and six months ended June 30, 2023, were $27 million and $42 million, respectively. Several assets were purchased during the period that have either been placed on lease or will be placed on lease in coming quarters.

The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	**June 30, 2023**		December 31, 2022	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**61 (1)**	**116**	60 (1)	94

Note 1) The aircraft total above includes 9 airframes (December 31, 2022 – 9 airframes) that do not have engines and will be leased out in conjunction with engines owned by Aero Engines LLC, the joint venture between the Corporation and SkyWest.

The lease portfolio for Aircraft Sales & Leasing is comprised of several different types of aircraft and engines, but the predominant platforms are the Bombardier CRJ aircraft, the GE CF34 engines that are used on those aircraft, the Embraer ERJ aircraft, and the Dash-8 Q400 aircraft. Earnings on the leasing of aircraft and engines are not derived solely from a financing spread as it is in the traditional leasing business but rather cash flows are generated from acquiring assets, leasing them out, and once the available green time on the assets is consumed and the aircraft have been retired from the active fleet, the assets are sold or parted out to generate further cash flows. It is important to note that not all the aircraft and engines in the portfolio will be on lease at any given time.

The fleet of aircraft and engines to be leased have been underutilized since the onset of the pandemic and as a result, the available green time on those aircraft is not being consumed at the same rate as in prior periods. While the impacts of the pandemic have lessened, the lease fleet remains underutilized due to a worldwide flight crew shortage, most notably experienced pilots. The acute shortage of pilots has resulted from a significantly lower number of pilots graduating from flight school due to the impacts the pandemic had on the ability to complete flight training coupled with higher than average pilot retirements during the pandemic. Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. As the fleet remains underutilized, the historical approach continues to not be appropriate. The actual costs of maintaining the fleet were significantly lower than the depreciation expense recorded during the year. Starting in the second quarter of 2020, the actual expenditures on assets already owned have been used as the costs of maintaining the fleet until such time the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. Prior to the onset of the pandemic, Growth Capital Expenditures represented the difference between net capital assets acquired (assets purchased less assets sold or transferred to inventory) and the amount of Maintenance Capital Expenditures, calculated using depreciation as a proxy.

The Corporation continues to record Maintenance Capital Expenditures as cash outflows associated with maintaining the fleet and Growth Capital Expenditures as all purchases of assets, net of disposals and transfers to inventory. Because the timing between the removal of assets from the lease portfolio and the replacement of those assets can vary from quarter to quarter, it is possible that negative Growth Capital Expenditures may arise in a particular quarter. However, it is not expected that negative Growth Capital Expenditures would consistently occur over a longer period as it is the Corporation's intention to continue to maintain or grow the lease portfolio.

<u>Manufacturing Segment</u>

Maintenance Capital Expenditures in the Precision Manufacturing & Engineering and Multi-Storey Window Solutions business lines primarily relate to the replacement of production equipment, or components of that equipment, and can vary significantly from year to year. Certain manufacturing assets have long useful lives and, therefore, can last for many years before requiring replacement or significant repair. Maintenance Capital Expenditures for Environmental Access Solutions primarily relate to the depreciation on mats and bridges, as well as maintenance on or replacement of equipment which, similar to Precision Manufacturing & Engineering and Multi-Storey Window Solutions, can vary based on what assets require repair or replacement.

For the three and six months ended June 30, 2023, Precision Manufacturing & Engineering had Maintenance Capital Expenditures of $1 million and $1 million, respectively, which were consistent with the prior periods. Growth Capital Expenditures for the three and six months ended June 30, 2023 were $2 million and $3 million, respectively. The Growth Capital Expenditures were investments in new equipment to enhance our ability to meet increasing customer demand and create efficiencies.

For the three and six months ended June 30, 2023, Multi-Storey Window Solutions had Maintenance Capital Expenditures of less than $1 million and $1 million, respectively, which were consistent with the prior periods.

For the three and six months ended June 30, 2023, Maintenance Capital Expenditures for Environmental Access Solutions was $5 million and $9 million, respectively, an increase of 29% and 152%, respectively. Maintenance Capital Expenditures increased over the prior period as there were no comparative amounts in the first quarter of 2022 or for the first half of the second quarter of 2022. For the three and six months ended June 30, 2023, Growth Capital Expenditures were $14 million and $10 million, respectively. Investments were made in the period in the fleet of mats and rolling stock to drive future revenue growth.

INVESTMENT IN WORKING CAPITAL

During the six months ended June 30, 2023, the Corporation invested $105 million into working capital to support several growth initiatives and increased revenues, as discussed further below. As previously disclosed in our year-end report, the investment during the period relates primarily to a decrease in accounts payable, as a material account receivable was collected in the fourth quarter of 2022 where a corresponding $80 million payment to a supplier was not due until January 2023.

During the period, the Corporation continued to invest in the Aircraft Parts & Leasing business making several purchases in the period for assets that will be parted out and sold in future quarters. This includes several aircraft from the leasing pool that have been identified for part out in subsequent quarters. This increase in inventory will support future parts sales. Finally, the Aircraft Parts & Leasing business has made deposits on capital assets to add to its lease portfolio that are currently recorded in prepaid expenses and deposits.

To a lesser extent, the Corporation made investments in working capital to support its increasing revenues, notably in accounts receivable and inventory. As several of the Corporation's lines of business enter their seasonally busier second and third quarters, these investments will continue into the third quarter of 2023 and moderate to more normal levels in the fourth quarter.

Further details of the investment in working capital are included in Note 16 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

4. DIVIDENDS AND PAYOUT RATIOS

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

Dividends

Month	Record date	Per Share	2023 Dividends Amount	Record date	Per Share	2022 Dividends Amount
January	January 31, 2023	$ **0.21**	$ **8,927**	January 31, 2022	$ 0.19	$ 7,366
February	February 28, 2023	**0.21**	**8,933**	February 28, 2022	0.19	7,372
March	March 31, 2023	**0.21**	**8,945**	March 31, 2022	0.19	7,382
April	April 28, 2023	**0.21**	**8,968**	April 29, 2022	0.19	7,387
May	May 31, 2023	**0.21**	**9,067**	May 31, 2022	0.20	7,965
June	June 30, 2023	**0.21**	**9,774**	June 30, 2022	0.20	7,982
Total		**$ 1.26**	**$ 54,614**		$ 1.16	$ 45,454

Dividends declared for the six months ended June 30, 2023, increased over the prior period. The increase was primarily driven by three items. First, the issuance of shares as part of the acquisitions in the second quarter of 2022 as well as the acquisitions of Hansen and BVGlazing in 2023. Second, the Corporation's equity offerings in the third quarter of 2022 and the second quarter of 2023. Third, in the prior year, the Corporation increased its dividend rate for the May 2022 dividend and August 2022 dividend. Further information on shares outstanding can be found in *Section 6 – Liquidity and Capital Resources*.

The Corporation uses both an earnings-based payout ratio (Adjusted Net Earnings) and a cash flow-based payout ratio (Free Cash Flow less Maintenance Capital Expenditures) to assess its ability to pay dividends to shareholders. Both methods of calculating the payout ratio provide an indication of the Corporation's ability to generate enough funds from its operations to pay dividends. See *Section 12 – Non-IFRS Financial Measures and Glossary* for more information on Non-IFRS measures.

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

Free Cash Flow less Maintenance Capital Expenditures is a measure that ensures the resulting payout ratio reflects the replacement of capital assets that is necessary to maintain the Corporation's existing revenue streams. Cash outflows associated with acquisitions and capital expenditures that will result in growth are not included in this payout ratio because they will generate future returns in excess of current cash flows.

The Corporation analyzes its payout ratios on a trailing twelve-month basis when assessing its ability to pay and increase dividends. The use of a longer period reduces the impact of seasonality on the analysis. The first quarter of the fiscal year is always the most seasonally challenging for the Corporation. Winter roads into northern communities lessen the demand for the Corporation's Essential Air Services. Environmental Access Solutions is also subject to seasonal variability, where the second and third quarters have the highest demand, the fourth quarter is slower, and the first quarter is the slowest. Therefore, a single quarter can be impacted by seasonal variations that do not impact the Corporation's ability to pay dividends over a longer period.

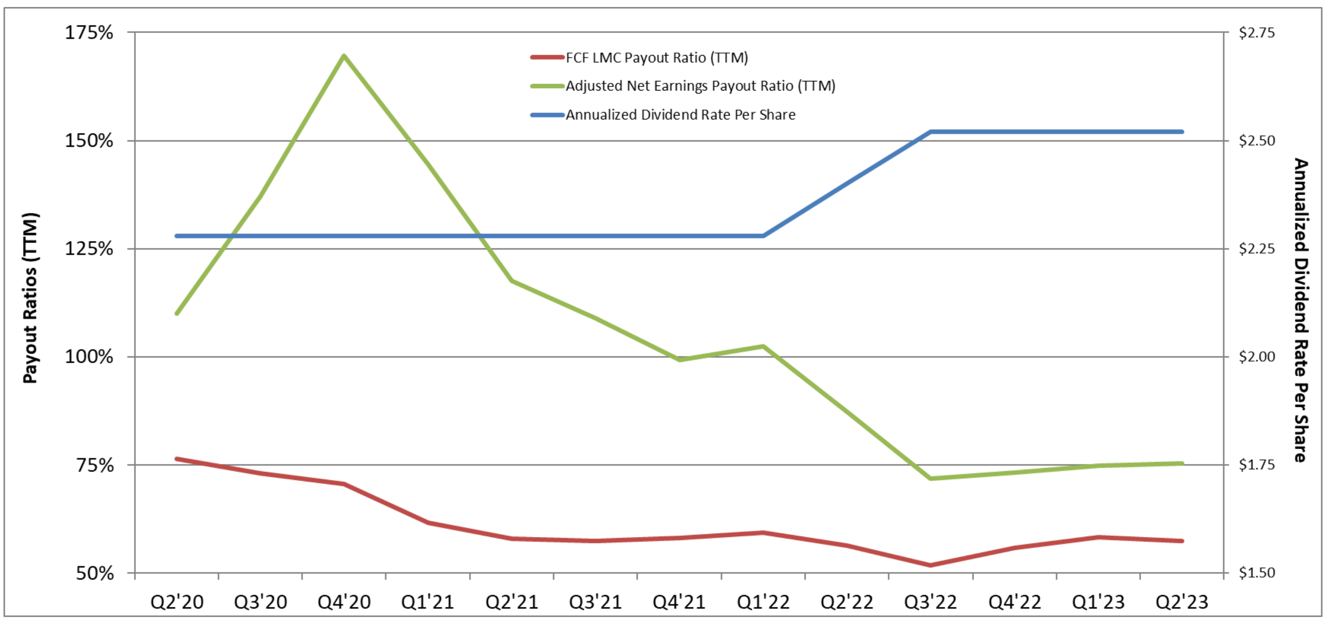
Payout Ratios

Basic per Share Payout Ratios for the Corporation	**2023**		2022	
Periods Ended June 30	**Three Months**	**Trailing Twelve Months**	Three Months	Trailing Twelve Months
Adjusted Net Earnings	**63%**	**75%**	60%	87%
Free Cash Flow less Maintenance Capital Expenditures	**47%**	**57%**	49%	56%

The trailing twelve month Adjusted Net Earnings payout ratio improved from 87% at June 30, 2022, to 75% at June 30, 2023, due to improved performance from investments made in previous periods. In addition, the trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio remained relatively consistent, increasing marginally to 57% from 56% in the prior period as improved operating performance has also necessitated increased Maintenance Capital Expenditures. See *Section 3 – Investing Activities* for more information on Maintenance Capital Expenditures.

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

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



5. OUTLOOK

Managing the present with an eye to the future. This is how we have governed our business for nearly twenty years and, post-pandemic, it has guided us to strong performance and consistent growth. There has never been a quarter that so clearly demonstrates this philosophy as the second quarter does. Strong operating results were coupled with multiple events that will help set the course for EIC for the next decade.

So far this year, Essential Air Services has been buoyed by the return to more normal passenger volumes at the airlines and by growth in the rotary wing sector across all customer segments. We expect that these conditions will continue to have a positive influence on results for the foreseeable future. Challenges related to labour shortages, amplified by the introduction of new pilot fatigue and duty regulations, and rising costs remain but the companies continue to implement measures to mitigate their impacts.

During the quarter, EIC announced four major contracts and agreements that will grow EIC in future periods.

PAL Airlines entered into an agreement with Air Canada to provide regional air services in Eastern Canada for a term of up to five years. Routes operated by PAL Airlines, on behalf of Air Canada under the Air Canada Express brand, will expand PAL's scheduled network throughout Eastern and Atlantic Canada. To execute this agreement, PAL will acquire up to six additional Dash 8-400 aircraft. The first four aircraft are anticipated to be online in the second half of the fourth quarter.

Within the medevac business, EIC announced the award of two significant government contracts that expand our presence and cement our reputation as Canada's pre-eminent medevac provider.

Carson Air was awarded a long-term contract by the Province of British Columbia to provide fixed wing medevac coverage for the entire Province of British Columbia, representing a significant expansion over its current contract. The contract has an initial ten-year term plus options and requires a fleet of new King Air aircraft to service the province, an investment that is estimated to be approximately $200 million and which will be invested over the next 18-24 months. The aircraft currently used to provide medevac service to parts of the province by Carson Air are in very good condition and will be redeployed within our other operations across Canada.

Keewatin Air was awarded a long-term contract by the Province of Manitoba to provide critical care fixed wing medevac coverage for the whole province. The contract has an initial ten-year term plus options and requires five additional aircraft comprised of jet and turboprop aircraft with state-of-the-art medevac interiors and infrastructure expansions, making the estimated investment to execute the contract about one third that of the British Columbia medevac contract. This investment will be made over the next 12 months.

It is important to note that these new contracts will not have any significant impact on earnings in 2023. In fact, the medevac contracts in particular will have only a minimal impact in 2024, with the first meaningful contribution to earnings beginning in 2025. Until then, the major impacts will be the investment in aircraft and facilities to execute on the contracts.

EIC's Aerospace operations will remain strong as it executes on its government contracts. During the quarter, PAL Aerospace announced that its On-Demand ISR aircraft would be deployed to deliver airborne ISR support for the United Kingdom Home Office's Small Boats Operation Command for a period of 18 months. This mission represents a significant deployment for the aircraft, solidifying our reputation as an innovative provider of on-demand ISR expertise and providing an additional source of guaranteed revenue for over a year.

Airline passenger traffic in North America and Europe is robust, and this is expected to continue throughout the remainder of the year. Because there is no imminent correction to the ongoing and acute worldwide shortage of experienced pilots, airlines are continuing to concentrate their flight activity on larger gauge aircraft, at the expense of regional jet service. This has created headwinds to reaching pre-pandemic volumes. However, the quarter-over-quarter trend is positive, with leasing income and parts revenue increasing.

The Environmental Access Solutions operations are experiencing a business environment that is reverting to more normal conditions compared to the perfect alignment of opportunities that existed in the prior year. Demand for rental mats is returning to more historical levels, partly exacerbated by the ongoing impacts of extreme weather and wildfire activity. Rental rates are also anticipated to decline due to higher supply and normalized demand. Northern Mat will continue to focus on the electrical distribution, pipeline and oil and gas sectors, where demand remains the most significant. In order to manage costs and inventory levels, production has been paused and will be resumed when inventory levels warrant. It is important to note that the results of the division remain in excess of those that were used when the acquisition of Northern Mat was completed.

The outlook for the Multi-Storey Window Solutions division continues to improve. The integration of BVGlazing and the Quest operations is underway, with planning and analysis being the main focus at the moment. Revenues and margins are expected to increase over the coming quarters for a variety of reasons. Aside from the obvious impact of adding BVGlazing's results to the division, business conditions continue to improve for the business. On the cost side, input costs have stabilized, and indications are they will remain stable. Many projects that are being manufactured at this time reflect the increased pricing that was implemented in our contracts beginning 18-24 months ago, more appropriately reflecting the impact of inflation and supply chain issues that have become a factor for all businesses. Looking further out, the backlog remains constant at record high levels of approximately $1 billion. Inquiry activity has continued to be brisk but conversion to committed contracts is mixed, particularly in the US, largely due to uncertainty over the future direction and impact of interest rates.

The Precision Manufacturing & Engineering operations should remain strong and benefit from the addition of Hansen Industries in the second quarter. Aside from the increases in revenues and Adjusted EBITDA that will be derived from Hansen, the results from the remainder of the companies should remain consistent with past experience. Compared to the prior year, we expect to see some cost stabilization and an improvement in labour challenges. Some supply chain challenges still exist, especially for the businesses that require computer chips.

Like every other company in North America, the ongoing high interest rate environment is impacting our income statement. Interest expense has grown by approximately 79% to $54 million, partially because of increased debt levels incurred to fund the acquisition of Northern Mat, but primarily because of the increase in rates. Due to the resilience of our business model and our disciplined approach, we generated sufficient operating income to not only cover this increase in interest costs, but to grow our bottom line by 30% to $44 million.

The high interest rate environment continues to be a benefit to EIC from an acquisition standpoint. Larger transactions that we may have been precluded from bidding on in the past due to high valuation multiples have become available to us because private equity cannot take on as much leverage as it could before the increase in interest rates. Thus, we are seeing some reductions in valuations for acquisitions. The acquisition pipeline is robust, and diligence is being conducted on a number of potential targets in manufacturing and aviation industry sectors.

After our first quarter results and with the acquisitions of BVGlazing and Hansen Industries, we increased our guidance for Adjusted EBITDA for 2023 to between $540 million and $570 million. We continue to believe this estimate is reasonable and maintain that guidance.

Capital Expenditures

Maintenance Capital Expenditures are undertaken to maintain the earning power of our subsidiaries. Our Maintenance Capital Expenditures are primarily concentrated in the Aerospace & Aviation segment and have increased in line with the increased scope of our operations over the last number of years. As flight hours have increased during the past two years, Maintenance Capital Expenditures have also steadily increased. We expect that this trend will continue as flight hours steadily climb to support the increased passenger volumes and we will experience higher Maintenance Capital Expenditures in our Essential Air Services operations. Other factors influencing the magnitude of the Maintenance Capital Expenditures are inflation, labour shortages, supply chain congestion, and the growing fleet size. Maintenance Capital Expenditures in the Aircraft Sales & Leasing business will move in conjunction with the increase in the cadence of business operations.

In the Manufacturing segment, the additions of BVGlazing and Hansen Industries will increase Maintenance Capital Expenditures relative to the prior year. The Environmental Access Solutions group will experience an increase in its Maintenance Capital Expenditures as it undergoes some rolling stock fleet renewal, consistent with our expectations when we acquired Northern Mat.

With the two medevac contracts and the PAL Aviation agreement with Air Canada, Growth Capital Expenditures within the Aerospace & Aviation will be focused on obtaining and modifying the aircraft required to fulfill the contracts for the next several years. In excess of $300 million will be invested but these investments will generate returns for years to come due to the long-term nature of these awards. With the King Air aircraft to be acquired by Carson Air for the British Columbia medevac contract, EIC will become one of the largest operators of King Air aircraft in the world. With the number of pilots we will require, it is now feasible for EIC to invest in our own simulator for training purposes. The simulator not only provides more training time for pilots but also significantly reduces fuel burn and corresponding GHG emissions for both training and travel to training, thus reducing our carbon footprint. The overall cost of this investment is anticipated to be approximately $20 million and we hope to have the simulator online in approximately 18 months.

6. LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position, Free Cash Flow, and capital resources remain strong. The Corporation completed several capital transactions in 2022 and 2023, strengthening its balance sheet as the Corporation prepares for future growth. During the second quarter of 2023, the Corporation completed an upsize and extension of its credit facility and completed a bought deal common share offering which was upsized from the initial announcement and the underwriters exercised the overallotment option on top of the upsize. These transactions increased the Corporation's access to capital to make acquisitions, to invest in its operating subsidiaries, and provides the ability to weather economic downturns. In addition, the structured timing of debt maturities provides additional financial flexibility while giving the Corporation the capital to invest for future growth. The Corporation does not have any debt maturities until June 30, 2025.

As at June 30, 2023, the Corporation's key financial covenant for its credit facility is its senior leverage ratio, and its facility allows for a maximum of 4.0x. The Corporation's current leverage ratio is 2.39x. This is in line with historical norms as the Corporation's subsidiaries continue their returns to post-pandemic operations and deliver results based on previous investments. Consistent with EIC's historical balance sheet management, the Corporation has been proactive in managing its liquidity such that should an opportunity present itself, EIC has the capability and financial resources to execute.

As at June 30, 2023, the Corporation has liquidity of approximately $1.1 billion through cash on hand, its credit facility, and the credit facility accordion feature, which when combined with strong Free Cash Flow, maintains the Corporation's very strong liquidity position.

As at June 30, 2023, the Corporation had a cash position of $51 million (December 31, 2022 - $140 million) and a net working capital position of $530 million (December 31, 2022 - $465 million) which represents a current ratio of 1.91 to 1 (December 31, 2022 – 1.80 to 1). The current ratio is calculated by dividing current assets by current liabilities, as presented on the Statement of Financial Position.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

		June 30 2023		December 31 2022
Total senior debt outstanding (principal value)	$	1,274,798	$	1,218,326
Convertible debentures outstanding (par value)		424,527		425,500
Common shares		1,226,187		1,019,772
Total capital	$	2,925,512	$	2,663,598

Credit facility

The size of the Corporation's credit facility as at June 30, 2023, is approximately $2 billion, with $1.675 billion allocated to the Corporation's Canadian head office and US $260 million allocated to EIIF Management USA, Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of June 30, 2023, the Corporation had drawn $551 million and US $547 million (December 31, 2022 - $201 million and US $751 million).

On May 9, 2023, the Corporation amended its credit facility. The enhanced credit facility increased to approximately $2 billion from approximately $1.75 billion and extended its terms to May 9, 2027. The increased size of the facility provides the Corporation with capacity to continue to execute on its core strategy of pursuing accretive growth through investment in its operating subsidiaries and through acquisition.

The Corporation's long-term debt, net of cash, increased by $144 million since December 31, 2022. The increase is attributable to the acquisitions of Hansen and BVGlazing, investments in Growth Capital Expenditures, and investment in working capital, as discussed in Section 3 – Investing Activities. These investments were mostly offset by the proceeds from the Corporation's bought deal equity offering, as described further below.

During the period, the Corporation used derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same term unless both parties agree to extend the swap for an additional month. By entering into the swap, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the US dollar borrowings as it will be exchanged for the same Canadian equivalent in one month. As at June 30, 2023, US $203 million (December 31, 2022 – US $427 million) of the Corporation's US denominated borrowings are hedged with these swaps.

During the first quarter of 2023, the Corporation continued the use of interest rate swaps with certain members of its syndicate whereby the Corporation entered into a new interest rate swap that fixed $350 million of its Canadian credit facility variable rate debt for a period of three years at a rate that is lower than the floating rate. In addition, during the second quarter, the Corporation entered a new interest rate swap that fixed US$140 million of its Canadian credit facility variable rate debt for a period of three years at a rate that is lower than the floating rate. The effect of these transactions combined with other swap transactions already in place results in approximately $725 million of the Corporation's credit facility debt being subject to a fixed rate with varying maturity dates.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at June 30, 2023, and changes in the amounts of convertible debentures outstanding during the six months ended June 30, 2023:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2018	EIF.DB.J	June 30, 2025	5.35%	$ 49.00
Unsecured Debentures - 2019	EIF.DB.K	March 31, 2026	5.75%	$ 49.00
Unsecured Debentures - July 2021	EIF.DB.L	July 31, 2028	5.25%	$ 52.70
Unsecured Debentures - December 2021	EIF.DB.M	January 15, 2029	5.25%	$ 60.00

Par value	Balance, beginning of period	Issued	Converted	Redeemed / Matured	Balance, end of period
Unsecured Debentures - June 2018	80,500	-	(798)	-	79,702
Unsecured Debentures - March 2019	86,250	-	(157)	-	86,093
Unsecured Debentures - July 2021	143,750	-	(18)	-	143,732
Unsecured Debentures - December 2021	115,000	-	-	-	115,000
Total	$ 425,500	$ -	$ (973)	$ -	$ 424,527

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the six months ended June 30, 2023:

	Date issued	Number of shares
Shares outstanding, beginning of period		42,479,063
Issued upon conversion of convertible debentures	various	19,828
Issued under dividend reinvestment plan (DRIP)	various	170,703
Issued under employee share purchase plan	various	34,286
Issued under deferred share plan	various	16,423
Issued to Hansen Industries vendors on closing	April 1, 2023	85,102
Issued to BVGlazing Systems vendors on closing	May 1, 2023	431,598
Prospectus offering, including over-allotment	June 14, 2023	3,306,250
Shares outstanding, end of period		46,543,253

On June 14, 2023, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in 3,306,250 shares of the Corporation at $52.25 per share, for gross proceeds of approximately $173 million.

The Corporation issued 170,703 shares under its dividend reinvestment plan during the period and received $9 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued 34,286 shares under its Employee Share Purchase Plan during the period and received $2 million for those shares in accordance with the Employee Share Purchase Plan.

The Corporation issued shares to vendors of BVGlazing and Hansen as part of the consideration paid on completion of the acquisitions. In total, 516,700 share were issued, representing purchase price consideration of $27 million.

The weighted average shares outstanding during the three and six months ended June 30, 2023, increased by 11% and 10%, respectively compared to the prior period. The increase is primarily attributable to shares issued in connection with the Corporation's equity offerings in the third quarter of 2022 and the second quarter of 2023, the Corporation's dividend reinvestment plan, and shares issued as part of the acquisitions of BVGlazing and Hansen in the second quarter of 2023 and Northern Mat in the second quarter of 2022.

Normal Course Issuer Bid

On March 10, 2023, the Corporation renewed its NCIB for common shares and certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on March 15, 2023, and ending on March 14, 2024. The Corporation can purchase a maximum of 3,958,307 shares and daily purchases will be limited to 25,561 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital.

The Corporation can purchase a maximum of $8,038 principal amount of 7 year 5.35% convertible unsecured subordinated debentures of EIC, $8,625 principal amount of 7 year 5.75% convertible unsecured subordinated debentures of EIC, $14,375 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC; and $11,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC, with daily purchases of principal amount, other than block purchase exceptions, limited to $33, $33, $25, and $24, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

During the six months ended June 30, 2023, the Corporation did not make any purchases under either NCIB and therefore still has the full amounts detailed above available for repurchase.

7. RELATED PARTY TRANSACTIONS

The nature of related party transactions that the Corporation entered during the six months ended June 30, 2023, are consistent with those described in the Corporation's MD&A for the year ended December 31, 2022.

8. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. There were no changes to the Corporation's critical accounting estimates and judgments from those described in the MD&A of the Corporation for the year ended December 31, 2022, except as noted below.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is reassessed each period end after the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and profitability that the earn out will be paid. During the period, the estimated liability for additional purchase consideration associated with Northern Mat was reduced to reflect the final payment made to the vendors. This resulted in a recovery of $1 million (2022 – nil) and is included within "Other" in the Statement of Income.

9. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for the interim condensed consolidated financial statements for the three and six months ended June 30, 2023, that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2022 annual consolidated financial statements and Note 3 of the Corporation's interim condensed consolidated financial statements for the three and six months ended June 30, 2023.

10. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design of the Corporation's internal controls over financial reporting as at June 30, 2023, and has concluded that the design of internal controls over financial reporting is effective.

Hansen was acquired on April 1, 2023 and BVGlazing was acquired on May 1, 2023. In accordance with section 3.3(1)(b) of National Instrument 52-109, management has limited the scope of its design of internal controls over financial reporting to exclude the controls at each of these entities as management has not completed its review of internal controls over financial reporting for these newly acquired companies. These entities had revenue of $44 million included in the consolidated results of the Corporation for the first six months of 2023. As at June 30, 2023, these entities had current assets of $120 million, non-current assets of $102 million, current liabilities of $60 million, and non-current liabilities of $16 million.

There have been no material changes to the Corporation's internal controls during the 2023 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 to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were effective as at June 30, 2023.

11. RISK FACTORS

The Corporation and its subsidiaries are subject to several business risks. These risks relate to the structure of the Corporation and the operations at the subsidiary entities. There were no changes to the Corporation's principal risks and uncertainties from those reported in the Corporation's MD&A for the year ended December 31, 2022, except as noted below to supplement the following existing risks.

Environmental, Social and Governance

On June 26, 2023, the International Sustainability Standards Board (ISSB) published IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and IFRS S2 'Climate-related Disclosures.' IFRS S1 sets out overall requirements with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity. IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. While both IFRS S1 and S2 have not been adopted by Canadian standard setters as of today's date, if adoption of these standards were to occur as presented by the ISSB, it may have an immediate impact to current processes and strategies that could impact the Corporation's business and results from operations and financial condition.

Laws, Regulations, and Standards

On May 3, 2023, the Canadian Parliament passed Bill S-211 or *Fighting Against Forced Labour and Child Labour in Supply Chains Act*, to protect vulnerable populations from human rights abuses and exploitation. The bill will impose strict reporting requirements on Canadian businesses with first reports required to be filed on or before May 31, 2024. Bill S-211 may have an impact on the way the Corporation contracts within its supply chains and therefore may affect aspects of production, sales, or importing of goods produced outside of Canada into the country. If violations of this law were to occur, they could subject the Corporation and/or its Subsidiaries to fines, reduced access to future contracts, as well as increased compliance costs, any of which could have an effect on the Corporation's reputation, business and results from operations and financial condition.

12. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

On May 27, 2021, the Canadian Securities Administrators issued National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure along with the companion policy for that instrument that came into effect for financial years ending after October 15, 2021. As a result of the requirements under this instrument, the Corporation presents "Adjusted EBITDA" which is determined in the exact same manner as "EBITDA" was presented in its prior MD&A reports. As such, all amounts presented as "Adjusted EBITDA" are directly comparable to amounts presented as "EBITDA" in prior MD&A reports.

<u>Adjusted EBITDA</u>: 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. Adjusted 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. The most comparable IFRS measure, presented in the Corporation's Statements of Income as an additional IFRS measure, is Operating profit before Depreciation, Amortization, Finance Costs, and Other.

<u>Adjusted Net Earnings</u>: is defined as Net Earnings adjusted for acquisition costs, amortization of intangible assets, interest accretion on acquisition contingent consideration, accelerated interest accretion on convertible debentures, and non-recurring items. Adjusted Net Earnings is a performance measure, along with Free Cash Flow less Maintenance Capital Expenditures, which the Corporation uses to assess cash flow available for distribution to shareholders. The most comparable IFRS measure is Net Earnings. Interest accretion on contingent consideration is recorded in the period subsequent to an acquisition after the expected payment to the vendors is discounted. The value recorded on acquisition is accreted to the expected payment over the earn out period. Accelerated interest accretion on convertible debentures reflects the additional interest accretion recorded in a period that, but for the action to early redeem the debenture series, would have been recorded over the remaining term to maturity. This interest reflects the difference in the book value of the convertible debentures and the par value outstanding.

The Corporation presents Adjusted Net Earnings per share, which is calculated by dividing Adjusted Net Earnings, as defined above, by the weighted average number of shares outstanding during the period, as presented in the Corporation's Financial Statements and Notes.

The Corporation presents an Adjusted Net Earnings payout ratio, which is calculated by dividing dividends declared during a period, as presented in the Corporation's Financial Statements and Notes, by Adjusted Net Earnings, as defined above. The Corporation uses this metric to assess cash flow available for distribution to shareholders.

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

The Corporation presents Free Cash Flow per share, which is calculated by dividing Free Cash Flow, as defined above, by the weighted average number of shares outstanding during the period, as presented in the Corporation's Financial Statements and Notes.

Free Cash Flow less Maintenance Capital Expenditures: for the year is equal to Free Cash Flow, as defined above, less Maintenance Capital Expenditures, as defined below.

The Corporation presents Free Cash Flow less Maintenance Capital Expenditures per share, which is calculated by dividing Free Cash Flow less Maintenance Capital Expenditures, as defined above, by the weighted average number of shares outstanding during the period, as presented in the Corporation's Financial Statements and Notes.

The Corporation presents a Free Cash Flow less Maintenance Capital Expenditures payout ratio, which is calculated by dividing dividends declared during a period, as presented in the Corporation's Financial Statements and Notes, by Free Cash Flow less Maintenance Capital Expenditures, as defined above. The Corporation uses this metric to assess cash flow available for distribution to shareholders.

Maintenance and Growth Capital Expenditures: Maintenance Capital Expenditures is defined as the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level, depreciation on the Corporation's mat and bridge rental portfolio assets, and, prior to the onset of COVID-19, depreciation recorded on assets in the Corporation's aircraft and engine leasing pool. Other capital expenditures are classified as Growth Capital Expenditures as they will generate new cash flows and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation. While there is no comparable IFRS measure for Maintenance Capital Expenditures or Growth Capital Expenditures, the total of Maintenance Capital Expenditures and Growth Capital Expenditures is equivalent to the total of capital asset and intangible asset purchases, net of disposals, on the Statement of Cash Flows.

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

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

Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures at Regional One because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Starting in the second quarter of 2020, the actual expenditures on assets already owned have been used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. While the impact of the pandemic has lessened, the lease fleet remains underutilized due to a worldwide shortage of flight crews, most notably pilots. The acute shortage of pilots has resulted from a significantly lower number of pilots graduating from flight school due to the impacts the pandemic had on the ability to complete flight training coupled with higher than average pilot retirements during the pandemic. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

Northern Mat has a portfolio of access mats and bridges that it rents to third parties. The utility of those assets is consumed over the useful life of the assets, represented by depreciation, and therefore depreciation on these assets reflects the reinvestment required to maintain Free Cash Flow at current levels. Any capital expenditures in the access mat and bridge rental portfolio in excess of the depreciation will result in Growth Capital Expenditures as this increased investment will generate additional cash flows in the future. It is possible to have negative Growth Capital Expenditures during a given period where total reinvestment is less than depreciation recorded on its rental portfolio.

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

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

13. QUARTERLY INFORMATION

The following summary reflects quarterly results of the Corporation:

		2023				2022			2021
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**$ 627,222**	**$ 526,884**	$ 543,360	$ 586,770	$ 529,017	$ 400,226	$ 390,327	$ 400,003	$ 322,070
Adjusted EBITDA	**147,036**	**97,117**	124,052	150,379	115,055	66,956	89,421	95,276	81,061
Net Earnings	**36,896**	**6,861**	26,990	48,936	29,990	3,753	23,056	21,899	16,506
Basic	**0.85**	**0.16**	0.64	1.20	0.76	0.10	0.61	0.58	0.44
Diluted	**0.80**	**0.16**	0.62	1.09	0.73	0.09	0.59	0.56	0.43
Adjusted Net Earnings	**43,480**	**11,540**	32,049	54,530	38,501	7,835	28,027	27,653	19,781
Basic	**1.00**	**0.27**	0.76	1.34	0.98	0.20	0.74	0.73	0.53
Diluted	**0.93**	**0.27**	0.73	1.20	0.90	0.20	0.71	0.71	0.52
Free Cash Flow ("FCF")	**98,002**	**59,708**	82,533	112,832	89,251	47,409	71,592	72,798	57,289
Basic	**2.25**	**1.40**	1.95	2.77	2.26	1.22	1.88	1.91	1.54
Diluted	**1.96**	**1.26**	1.71	2.38	1.95	1.10	1.62	1.69	1.37
FCF less Maintenance Capital Expenditures	**58,592**	**18,923**	40,243	69,009	47,356	19,496	42,906	48,151	36,523
Basic	**1.34**	**0.44**	0.95	1.70	1.20	0.50	1.13	1.27	0.98
Diluted	**1.21**	**0.44**	0.88	1.49	1.09	0.49	1.02	1.17	0.91
Maintenance Capital Expenditures	**39,410**	**40,785**	42,290	43,823	41,895	27,913	28,686	24,647	20,766
Growth Capital Expenditures	**85,952**	**34,411**	48,885	27,055	41,308	8,168	34,497	39,942	33,996

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 2023	December 31 2022
ASSETS		
CURRENT		
Cash and cash equivalents	$ 50,558	$ 139,896
Accounts receivable	519,261	434,956
Amounts due from customers on construction contracts	54,646	33,212
Inventories	384,730	335,060
Prepaid expenses and deposits	100,452	102,808
	1,109,647	1,045,932
OTHER ASSETS (Note 7)	147,688	134,461
CAPITAL ASSETS	1,398,019	1,284,409
RIGHT OF USE ASSETS	157,392	157,319
INTANGIBLE ASSETS	294,476	300,374
GOODWILL	699,690	626,341
	$ 3,806,912	$ 3,548,836
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 413,171	$ 451,906
Income taxes payable	1,793	6,888
Deferred revenue	71,604	60,467
Amounts due to customers on construction contracts	59,466	30,111
Current portion of right of use lease liability	33,485	31,079
	579,519	580,451
DEFERRED REVENUE	-	534
OTHER LONG-TERM LIABILITIES	20,817	23,635
LONG-TERM DEBT (Note 8)	1,269,529	1,214,764
CONVERTIBLE DEBENTURES (Note 9)	401,102	399,443
LONG-TERM RIGHT OF USE LEASE LIABILITY	132,372	133,181
DEFERRED INCOME TAX LIABILITY	191,499	177,774
	2,594,838	2,529,782
EQUITY		
SHARE CAPITAL (Note 10)	1,226,187	1,019,772
CONVERTIBLE DEBENTURES - Equity Component (Note 9)	13,980	14,017
CONTRIBUTED SURPLUS	16,635	16,635
DEFERRED SHARE PLAN	15,959	15,791
RETAINED EARNINGS		
Cumulative Earnings	721,638	677,881
Cumulative Dividends	(814,406)	(759,792)
Cumulative impact of share cancellation under the NCIB	(26,122)	(26,122)
	1,153,871	958,182
ACCUMULATED OTHER COMPREHENSIVE INCOME	58,203	60,872
	1,212,074	1,019,054
	$ 3,806,912	$ 3,548,836

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2023**	2022	**2023**	2022
REVENUE				
Aerospace & Aviation	**$ 372,361**	$ 352,354	**$ 698,290**	$ 633,946
Manufacturing	**254,861**	176,663	**455,776**	295,297
	627,222	529,017	**1,154,066**	929,243
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization	**225,690**	234,239	**437,137**	418,309
Manufacturing expenses - excluding depreciation and amortization	**179,941**	121,060	**330,182**	214,231
General and administrative	**74,555**	58,663	**142,594**	114,692
	480,186	413,962	**909,913**	747,232
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	**147,036**	115,055	**244,153**	182,011
Depreciation of capital assets	**50,032**	39,476	**97,540**	76,367
Amortization of intangible assets	**5,432**	5,776	**10,229**	8,617
Finance costs - interest	**28,158**	15,211	**53,877**	30,063
Depreciation of right of use assets	**8,579**	7,411	**16,706**	13,947
Interest expense on right of use lease liabilities	**1,738**	935	**3,329**	1,687
Acquisition costs	**2,603**	4,449	**3,968**	4,904
Other (Note 5)	**-**	-	**(951)**	-
EARNINGS BEFORE INCOME TAXES	**50,494**	41,797	**59,455**	46,426
INCOME TAX EXPENSE				
Current	**9,814**	3,508	**12,899**	4,745
Deferred	**3,784**	8,299	**2,799**	7,938
	13,598	11,807	**15,698**	12,683
NET EARNINGS	**$ 36,896**	$ 29,990	**$ 43,757**	$ 33,743
NET EARNINGS PER SHARE (Note 13)				
Basic	**$ 0.85**	$ 0.76	**$ 1.02**	$ 0.86
Diluted	**$ 0.80**	$ 0.73	**$ 1.00**	$ 0.84

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

Exchange Income Corporation

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2023**	2022	**2023**	2022
NET EARNINGS	**$ 36,896**	$ 29,990	**$ 43,757**	$ 33,743
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense for the three months ended June 30 of nil and nil, respectively, and net of tax expense for the six months ended June 30 of nil and nil, respectively	**(15,277)**	20,045	**(15,960)**	10,691
Net gain (loss) on hedge of net investment in foreign operations net of tax recovery for the three months ended June 30 of nil and ($46), respectively and net of tax expense for the six months ended June 30 of nil and nil, respectively	**4,302**	(5,877)	**4,459**	(3,075)
Net gain (loss) on hedge of restricted share plan, net of tax recovery for the three months ended June 30 of ($196) and ($40), respectively and net of tax expense (recovery) for the six months ended June 30 of ($211) and $72, respectively	**(546)**	(164)	**(587)**	196
Net gain on interest rate swap, net of tax expense for the three months ended June 30 of $3,430 and $621, respectively and net of tax expense for the six months ended June 30 of $3,396 and $1,829, respectively	**9,513**	1,679	**9,419**	4,946
	(2,008)	15,683	**(2,669)**	12,758
COMPREHENSIVE INCOME	**$ 34,888**	$ 45,673	**$ 41,088**	$ 46,501

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Retained Earnings: Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2022	$ 852,821	$ 17,607	$ 13,046	$ 16,010	$ 568,212	$ (662,319)	$ (26,122)	$ 21,020	$ 800,275
Shares issued to acquisition vendors	36,921	-	-	-	-	-	-	-	36,921
Convertible debentures	-	-	-	-	-	-	-	-	-
Converted into shares	7	(1)	-	-	-	-	-	-	6
Matured/Redeemed	-	(3,589)	3,589	-	-	-	-	-	-
Shares issued under dividend reinvestment plan	7,350	-	-	-	-	-	-	-	7,350
Deferred share plan vesting (Note 14)	-	-	-	606	-	-	-	-	606
Deferred share plan issuance	1,027	-	-	(1,027)	-	-	-	-	-
Shares issued under ESPP	1,278	-	-	-	-	-	-	-	1,278
Comprehensive income	-	-	-	-	33,743	-	-	12,758	46,501
Dividends declared (Note 11)	-	-	-	-	-	(45,454)	-	-	(45,454)
Balance, June 30, 2022	**$ 899,404**	**$ 14,017**	**$ 16,635**	**$ 15,589**	**$ 601,955**	**$ (707,773)**	**$ (26,122)**	**$ 33,778**	**$ 847,483**
Balance, January 1, 2023	$ 1,019,772	$ 14,017	$ 16,635	$ 15,791	$ 677,881	$ (759,792)	$ (26,122)	$ 60,872	**$ 1,019,054**
Shares issued to acquisition vendors	27,388	-	-	-	-	-	-	-	**27,388**
Prospectus offering	167,067	-	-	-	-	-	-	-	**167,067**
Convertible debentures (Note 9)									
Converted into shares	975	(37)	-	-	-	-	-	-	**938**
Shares issued under dividend reinvestment plan (Note 10)	8,704	-	-	-	-	-	-	-	**8,704**
Deferred share plan vesting (Note 14)	-	-	-	706	-	-	-	-	**706**
Deferred share plan issuance	538	-	-	(538)	-	-	-	-	**-**
Shares issued under ESPP (Note 10)	1,743	-	-	-	-	-	-	-	**1,743**
Comprehensive income	-	-	-	-	43,757	-	-	(2,669)	**41,088**
Dividends declared (Note 11)	-	-	-	-	-	(54,614)	-	-	**(54,614)**
Balance, June 30, 2023	**$ 1,226,187**	**$ 13,980**	**$ 16,635**	**$ 15,959**	**$ 721,638**	**$ (814,406)**	**$ (26,122)**	**$ 58,203**	**$ 1,212,074**

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	**2023**	2022	**2023**	2022
OPERATING ACTIVITIES				
Net earnings for the period	**$ 36,896**	$ 29,990	**$ 43,757**	$ 33,743
Items not affecting cash:				
Depreciation of capital assets	**50,032**	39,476	**97,540**	76,367
Amortization of intangible assets	**5,432**	5,776	**10,229**	8,617
Depreciation of right of use assets	**8,579**	7,411	**16,706**	13,947
Accretion of interest	**1,743**	1,623	**3,442**	5,467
Gain on disposal of capital assets	**(2,320)**	(312)	**(2,878)**	(561)
Deferred income tax expense	**3,784**	8,299	**2,799**	7,938
Deferred share program share-based vesting	**399**	308	**706**	606
Other	**-**	-	**(951)**	-
	104,545	92,571	**171,350**	146,124
Changes in non-cash current and long-term working capital (Note 16)	**(27,559)**	(57,290)	**(105,138)**	(85,789)
	76,986	35,281	**66,212**	60,335
FINANCING ACTIVITIES				
Proceeds from long-term debt, net of issuance costs (Note 8)	**154,416**	391,893	**269,406**	536,945
Repayment of long-term debt (Note 8)	**(169,037)**	(5,535)	**(206,937)**	(12,073)
Long-term debt discount	**(208)**	(498)	**(1,244)**	(531)
Payment of matured debentures	**-**	-	**-**	(99,992)
Principal payments on right of use lease liabilities	**(9,111)**	(7,615)	**(17,385)**	(14,149)
Issuance of shares, net of issuance costs	**170,039**	4,094	**175,423**	8,628
Cash dividends (Note 11)	**(27,809)**	(23,334)	**(54,614)**	(45,454)
	118,290	359,005	**164,649**	373,374
INVESTING ACTIVITIES				
Purchase of capital assets	**(136,128)**	(118,344)	**(213,581)**	(172,165)
Proceeds from disposal of capital assets	**11,605**	35,648	**14,616**	53,920
Purchase of intangible assets	**(839)**	(507)	**(1,593)**	(1,039)
Return from/(Investment in) other assets	**3,719**	(9,645)	**(1,205)**	(17,346)
Cash outflow for acquisitions, net of cash acquired	**(112,101)**	(312,837)	**(112,101)**	(312,837)
Payment of contingent acquisition consideration and prior period working capital settlements	**-**	-	**(3,749)**	(598)
	(233,744)	(405,685)	**(317,613)**	(450,065)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(38,468)**	(11,399)	**(86,752)**	(16,356)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**92,253**	69,319	**139,896**	75,408
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(3,227)**	2,350	**(2,586)**	1,218
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 50,558**	$ 60,270	**$ 50,558**	$ 60,270
Supplementary cash flow information				
Interest paid	**$ 26,010**	10,006	**54,998**	21,560
Income taxes paid	**$ 456**	8,281	**14,479**	17,935

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

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

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Corporation") is a diversified, acquisition-oriented corporation focused on opportunities in the aerospace, aviation, and manufacturing sectors. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 101 – 990 Lorimer Boulevard, Winnipeg, Manitoba, Canada R3P 0Z9.

As at June 30, 2023, the principal operating subsidiaries of the Corporation are Calm Air International LP, Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Custom Helicopters Ltd., Regional One Inc., EIC Aircraft Leasing Limited, Provincial Aerospace Ltd., CANLink Aviation Inc. ("MFC Training"), Carson Air Ltd., Quest Window Systems Inc., WesTower Communications Ltd., Ben Machine Products Company Incorporated, LV Control Mfg. Ltd., Water Blast Manufacturing LP, Overlanders Manufacturing LP, Northern Mat & Bridge LP ("Northern Mat"), Hansen Industries Ltd. ("Hansen"), and BVGlazing Systems Ltd. ("BVGlazing"). Regional One, Inc., Quest USA Inc., Stainless Fabrication Inc., and Crew Training International, Inc., are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

2. BASIS OF PREPARATION

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

In accordance with IFRS, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2022. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Corporation for issue on August 10, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements. Note 3 of the Corporation's 2022 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is reassessed each period end after the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the first quarter, the estimated liability for additional purchase consideration associated with Northern Mat was reduced to reflect the final payment made to the vendors. This resulted in a recovery of $951 (2022 – nil) and is included within "Other" in the Statement of Income.

6. ACQUISITIONS

Hansen Industries Ltd.

On April 1, 2023, the Corporation acquired the shares of Hansen. Hansen, located in Richmond, B.C, provides custom fabrication of precision metal components and assemblies using automated equipment.

The components of the consideration paid to acquire Hansen are outlined in the table below.

Consideration given:		
Cash	$	39,469
Issuance of 85,102 shares of the Corporation at $52.29 per share		4,450
Total purchase consideration	**$**	**43,919**

The purchase price included an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments. The preliminary purchase price allocation is expected to be finalized in 2023 when the final settlement of working capital and other post closing adjustments occur. The purchase included net working capital of $4.4 million, capital assets of $3.1 million, and goodwill of $36.4 million.

BVGlazing Systems Ltd.

On May 1, 2023, the Corporation acquired the shares of BVGlazing. BVGlazing, headquartered in Concord, Ontario, designs, engineers, manufactures, and supplies window, door, and railing systems for mid-rise and high-rise building projects in Canada and the US. BVGlazing manufactures unitized and stick curtain wall systems, railing systems, and window wall glazing systems.

The components of the consideration paid to acquire BVGlazing are outlined in the table below.

Consideration given:		
Cash	$	73,024
Issuance of 431,598 shares of the Corporation at $53.29 per share		23,000
Total purchase consideration	**$**	**96,024**

The purchase price included an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments. The preliminary purchase price allocation is expected to be finalized in 2023 when the final settlement of working capital and other post closing adjustments occur. The purchase included net working capital of $47.9 million, capital assets of $14.3 million, and goodwill of $40.4 million.

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7. OTHER ASSETS

The other assets of the Corporation consist of the following:

		June 30 2023		December 31 2022
Long-term prepaid expenses and security deposits	$	2,541	$	3,553
Long-term receivables		1,034		9,996
Long-term holdback receivables		1,465		137
Equity method investments		111,565		102,163
Other investments - Fair value through OCI (Note 15)		6,718		6,917
Derivative financial instruments - Fair value through profit and loss (Note 15)		24,365		11,695
Total other assets	$	147,688	$	134,461

8. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt as at June 30, 2023, and December 31, 2022:

		June 30 2023		December 31 2022
Revolving term facility:				
Canadian dollar amounts drawn	$	551,100	$	201,000
United States dollar amounts drawn (US$546,600 and US$751,127 respectively)		723,698		1,017,326
Total credit facility debt outstanding, principal value		1,274,798		1,218,326
less: unamortized transaction costs		(3,508)		(3,045)
less: unamortized discount on outstanding Banker's Acceptances		(1,761)		(517)
Long-term debt	$	1,269,529	$	1,214,764

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, 2023.

Interest expense recorded by the Corporation during the three and six months ended June 30, 2023 for long-term debt was $21,129 and $39,901 respectively (2022 – $8,266 and $13,319 respectively).

On May 9, 2023, the Corporation completed an upsize and extension of its credit facility. The Corporation increased its credit facility to approximately $2 billion and extended its term to May 9, 2027.

Credit Facility

The following is the continuity of long-term debt for the six months ended June 30, 2023:

									Six Months Ended June 30, 2023
		Opening		Withdrawals		Repayments		Exchange Differences	Ending
Credit facility amounts drawn									
Canadian dollar amounts	$	201,000	$	541,600	$	(191,500)	$	-	$ 551,100
United States dollar amounts		1,017,326		239,636		(525,937)		(7,327)	723,698
	$	1,218,326							$ 1,274,798

In the table above, withdrawals and repayments include the impact of entering into or changing the principal value on already outstanding cross currency swaps with members of the Corporation's lending syndicate whereby an exchange of Canadian and US denominated debt occurs. There is no impact on cash flow and therefore the impact has been netted on the Statement of Cash Flow. More information on the cross currency swaps can be found in Note 15.

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9. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2018	EIF.DB.J	June 30, 2025	5.35%	$ 49.00
Unsecured Debentures - 2019	EIF.DB.K	March 31, 2026	5.75%	$ 49.00
Unsecured Debentures - July 2021	EIF.DB.L	July 31, 2028	5.25%	$ 52.70
Unsecured Debentures - December 2021	EIF.DB.M	January 15, 2029	5.25%	$ 60.00

Summary of the debt component of the convertible debentures:

	2023 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2023 Balance, End of Period
Unsecured Debentures - 2018	$ 78,215	$ -	$ 429	$ (780)	$ -	$ 77,864
Unsecured Debentures - 2019	84,384	-	259	(154)	-	84,489
Unsecured Debentures - July 2021	138,699	-	381	(17)	-	139,063
Unsecured Debentures - December 2021	110,683	-	295	-	-	110,978
						412,394
less: unamortized transaction costs						(11,292)
Convertible Debentures - Debt Component, end of period						$ 401,102

During the six months ended June 30, 2023, convertible debentures totaling a face value of $973 were converted by the holders at various times into 19,828 shares of the Corporation (2022 – $8 and 155 shares).

Interest expense recorded during the three and six months ended June 30, 2023, for the convertible debentures was $7,029 and $13,976 respectively (2022 – $6,945 and $16,744 respectively).

<u>Convertible Debentures Equity Component</u>

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

Summary of the equity component of the convertible debentures:

	June 30 2023	December 31 2022
Unsecured Debentures - 2018	3,835	3,866
Unsecured Debentures - 2019	2,492	2,497
Unsecured Debentures - July 2021	4,240	4,241
Unsecured Debentures - December 2021	3,413	3,413
Convertible Debentures - Equity Component, end of period	$ 13,980	$ 14,017

All convertible debentures outstanding at June 30, 2023, represent direct unsecured debt obligations of the Corporation.

On March 10, 2023, the Corporation received approval from the TSX for the renewal of its Normal Course Issuers Bid ("NCIB") to purchase up to $8,038 principal amount of 7 year 5.35% convertible unsecured subordinated debentures of EIC (June 2018), $8,625 principal amount of 7 year 5.75% convertible unsecured subordinated debentures of EIC (March 2019), $14,375 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC (July 2021); and $11,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC (December 2021), representing 10% of the public float of each series of Securities at February 28, 2023. Purchases of Securities pursuant to the NCIB can be made through the facilities of the TSX during the period commencing on March 15, 2023 and ending on March 14, 2024. Daily purchases will be limited to $33 principal amount of Debentures (June 2018), $33 principal amount of Debentures

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(March 2019), $25 principal amount of Debentures (July 2021) and $24 principal amount of Debentures (December 2021), other than block purchase exemptions.

During the six months ended June 30, 2023, the Corporation did not make any purchases under its convertible debenture NCIB and therefore has the full amounts detailed above available for repurchase.

10. SHARE CAPITAL

Changes in the shares issued and outstanding during the six months ended June 30, 2023, are as follows:

		2023
	Number of Shares	Amount
Share capital, beginning of period	42,479,063	$ 1,019,772
Issued upon conversion of convertible debentures	19,828	975
Issued under dividend reinvestment plan	170,703	8,704
Issued under employee share purchase plan	34,286	1,743
Issued under deferred share plan	16,423	538
Shares issued to Hansen Industries Ltd. vendors on closing (Note 6)	85,102	4,436
Shares issued to BVGlazing Systems Inc. vendors on closing (Note 6)	431,598	22,952
Prospectus offering, including over-allotment	3,306,250	167,067
Share capital, end of period	46,543,253	$ 1,226,187

On March 10, 2023, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 3,958,307 Common Shares, representing 10% of the issued and outstanding shares at February 28, 2023. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on March 15, 2023 and ending on March 14, 2024. The maximum number of shares that can be purchased by the Corporation daily is limited to 25,561 shares, other than block purchase exemptions.

During the six months ended June 30, 2023, the Corporation did not make any purchases under its common share NCIB and therefore has the full 3,958,307 shares available for repurchase.

On April 1, 2023, the Corporation issued 85,102 shares as purchase consideration for the acquisition of Hansen (Note 6). On May 1, 2023, the Corporation issued 431,598 shares as purchase consideration for the acquisition of BVGlazing (Note 6).

On June 14, 2023, the Corporation completed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 3,306,250 shares of the Corporation at $52.25 per share, for gross proceeds of approximately $172,752.

11. DIVIDENDS DECLARED

The Corporation pays cash dividends on or about the 15th of each month to shareholders of record on the last business day of the previous month. The Corporation's Board of Directors regularly examines the dividends paid to shareholders.

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

The amounts and record dates of the dividends during the six months ended June 30, 2023, and the comparative 2022 period are as follows:

Month	Record date	Per Share	2023 Dividends Amount	Record date	Per Share	2022 Dividends Amount
January	January 31, 2023	$ 0.21	$ 8,927	January 31, 2022	$ 0.19	$ 7,366
February	February 28, 2023	0.21	8,933	February 28, 2022	0.19	7,372
March	March 31, 2023	0.21	8,945	March 31, 2022	0.19	7,382
April	April 28, 2023	0.21	8,968	April 29, 2022	0.19	7,387
May	May 31, 2023	0.21	9,067	May 31, 2022	0.20	7,965
June	June 30, 2023	0.21	9,774	June 30, 2022	0.20	7,982
Total		**$ 1.26**	**$ 54,614**		$ 1.16	$ 45,454

After June 30, 2023, and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.21 per share for July 2023.

12. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment provides essential airline services to communities across Canada and also sells aircraft, engines, and aftermarket parts to regional airline operators around the world. In addition, the segment designs, modifies, maintains, and operates custom sensor-equipped aircraft. The Corporation's two flight schools provide pilot training services. Finally, our businesses deliver training solutions for governments across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft. The Manufacturing segment consists of niche and specialty manufacturers in markets throughout Canada and the United States including engineering and precision metal manufacturing services, and the design, manufacture and installation of the exteriors of residential and mixed use high rises. In addition, the segment has in-house access mat manufacturing capabilities and rents and sells these solutions to customers. Hansen and BVGlazing have been included in the Manufacturing segment since the date of their acquisition.

The Corporation evaluates each segment's performance based on Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). The Corporation's method of calculating Adjusted 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 Adjusted EBITDA is consistent with the Corporation's Operating Profit before Depreciation, Amortization, Finance Costs, and Other presented in the interim condensed consolidated Statement of Income. All inter-segment and intra-segment transactions are eliminated, and all segment revenues presented in the tables below are from external customers.

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

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

	Three Months Ended June 30, 2023			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 372,361	$ 254,861	$ -	$ 627,222
Expenses	264,670	205,821	9,695	480,186
Adjusted EBITDA	107,691	49,040	(9,695)	147,036
Depreciation of capital assets				50,032
Amortization of intangible assets				5,432
Finance costs - interest				28,158
Depreciation of right of use assets				8,579
Interest expense on right of use lease liabilities				1,738
Acquisition costs				2,603
Earnings before income taxes				50,494
Current income tax expense				9,814
Deferred income tax expense				3,784
Net Earnings				$ 36,896

	Three Months Ended June 30, 2022			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 352,354	$ 176,663	$ -	$ 529,017
Expenses	266,774	137,697	9,491	413,962
Adjusted EBITDA	85,580	38,966	(9,491)	115,055
Depreciation of capital assets				39,476
Amortization of intangible assets				5,776
Finance costs - interest				15,211
Depreciation of right of use assets				7,411
Interest expense on right of use lease liabilities				935
Acquisition costs				4,449
Earnings before income taxes				41,797
Current income tax expense				3,508
Deferred income tax expense				8,299
Net Earnings				$ 29,990

	Six Months Ended June 30, 2023			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 698,290	$ 455,776	$ -	$ 1,154,066
Expenses	516,792	374,591	18,530	909,913
Adjusted EBITDA	181,498	81,185	(18,530)	244,153
Depreciation of capital assets				97,540
Amortization of intangible assets				10,229
Finance costs - interest				53,877
Depreciation of right of use assets				16,706
Interest expense on right of use lease liabilities				3,329
Acquisition costs				3,968
Other (Note 5)				(951)
Earnings before income taxes				59,455
Current income tax expense				12,899
Deferred income tax expense				2,799
Net Earnings				$ 43,757

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

	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
				Six Months Ended June 30, 2022
Revenue	$ 633,946	$ 295,297	$ -	$ 929,243
Expenses	485,507	245,418	16,307	747,232
Adjusted EBITDA	148,439	49,879	(16,307)	182,011
Depreciation of capital assets				76,367
Amortization of intangible assets				8,617
Finance costs - interest				30,063
Depreciation of right of use assets				13,947
Interest expense on right of use lease liabilities				1,687
Acquisition costs				4,904
Earnings before income taxes				46,426
Current income tax expense				4,745
Deferred income tax expense				7,938
Net Earnings				$ 33,743

	Aerospace & Aviation	**Manufacturing**	**Head Office (1)**	**Consolidated**
				For the period June 30, 2023
Total assets	**$ 2,310,563**	**$ 1,310,273**	**$ 186,076**	**$ 3,806,912**
Net capital asset additions	**173,790**	**24,812**	**363**	**198,965**

	Aerospace & Aviation	Manufacturing	Head Office (1)	Consolidated
				For the year ended December 31, 2022
Total assets	$ 2,313,182	$ 1,090,573	$ 145,081	$ 3,548,836
Net capital asset additions	234,909	38,487	1,228	274,624

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

Revenues

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

		Three Months Ended		Six Months Ended	
Revenue Streams	Periods ended June 30	**2023**	2022	**2023**	2022
Aerospace & Aviation Segment					
Sale and lease of goods - point in time		**$ 91,938**	$ 101,971	**$ 160,569**	$ 171,319
Sale of services - point in time		**242,681**	221,454	**451,647**	394,773
Sale of services - over time		**37,742**	28,929	**86,074**	67,854
Manufacturing Segment					
Sale and lease of goods - point in time		**65,940**	50,019	**128,297**	77,261
Sale of services - point in time		**25,163**	18,221	**46,732**	18,221
Sale of goods and services - over time		**163,758**	108,423	**280,747**	199,815
Total revenue		**$ 627,222**	$ 529,017	**$ 1,154,066**	$ 929,243

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13. EARNINGS PER SHARE

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

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

The computation for basic and diluted earnings per share for the three and six months ended June 30, 2023, and the comparative for the 2022 period are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2023**	2022	**2023**	2022
Net earnings	**$ 36,896**	$ 29,990	**$ 43,757**	$ 33,743
Effect of dilutive securities				
Convertible debenture interest	**5,167**	5,069	**-**	-
Diluted Net Earnings	**$ 42,063**	$ 35,059	**$ 43,757**	$ 33,743
Basic weighted average number of shares	**43,637,222**	39,431,654	**43,086,401**	39,112,144
Effect of dilutive securities				
Deferred Shares	**876,105**	830,613	**876,105**	830,613
Convertible debentures	**8,037,816**	8,047,432	**-**	-
Diluted basis weighted average number of shares	**52,551,143**	48,309,699	**43,962,506**	39,942,757
Net Earnings per share:				
Basic	**$ 0.85**	$ 0.76	**$ 1.02**	$ 0.86
Diluted	**$ 0.80**	$ 0.73	**$ 1.00**	$ 0.84

14. EMPLOYEE BENEFITS

Deferred Share Plan

During the six months ended June 30, 2023, the Corporation granted 36,795 (2022 – 30,765) deferred shares to certain personnel. The fair value of the deferred shares granted was $1,894 (2022 – $1,296) 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, 2023, the Corporation recorded a compensation expense of $399 and $706 respectively (2022 – $308 and $606 respectively), for the Corporation's Deferred Share Plan within the general and administrative expenses of head office.

Restricted Share Plan

During the six months ended June 30, 2023, the Corporation granted 233,729 (2022 – 152,924) restricted shares to certain personnel. The fair value of the restricted share units granted was $11,689 (2022 – $6,047) 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, 2023, the Corporation recorded compensation expense of $1,984 and $3,563 respectively (2022 – $1,500 and $2,640, respectively), for the Corporation's Restricted Share Plan within the general and administrative expenses of head office net of its restricted share plan hedge, with a corresponding liability recorded in Accounts Payable and Accrued Expenses.

Employee Share Purchase Plan

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

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

During the six months ended June 30, 2023, employees acquired 34,286 shares from treasury at a weighted average price of $50.84 per share. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $599 based on the share price and monthly dividend rate at that time.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency, interest rate risk, and other price risk), credit risk, and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the December 31, 2022, audited consolidated financial statements.

Market Risk

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

Currency Risk

The Corporation has US $546,600 or $723,698 (December 31, 2022 – US $751,127 or $1,017,326) outstanding on its credit facility. The outstanding funds in US dollars result in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the US dollar portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US dollar credit facility drawn, US $176,600 (December 31, 2022 – US $161,627) is drawn by EIIF Management USA, Inc., an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation's investment in those subsidiaries with US dollar functional currencies are hedged partially by US $147,700 (December 31, 2022 – US $142,700) 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 period, the Corporation continued the use of derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same terms unless both parties agree to extend the swap for an additional month. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar borrowings as they will be exchanged for the same Canadian equivalent in one month. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at June 30, 2023, was a financial liability of $1,290 (December 31, 2022 – financial liability of $4,571). At June 30, 2023, the notional value of the swaps outstanding is US $202,500 (December 31, 2022 – US $427,000). Hedging gains and losses are reclassified from other comprehensive income to the interim condensed consolidated statement of income to the extent effective. Accordingly, $1,290 was reclassified from other comprehensive income (December 31, 2022 – $4,571).

Interest Rates

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 8) will fluctuate due to fluctuations in interest rates. The Corporation manages this risk and seeks financing terms in individual arrangements that are most advantageous.

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances, or the Secured Overnight Financing Rate ("SOFR"). At June 30, 2023:

- US $546,600 (December 31, 2022 – US $748,500) was outstanding under SOFR and,
- Nil (December 31, 2022 – US $2,627) was outstanding under US Prime, and
- $551,100 (December 31, 2022 – $201,000) was outstanding under Banker's Acceptances.

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

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

The Corporation has multiple interest rate swaps transactions in place with members of its lending syndicate. These swaps fix the underlying interest rate on the Corporation's credit facility debt. A summary of swaps outstanding are as follows:

- $190,000, maturing May 15, 2024.
- $350,000, maturing April 17, 2026.
- US $140,000, maturing on April 27, 2026.

These derivative financial instruments hedge the exposure to variability in cash flow associated with the future payment of interest on Bankers' Acceptance or SOFR debt that would impact profit or loss and therefore qualify as a cash flow hedges. The fair value of interest rate swaps are recorded within other long-term financial asset of $20,329 (December 31, 2022 – other long-term financial asset of $7,514) and are recorded as a separate line within other comprehensive income.

Other Price Risk

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

To mitigate the income statement impact of a change in the Corporation's share price, the Corporation entered into derivative instruments for each of the 2020, 2021 and 2022 Restricted Share Plan grants, which fixes the cost of the plan for the Corporation. Any changes in fair value will either be paid to the counterparty or be paid to the Corporation by the counterparty at the vesting date. These derivative instruments fix the cost to the Corporation and do not impact the variability of the award received by the participant. The derivative financial instruments hedge the exposure to variability in cash flow associated with the future settlement of restricted shares issued under the Restricted Share Plan that would impact profit or loss and therefore qualify as cash flow hedges. On a combined basis, the initial grant date fair value for the 2020, 2021 and 2022 programs was $22,632. The fair value of the instruments are recorded in long-term financial asset of $4,036 (December 31, 2022 – long-term financial asset of $4,181) and are recorded as a separate line within other comprehensive income.

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		
	Carrying Value	Quoted prices in an active market	Significant other observable inputs	Significant unobservable inputs
Recurring fair value measurements	**June 30, 2023**	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Other long-term assets - Restricted share hedge - Financial asset at fair value through profit and loss (Note 7)	$ 4,036	$ -	$ 4,036	$ -
Other long-term assets - Interest Rate Swap - Financial asset at fair value through OCI (Note 7)	20,329	-	20,329	-
Other assets - Fair value through OCI (Note 7)	6,718	-	-	6,718
Financial Liabilities				
Other long-term liabilities - Cross-currency basis swap - Financial liability at fair value through profit and loss	(1,290)	-	(1,290)	-
Fair Value Disclosures				
Other assets - Amortized cost	5,040	-	5,040	-
Long-term debt - Amortized cost	(1,269,529)	-	-	(1,274,798)
Convertible debt - Amortized cost	(401,102)	(454,761)	-	-

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

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2022	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Assets				
Other long-term assets - Restricted share hedge - Financial asset at fair value through profit and loss (Note 7)	$ 4,181	$ -	$ 4,181	$ -
Other long-term assets - Interest Rate Swap - Financial liability at fair value through OCI (Note 7)	7,514	-	7,514	-
Other assets - Fair value through OCI (Note 7)	6,917	-	-	6,917
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(4,700)	-	-	(4,700)
Other long-term liabilities - Cross-currency basis swap - Financial liability at fair value through profit and loss	(4,571)	-	(4,571)	-
Fair Value Disclosures				
Other assets - Amortized cost	12,875	-	12,875	-
Long-term debt - Amortized cost	(1,214,764)	-	-	(1,218,326)
Convertible debt - Amortized cost	(399,443)	(446,890)	-	-

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

The following table summarizes the changes in the consideration liabilities recorded on the acquisitions of Macfab, Ryko, CTI, APL and Northern Mat including any changes for settlements, changes in fair value, and changes due to foreign currency fluctuations:

Consideration Liability Summary	**June 30**	December 31
For the periods ended	**2023**	2022
Opening balance	**$ 4,700**	$ 8,100
Accretion	**-**	235
Change in estimate	**(951)**	(1,947)
Acquisition of Northern Mat	**-**	6,189
Acquisition of APL	**-**	316
Settled during the period	**(3,749)**	(8,355)
Translation loss	**-**	162
Ending balance	**$ -**	$ 4,700

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

During the period, the Corporation settled its consideration liability related to the acquisition of Northern Mat. This resulted in a payment of $3,749.

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

Financial Instrument Fair Value Disclosures

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

As at June 30, 2023, management had determined that the fair value of its long-term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 6.10%. The discount rate is determined by using a risk-free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument, and other indicators of the Corporation's credit-worthiness.

As at June 30, 2023, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $454,761 (December 31, 2022 - $446,890) with a carrying value of $401,102 (December 31, 2022 - $399,443).

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

16. CHANGES IN WORKING CAPITAL

The changes in non-cash operating working capital during the three and six months ended June 30, 2023, and the comparative period in 2022 are as follows:

	Three Months Ended		Six Months Ended	
Periods Ended June 30	**2023**	2022	**2023**	2022
Accounts receivable, including long-term portion	**$ (38,418)**	$ (53,025)	**$ 4,512**	$ (55,159)
Amounts due from customers on construction contracts	**(11,626)**	(2,456)	**(13,334)**	(2,119)
Inventories	**6,304**	(21,560)	**(42,662)**	(44,577)
Prepaid expenses and deposits, including long-term portion	**13,385**	(37,583)	**3,858**	(55,801)
Accounts payable and accrued expenses, including long-term portion	**(10,918)**	49,612	**(67,036)**	75,091
Income taxes receivable/payable	**8,965**	(3,824)	**(2,053)**	(12,236)
Deferred revenue, including long-term portion	**4,789**	8,342	**10,662**	11,240
Amounts due to customers on construction contracts	**(40)**	3,204	**915**	(2,228)
Net change in working capital	**$ (27,559)**	$ (57,290)	**$ (105,138)**	$ (85,789)