Exchange
Income
Corporation

First Quarter Financial Statements & Notes

For the three months ended March 31, 2019

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited, in thousands of Canadian dollars)

As at		March 31 2019		December 31 2018
ASSETS				
CURRENT				
Cash and cash equivalents	$	**39,803**	$	42,970
Accounts receivable		**232,183**		232,910
Amounts due from customers on construction contracts		**20,803**		13,943
Inventory		**226,484**		216,150
Prepaid expenses and deposits		**35,007**		33,666
Income taxes receivable		**1,717**		641
		555,997		540,280
OTHER ASSETS (Note 6)		**69,914**		74,078
CAPITAL ASSETS		**904,252**		877,691
RIGHT OF USE ASSETS (Note 3)		**113,763**		-
INTANGIBLE ASSETS		**139,972**		144,571
GOODWILL		**319,387**		320,678
	$	**2,103,285**	$	1,957,298
LIABILITIES				
CURRENT				
Accounts payable and accrued expenses	$	**207,131**	$	199,256
Deferred revenue		**30,296**		26,546
Amounts due to customers on construction contracts		**10,694**		12,151
Current portion of long-term debt and finance leases (Note 7)		**-**		1,186
Current portion of convertible debentures (Note 8)		**24,976**		-
Current portion of right of use lease liability (Note 3)		**19,607**		-
		292,704		239,139
LONG-TERM DEBT AND FINANCE LEASES (Note 7)		**684,712**		726,325
OTHER LONG-TERM LIABILITIES		**28,539**		29,881
DEFERRED REVENUE		**2,569**		3,606
LONG-TERM RIGHT OF USE LEASE LIABILITY (Note 3)		**98,582**		-
CONVERTIBLE DEBENTURES (Note 8)		**306,443**		253,823
DEFERRED INCOME TAX LIABILITY		**85,075**		87,277
		1,498,624		1,340,051
EQUITY				
SHARE CAPITAL (Note 9)		**593,372**		588,498
CONVERTIBLE DEBENTURES - Equity Component (Note 8)		**14,317**		11,954
CONTRIBUTED SURPLUS		**9,693**		9,693
DEFERRED SHARE PLAN		**14,208**		13,525
RETAINED EARNINGS				
Cumulative Earnings		**395,421**		390,689
Cumulative Dividends		**(441,365)**		(424,178)
Cumulative impact of share cancellation under the NCIB		**(25,053)**		(25,053)
		(70,997)		(58,542)
ACCUMULATED OTHER COMPREHENSIVE INCOME		**44,068**		52,119
		604,661		617,247
	$	**2,103,285**	$	1,957,298

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

For the periods ended March 31	2019	2018
REVENUE		
Aerospace & Aviation	$ 216,744	$ 189,823
Manufacturing	80,272	76,204
	297,016	266,027
EXPENSES		
Aerospace & Aviation expenses - excluding depreciation and amortization	129,292	115,268
Manufacturing expenses - excluding depreciation and amortization	56,994	55,261
General and administrative	46,904	41,485
	233,190	212,014
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	63,826	54,013
Depreciation of capital assets	30,691	28,462
Amortization of intangible assets	4,480	4,754
Finance costs - interest	13,359	11,046
Depreciation of right of use assets	5,398	-
Interest expense on right of use lease liabilities	1,161	-
Acquisition costs	2,200	515
Other (Note 5)	(2,182)	(1,471)
EARNINGS BEFORE INCOME TAXES	8,719	10,707
INCOME TAX EXPENSE (RECOVERY)		
Current	3,027	4,475
Deferred	(1,796)	(2,382)
	1,231	2,093
NET EARNINGS	$ 7,488	$ 8,614
NET EARNINGS PER SHARE (Note 12)		
Basic	$ 0.24	$ 0.27
Diluted	$ 0.23	$ 0.27

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, in thousands of Canadian dollars)

Attributable to common shareholders For the periods ended March 31	2019	2018
NET EARNINGS	$ 7,488	$ 8,614
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that are or may be reclassified to the Statement of Income		
Cumulative translation adjustment, net of tax expense (recovery) of $(8) and $7, respectively.	(12,232)	15,354
Net gain (loss) on hedge of net investment in foreign operation, net of tax expense (recovery) of nil and $(769), respectively.	4,194	(5,537)
Net loss on hedge of restricted share plan, net of tax recovery of $(3) and nil, respectively.	(13)	-
	(8,051)	9,817
COMPREHENSIVE INCOME (LOSS)	$ (563)	$ 18,431

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

(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, 2018	$ 576,471	$ 14,311	$ 3,478	$ 9,867	$ 319,920	$ (355,718)	$ (12,074)	$ 21,032	**$ 577,287**
Shares issued to acquisition vendors	5,998	-	-	-	-	-	-	-	**5,998**
Convertible debentures									
Converted into shares (Note 9)	97	(7)	-	-	-	-	-	-	**90**
Matured/Redeemed	-	(3,153)	3,153	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan	1,566	-	-	-	-	-	-	-	**1,566**
Shares issued under First Nations community partnership agreements	35	-	-	-	-	-	-	-	**35**
Deferred share plan vesting	-	-	-	800	-	-	-	-	**800**
Shares cancelled under NCIB	(2,535)	-	-	-	-	-	(1,952)	-	**(4,487)**
Comprehensive income	-	-	-	-	8,614	-	-	9,817	**18,431**
Dividends declared (Note 10)	-	-	-	-	-	(16,733)	-	-	**(16,733)**
Balance, March 31, 2018	**$ 581,632**	**$ 11,151**	**$ 6,631**	**$ 10,667**	**$ 328,534**	**$ (372,451)**	**$ (14,026)**	**$ 30,849**	**$ 582,987**
Balance, December 31, 2018	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 390,689	$ (424,178)	$ (25,053)	$ 52,119	**$ 617,247**
Restatement (Note 3)	-	-	-	-	(2,756)	-	-	-	**(2,756)**
Balance, January 1, 2019 (Restated - Note 3)	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 387,933	$ (424,178)	$ (25,053)	$ 52,119	**$ 614,491**
Convertible debentures									
Converted into shares (Note 9)	2,352	(134)	-	-	-	-	-	-	**2,218**
Issued (Note 9)	-	2,497	-	-	-	-	-	-	**2,497**
Shares issued under dividend reinvestment plan (Note 9)	1,913	-	-	-	-	-	-	-	**1,913**
Deferred share plan vesting (Note 13)	-	-	-	963	-	-	-	-	**963**
Deferred share plan issuance (Note 9)	280	-	-	(280)	-	-	-	-	**-**
Shares issued under ESPP (Note 9)	329	-	-	-	-	-	-	-	**329**
Comprehensive income	-	-	-	-	7,488	-	-	(8,051)	**(563)**
Dividends declared (Note 10)	-	-	-	-	-	(17,187)	-	-	**(17,187)**
Balance, March 31, 2019	**$ 593,372**	**$ 14,317**	**$ 9,693**	**$ 14,208**	**$ 395,421**	**$ (441,365)**	**$ (25,053)**	**$ 44,068**	**$ 604,661**

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

Exchange Income Corporation

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the periods ended March 31	**2019**	2018
OPERATING ACTIVITIES		
Net earnings for the period	$ **7,488**	$ 8,614
Items not affecting cash:		
Depreciation of capital assets	**30,691**	28,462
Amortization of intangible assets	**4,480**	4,754
Depreciation of right of use assets	**5,398**	-
Non-cash interest	**1,692**	1,651
Long-term debt discount	**263**	(243)
Gain on disposal of capital assets	**(115)**	(104)
Deferred income tax expense	**(1,796)**	(2,382)
Deferred share program share-based vesting	**963**	800
Other (Note 5)	**(2,182)**	(1,471)
	46,882	40,081
Changes in non-cash current and long-term working capital items (Note 15)	**(12,144)**	(24,467)
	34,738	15,614
FINANCING ACTIVITIES		
Proceeds from long-term debt & finance leases, net of issuance costs (Note 7)	**43,346**	121,018
Repayment of long-term debt & finance leases (Note 7)	**(74,100)**	(57,572)
Principal payments on right of use lease liabilities (Note 3)	**(4,280)**	-
Proceeds from issuance of convertible debentures, net of issuance costs (Note 8)	**82,091**	-
Redemption of convertible debentures	**-**	(56,753)
Issuance of shares, net of issuance costs	**2,242**	1,600
Payment for repurchase of shares under NCIB	**-**	(4,487)
Cash dividends (Note 10)	**(17,187)**	(16,733)
	32,112	(12,927)
INVESTING ACTIVITIES		
Purchase of capital assets	**(73,591)**	(40,553)
Proceeds from disposal of capital assets	**6,584**	8,685
Purchase of intangible assets	**(599)**	(644)
Investment in other assets	**(866)**	(3,015)
Cash outflow for acquisitions, net of cash acquired	**-**	(23,912)
Finance lease receivable payments, net of reserves and other	**-**	(1,401)
	(68,472)	(60,840)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,622)**	(58,153)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**42,970**	72,315
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,545)**	232
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ **39,803**	$ 14,394
Supplementary cash flow information		
Interest paid	$ **7,721**	$ 6,420
Income taxes paid	$ **4,123**	$ 1,061

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

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

1. ORGANIZATION

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

As at March 31, 2019, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Calm Air International LP, Custom Helicopters Ltd., Overlanders Manufacturing LP, Water Blast Manufacturing LP, WesTower Communications Ltd., R1 Canada LP, Provincial Aerospace Ltd., Ben Machine Products Company Inc., EIC Aircraft Leasing Ltd., Quest Window Systems Inc., CANLink Aviation Inc. ("Moncton Flight College") and EIIF Management USA Inc. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., Regional One Inc., and Quest USA Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

2. BASIS OF PREPARATION

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

In accordance with IFRS, these financial statements do not include all 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, 2018. 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 May 7, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim condensed consolidated financial statements are the same as those followed in the most recent annual financial statements, except as noted below. Note 3 of the Corporation's 2018 audited financial statements includes a comprehensive listing of the Corporation's significant accounting policies.

Adoption of IFRS 16 *Leases*

The Corporation's adoption of IFRS 16 is effective January 1, 2019. Because of adopting this new standard, many of the Corporation's leases, that were previously accounted for as operating leases, have been accounted for by recognizing a right of use asset and a right of use lease liability on the balance sheet. The Corporation adopted the new standard using the modified retrospective method. Under this method, the right of use lease liabilities have been measured by discounting the remaining lease payments using the incremental borrowing rate. The Corporation chose on a lease-by-lease basis, to measure the right of use asset at either the carrying amount of the lease liability on transition date or its carrying amount as if the standard had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. Subsequently, the lease liability will be reduced by the lease payments made and interest expense will be recorded on the outstanding liability. Also, the right of use asset will be depreciated over the term of the lease. Lease payments will no longer be reflected as operating expenses in the Consolidated Statements of Income. Rather, interest expense related to the liability and depreciation related to the right of use asset have now been reflected as non-operating expenses.

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

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

	Three Months Ended March 31, 2019					
Net Book Value	January 1, 2019 Opening	Additions	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 21,470	$ -	$ -	$ (311)	$ -	$ 21,159
Building	65,325	-	-	(2,608)	(562)	62,155
Aircraft	25,878	-	-	(1,848)	-	24,030
Equipment	1,412	-	-	(83)	-	1,329
Other	5,504	138	-	(548)	(4)	5,090
Total	$ 119,589	$ 138	$ -	$ (5,398)	$ (566)	$ 113,763

Right of Use Lease Liability	Three Months Ended March 31, 2019
Opening balance on transition, January 1, 2019	$ 122,906
Additions to right of use lease liabilities	138
Principal payments on right of use lease liabilities	(4,280)
Exchange differences	(575)
Closing balance, March 31, 2019	$ 118,189

Right of Use Lease Liability - Maturity Analysis	January 1, 2019
Less than 1 year	$ 27,159
Between 1 year and 5 years	75,253
More than 5 years	48,871
Total operating lease commitments as at December 31, 2018	151,283
less: low value, variable, and short term leases	(5,160)
Total undiscounted lease liability commitment as at December 31, 2018	146,123
less: impact of discounting at weighted average incremental borrowing rate	(26,098)
add: finance leases	2,881
Total Right of Use Lease Liability as at January 1, 2019	$ 122,906
Of which are:	
Current	$ 20,050
Long-Term	$ 102,856

The change in accounting policy affected the following items in the balance sheet on January 1, 2019:

- Property, plant and equipment – decrease of $2,815
- Right of use assets – increase of $119,589
- Deferred tax liabilities – decrease of $1,004
- Long term debt (current and long term portion) – decrease of $2,881
- Lease liabilities (current and long term portion) – increase of $122,906

- Intangible assets – decrease of $509
- Cumulative earnings – decrease of $2,756

The Corporation used the following practical expedients when adopting IFRS 16 as permitted under the standard:

- The accounting for operating leases with a remaining lease term of less than 12 months as short-term leases, which results in these expenditures being recorded through operating expenses;
- The exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- The exclusion of leases for which the underlying asset is of low value.

There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial application. The Corporation has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Accounting Policy – Leases and Right of Use Assets

The Corporation leases various buildings, land, and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognized as a right of use asset and corresponding liability at the date of which the leased asset is available for use by the Corporation.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate;
- The exercise price of a purchase or extension option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Variable lease payments that are not based on an index or rate, such as those that are based on usage, have been excluded from the adoption of IFRS 16 and will continue to be recorded as an operating expense. Several of the Corporation's agreements included extensions options and the Corporation reviewed each option and included the extension option in the calculation of the right of use liability when appropriate. If the Corporation exercises an extension option in the future that was not assumed to be exercised on adoption, the Corporation will record a right of use asset and right of use lease liability at that time. The lease agreements do not impose any covenants and leased assets may not be used as security for borrowing purposes. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the consolidated statement of operations over the lease period to produce a constant rate of interest on the remaining balance of the liability for each period.

Right of use assets are accounted for under IAS 16 Property, Plant and Equipment. Right of use assets have the same accounting policies as directly owned assets, meaning the right of use assets are componentized and depreciated over the lease term, as applicable.

Adoption of IFRIC 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 is effective for years beginning on or after January 1, 2019. IFRIC 23 provides a framework to consider, recognize and measure the accounting impact of tax uncertainties and provides specific guidance in several areas where previously IAS 12 Income Taxes was silent. The Corporation has adopted the interpretation of IFRIC 23 and concluded that it has no impact on previously reported results.

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

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

(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. In the first quarter, the estimated liability for additional purchase consideration associated with CarteNav was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $2,182 and is included within "Other" of the Statement of Income.

The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right of use assets and the lease liabilities which mainly relate to the incremental rates of borrowing. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised.

6. OTHER ASSETS

The other assets of the Corporation consist of the following:

	March 31 2019	December 31 2018
Long term prepaid expenses and security deposits	$ 1,669	$ 1,597
Long term receivables	11,881	13,155
Long term holdback receivables	3,820	4,609
Equity method investments	32,195	30,472
Other investments - Fair value through OCI	3,759	3,914
Cross currency basis swap - Fair value through profit and loss	-	3,741
Loan to Wasaya	13,000	13,000
Loan to NGC	3,590	3,590
Total other assets	$ 69,914	$ 74,078

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

7. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt and finance leases as at March 31, 2019 and December 31, 2018:

	March 31 2019	December 31 2018
Revolving term facility:		
Canadian dollar amounts drawn	**$ 175,000**	$ 229,100
United States dollar amounts drawn (US$383,450 and US$365,100 respectively)	**512,404**	498,069
Total credit facility debt outstanding, principal value	**687,404**	727,169
less: unamortized transaction costs	**(2,435)**	(2,019)
less: unamortized discount on outstanding Banker's Acceptances	**(257)**	(520)
Net credit facility debt	**684,712**	724,630
Finance leases	**-**	2,881
Total net credit facility debt and finance leases	**684,712**	727,511
less: current portion of finance leases	**-**	(1,186)
Long-term debt and finance leases	**$ 684,712**	$ 726,325

The Corporation's credit facility is secured by a general security agreement over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions, and includes both financial and negative covenants. The Corporation is in compliance with all financial and negative covenants as at March 31, 2019.

The Corporation amended its credit facility to obtain more favourable pricing and extend its term during the three months ended March 31, 2019. The credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. The maturity of the facility has been extended to May 7, 2023.

Interest expense recorded by the Corporation during the three months ended March 31, 2019 for the long-term debt and finance leases was $8,220 (2018 – $6,055).

Credit Facility

The following is the continuity of long-term debt for the three months ended March 31, 2019:

	Three Months Ended March 31, 2019				
	Opening	**Withdrawals**	**Repayments**	**Exchange Differences**	**Ending**
Credit facility amounts drawn					
Canadian dollar amounts	$ 229,100	$ 20,000	$ (74,100)	$ -	$ 175,000
United States dollar amounts	498,069	24,018	-	(9,683)	512,404
	$ 727,169				$ 687,404

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

8. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2014[(1)]	EIF.DB.G	March 31, 2021	6.0%	$ 31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$ 51.50
Unsecured Debentures - 2018	EIF.DB.J	June 30, 2025	5.35%	$ 49.00
Unsecured Debentures - 2019	EIF.DB.K	March 31, 2026	5.75%	$ 49.00

Note 1) Subsequent to quarter end, on April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were due March 31, 2021 (Note 16).

Summary of the debt component of the convertible debentures:

	2019 Balance, Beginning of Period	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2019 Balance, End of Period
Unsecured - 2014 (Note 16)	**$ 27,143**	**$ -**	**$ 74**	**$ (2,241)**	**$ -**	**$ 24,976**
Unsecured - 2016	**65,657**	**-**	**161**	**-**	**-**	**65,818**
Unsecured - 2017	**95,659**	**-**	**240**	**-**	**-**	**95,899**
Unsecured - 2018	**75,251**	**-**	**164**	**-**	**-**	**75,415**
Unsecured - 2019	**-**	**82,658**	**7**	**-**	**-**	**82,665**
						344,773
less: unamortized transaction costs						**(13,354)**
Convertible Debentures - Debt Component, end of period						**$ 331,419**
less: current portion						**(24,976)**
Convertible Debentures - Debt Component (long-term portion)						**$ 306,443**

During the three months ended March 31, 2019, convertible debentures totaling a face value of $2,294 were converted by the holders at various times into 72,363 shares of the Corporation (2018 – $90 face value into 2,445 shares).

On April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were to mature on March 31, 2021 (Note 16).

Interest expense recorded during the three months ended March 31, 2019 for the convertible debentures was $4,817 (2018 – $4,658).

March 2019 Unsecured Convertible Debenture Offering

The Corporation issued the $86,250 Seven Year 5.75% Convertible Unsecured Subordinated Debentures on March 26, 2019. These debentures bear interest at the rate of 5.75% per annum payable semi-annually in arrears, in cash, on March 31 and September 30 of each year. The maturity date of the debentures is March 31, 2026. Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $49.00.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the shares for the 20 trading days ending five days prior to the maturity date. The debentures are not redeemable until after March 31, 2022. After March 31, 2022, but prior to March 31, 2024, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after March 31, 2024, but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

Transaction costs of $4,159 were incurred in relation to the issuance of these debentures.

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

The March 2019 convertible unsecured debentures have $86,250 of principal outstanding as at March 31, 2019 and mature in March 2026.

Convertible Debentures Equity Component

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 been applicable to non-convertible debentures at the time the convertible debentures were issued. The difference between the principal amount of the convertible debentures and the present value of interest and principal payments over the life of the convertible debentures is accreted over the term of the convertible debentures through periodic charges to the debt component, such that, on maturity, the debt component equals the principal amount of the convertible debentures outstanding.

Summary of the equity component of the convertible debentures:

		March 31 2019		December 31 2018
Unsecured Debentures - 2014 (Note 16)	**$**	**1,103**	$	1,237
Unsecured Debentures - 2016		**3,261**		3,261
Unsecured Debentures - 2017		**3,590**		3,590
Unsecured Debentures - 2018		**3,866**		3,866
Unsecured Debentures - 2019		**2,497**		-
Convertible Debentures - Equity Component, end of period	**$**	**14,317**	$	11,954

All convertible debentures outstanding at March 31, 2019 represent direct unsecured debt obligations of the Corporation.

9. SHARE CAPITAL

Changes in the shares issued and outstanding during the three months ended March 31, 2019 are as follows:

	Number of Shares		**2019 Amount**
Share capital, beginning of period	**31,316,006**	**$**	**588,498**
Issued upon conversion of convertible debentures	**72,363**		**2,352**
Issued under dividend reinvestment plan	**65,161**		**1,913**
Issued under employee share purchase plan	**10,298**		**329**
Issued under deferred share plan	**9,263**		**280**
Share capital, end of period	**31,473,091**	**$**	**593,372**

On February 8, 2019, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,567,004 shares, representing 5% of the issued and outstanding shares as at January 31, 2019. Purchases of shares pursuant to the renewed NCIB could be made through the facilities of the TSX commencing on February 22, 2019 and ending on February 21, 2020. The maximum number of shares that can be purchased by the Corporation daily is limited to 21,522 shares, other than block purchase exemptions.

During the three months ended March 31, 2019, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,567,004 shares available for repurchase.

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

10. DIVIDENDS DECLARED

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

The amounts and record dates of the dividends during the three months ended March 31, 2019 and the comparative 2018 period are as follows:

			2019 Dividends			2018 Dividends
Month	**Record date**	**Per Share**	**Amount**	**Record date**	**Per Share**	**Amount**
January	January 31, 2019	**$ 0.1825**	**$ 5,719**	January 31, 2018	$ 0.175	$ 5,484
February	February 28, 2019	**0.1825**	**5,724**	February 28, 2018	0.175	5,517
March	March 29, 2019	**0.1825**	**5,744**	March 29, 2018	0.1825	5,732
Total		**$ 0.5475**	**$ 17,187**		$ 0.5325	$ 16,733

After March 31, 2019 and before these interim condensed consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.1825 per share for April 2019.

11. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

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

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

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

	Three Months Ended March 31, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Consolidated**
Revenue	**$ 216,744**	**$ 80,272**	**$ -**	**$ 297,016**
Expenses	**159,118**	**67,259**	**6,813**	**233,190**
EBITDA	**57,626**	**13,013**	**(6,813)**	**63,826**
Depreciation of capital assets				**30,691**
Amortization of intangible assets				**4,480**
Finance costs - interest				**13,359**
Depreciation of right of use assets				**5,398**
Interest expense on right of use lease liabilities				**1,161**
Acquisition costs				**2,200**
Other (Note 5)				**(2,182)**
Earnings before income tax				**8,719**
Current income tax expense				**3,027**
Deferred income tax recovery				**(1,796)**
Net Earnings				**$ 7,488**

	Three Months Ended March 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 189,823	$ 76,204	$ -	$ 266,027
Expenses	143,105	63,706	5,203	212,014
EBITDA	46,718	12,498	(5,203)	54,013
Depreciation of capital assets				28,462
Amortization of intangible assets				4,754
Finance costs - interest				11,046
Acquisition costs				515
Other				(1,471)
Earnings before income tax				10,707
Current income tax expense				4,475
Deferred income tax recovery				(2,382)
Net Earnings				$ 8,614

	For the period ended March 31, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office(1)**	**Consolidated**
Total assets	**$ 1,663,434**	**$ 364,910**	**$ 74,941**	**$ 2,103,285**
Net capital asset additions	**63,000**	**3,965**	**42**	**67,007**

	For the year ended December 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office(1)	Consolidated
Total assets	$ 1,565,964	$ 341,202	$ 50,132	$ 1,957,298
Net capital asset additions, excluding finance leases	131,880	19,931	440	152,251

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.

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

Revenues

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

Revenue Streams		March 31 2019		March 31 2018
Aerospace & Aviation Segment				
Sale of goods - point in time	$	57,852	$	40,455
Sales of services - point in time		157,576		147,634
Sale of goods and services - over time		1,316		1,734
Manufacturing Segment				
Sale of goods - point in time		46,105		43,452
Sale of goods and services - over time		34,167		32,752
Total revenue	$	297,016	$	266,027

12. EARNINGS PER SHARE

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

The computation for basic and diluted Net Earnings per share for the three months ended March 31, 2019 and comparative period in 2018 are as follows:

Three Months Ended March 31		2019		2018
Net Earnings	$	7,488	$	8,614
Effect of dilutive securities				
Convertible debenture interest		-		-
Diluted Net Earnings	$	7,488	$	8,614
Basic weighted average number of shares		31,363,603		31,382,120
Effect of dilutive securities				
Deferred shares		838,602		790,622
Convertible debentures		-		-
Diluted basis weighted average number of shares		32,202,205		32,172,742
Net Earnings per share:				
Basic	$	0.24	$	0.27
Diluted	$	0.23	$	0.27

13. EMPLOYEE BENEFITS

Deferred Share Plan

During the three months ended March 31, 2019, the Corporation granted deferred shares to certain personnel. The fair value of the deferred shares granted was $510 (2018 - $4,138) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three months ended March 31, 2019, the Corporation recorded compensation expense of $963 for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2018 - $800).

Employee Share Purchase Plan

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

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

During the three months ended March 31, 2019, employees acquired 10,298 shares from Treasury at a weighted average price of $31.92 per share, effective March 18, 2019 for the 2019 program that will vest in 18 months. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $100 based on the share price and monthly dividend rate as at that time.

Restricted Share Plan

During the three months ended March 31, 2019, the Corporation granted restricted shares to certain personnel. The fair value of the deferred shares granted was $3,506 (2018 - nil) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the three months ended March 31, 2019, the Corporation recorded compensation expense of $95 for the Corporation's Deferred Share Plan within the general and administrative expenses of head office (2018 - nil).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary. The following describes the risk management areas that have significantly changed from those described in the audited December 31, 2018 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 $383,450 or $512,404 (December 31, 2018 - US $365,100 or $498,069) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $26,350 (December 31, 2018 - US $23,500) is drawn by EIIF USA, an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $170,550 (December 31, 2018 - US $155,550) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the three months ended March 31, 2019, the Corporation continued the use of derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in 30 days at the same terms unless both parties agree to extend the swap for a further 30 days. By borrowing in US dollars, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at March 31, 2019 was a loss of $780 (December 31, 2018 - gain of $3,741). At March 31, 2019, the notional value of the swaps outstanding is US $186,500 (December 31, 2018 - US $186,000).

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Interest Rates

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 7) will fluctuate due to fluctuations in interest rates. The Corporation manages this risk and seeks financing terms in individual arrangements that are most advantageous.

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances or the London Inter Bank Offer Rate ("LIBOR"). At March 31, 2019:

- US $383,450 (December 31, 2018 – US $365,100) was outstanding under US LIBOR, and
- $175,000 (December 31, 2018 – $229,100) was outstanding under Banker's Acceptances.

The interest rates of the convertible debentures (Note 8) have fixed interest rates.

After the end of the first quarter, the Corporation entered a derivative whereby the Corporation has fixed a $190,000 of credit facility debt for a period of four years.

Other Price Risk

The Corporation's Restricted Share Plan, under which restricted shares were granted for the first time in the first quarter of 2019, 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 a derivative instrument in the first quarter 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. This derivative fixes the cost to the Corporation and does not impact the variability of the award received by the participant.

Fair Value of Financial Instruments

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

		Fair Value		
Recurring fair value measurements	**Carrying Value March 31, 2019**	**Quoted prices in an active market Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**
Financial Assets				
Other assets - Fair value through OCI	$ 3,759	$ -	$ -	$ 3,759
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(29,313)	-	-	(29,313)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(780)	-	(780)	-
Other long term liabilities - Restricted Share Plan Derivative - Financial liability at fair value through profit and loss	(13)	-	(13)	-
Fair Value Disclosures				
Other assets - Amortized cost	33,960	-	33,960	-
Long term debt - Amortized cost	(684,712)	-	-	(687,404)
Convertible debt - Amortized cost	(331,419)	(353,393)	-	-

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

Recurring fair value measurements	Carrying Value December 31, 2018	Fair Value: Quoted prices in an active market Level 1	Fair Value: Significant other observable inputs Level 2	Fair Value: Significant unobservable inputs Level 3
Financial Assets				
Other long term assets - Cross currency basis swap - Financial asset at fair value through profit and loss	$ 3,741	$ -	$ 3,741	$ -
Other assets - Fair value through OCI	3,914	-	-	3,914
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(31,173)	-	-	(31,173)
Fair Value Disclosures				
Other assets - Amortized cost	35,951	-	35,951	-
Long term debt - Amortized cost	(724,630)	-	-	(727,169)
Convertible debt - Amortized cost	(253,823)	(269,332)	-	-

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

The following table summarizes the changes in the consideration liabilities recorded on the acquisitions of Regional One, CarteNav, Team J.A.S., Quest, and Moncton Flight College, including any changes for settlements, changes in fair value and changes due to foreign currency fluctuations:

Consideration Liability Summary For the periods ended	**March 31 2019**	December 31 2018
Opening	**$ 31,173**	$ 17,410
Accretion	**322**	2,569
Settled during the period	**-**	(108)
Change in estimate (Note 5)	**(2,182)**	(4,616)
Acquisition of Moncton Flight College	**-**	15,902
Acquisition of Wings Over Kississing	**-**	16
Ending	**$ 29,313**	$ 31,173

The earn out liability recorded as part of the acquisitions are included in Other Long-Term Liabilities in the Statement of Financial Position except for the earn out for Quest, as it is expected to be paid within 12 months and is recorded within Accounts Payable and Accrued Liabilities. The remaining consideration liabilities, primarily consisting of estimated working capital settlements, are recorded within Accounts Payable and Accrued Expenses in the Statement of Financial Position. The fair value of each earn out liability is determined at the time of the acquisition and uses several estimates. At the end of each reporting period, the Corporation reviews these estimates for reasonableness and makes any required adjustments to the carrying value of the liability.

Included in the $29,313 above are the earn out liabilities for Quest and Moncton Flight College and an estimated working capital settlement for Wings Over Kississing.

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.

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

As at March 31, 2019, management had determined that the fair value of its long term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 4.00%. The discount rate is determined by using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation's credit worthiness.

As at March 31, 2019, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $353,393 (December 31, 2018 - $269,332) with a carrying value of $331,419 (December 31, 2018 - $253,823).

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.

15. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items during the three months ended March 31, 2019 and the comparative period in 2018 are as follows:

Three Months Ended March 31		2019		2018
Accounts receivable, including long-term portion	**$**	**141**	$	(4,058)
Amounts due from customers on construction contracts		**(6,893)**		(4,446)
Inventory		**(13,061)**		(5,755)
Prepaid expenses and deposits, including long-term portion		**(1,575)**		(1,621)
Accounts payable and accrued expenses		**8,916**		(7,230)
Income taxes receivable/payable		**(1,123)**		3,415
Deferred revenue, including long-term portion		**2,716**		(702)
Amounts due to customers on construction contracts		**(1,265)**		(4,070)
Net change in working capital items	**$**	**(12,144)**	$	(24,467)

16. SUBSEQUENT EVENTS

Early Redemption of Convertible Debentures

On April 26, 2019, the Corporation exercised its right to call its 7 year 6.00% convertible debentures which were due on March 31, 2021. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its March 2019 5.75% convertible debenture offering. At March 31, 2019, $25,566 principal amount was outstanding. Prior to the redemption date, $22,436 principal amount of debentures were converted into 707,749 common shares at a price of $31.70 per share. On April 26, 2019 the remaining outstanding debentures in the principal amount of $3,130 were redeemed by the Corporation.