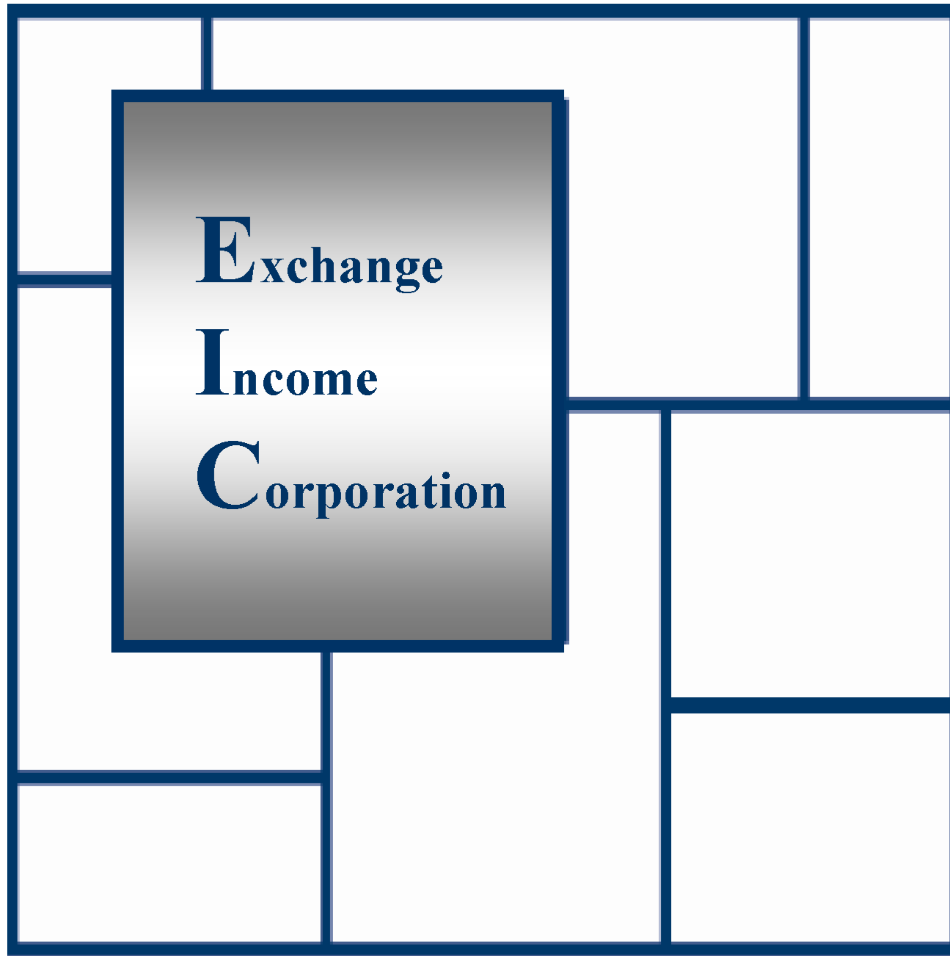

Year End Report

For the year ended
December 31, 2019

Chairman's Message

I am pleased to report that 2019 extended EIC's track record of profitable growth. We set new highs across all operating metrics as Revenue, EBITDA, Net Earnings per share experienced double-digit growth rates. The strong performance enabled EIC to increase our dividend for the 14th time in our history while at the same time reducing our payout ratio whether calculated on an Adjusted Net Earnings or Free Cash Flow less Maintenance Capital Expenditures basis. The market took note of this performance, as our stock closed the year up 58% just slightly off our all-time high of $46.10 experienced in December.

As many of you know, May 4, 2019 marked the 15-year anniversary of EIC's first acquisition of Perimeter Aviation and our $8 IPO as an income trust. The last 15 years has seen EIC grow and become more diversified and has seen our market capitalization increase from $8.2 million to over $1.5 billion by the end of 2019. I thought that the 15-year mark in our history was a good time to pause and examine what has made EIC successful and driven the returns that have been generated by our shareholders. I will leave the specifics of 2019 to our CEO in his message and I will focus on the bigger picture.

I believe that our track record of growing our dividend on a regular sustainable basis is recognized by the marketplace, but what I believe is not nearly as well understood is the overall return EIC has generated for our shareholders. Assuming that the dividends were reinvested in additional stock (which is the basis that the TSX total return is calculated) EIC has generated an average annual return of over 21%! That return is approximately three times the average annual return of the TSX (7%) over that period. The consistency of our returns is remarkable, with the five, ten and fifteen year annual returns all over 20%. The returns we have generated put us in a very exclusive group on the TSX of fewer than 10 companies that have generated this level for their shareholders.

EIC has built a strong portfolio of subsidiary operating companies that have all contributed to our success and the diversity of their operations has enabled EIC to thrive in a wide range of economic conditions. EIC is however much more than the sum of its operating entities. We have built a business model that has remained consistent over our 15-year history and it is this model that has enabled EIC to consistently outperform the index.

We have set a target return for the investment of capital at EIC, whether this investment is for an acquisition or to grow our existing businesses. We expect an unlevered pre-tax return of 15% after the required investment to maintain the cash flow stream. This is a high bar to meet and means that we often will not meet the prices others are prepared to pay in today's very liquid capital markets. Despite this price discipline, we have been consistently able to acquire remarkable companies and build the portfolio we have today. How we accomplish this is EIC's "secret sauce".

EIC takes great pride in how we treat the companies once we have acquired them. We do not do start-ups or turnarounds, so by definition the companies we buy are already successful. We spend significant time and effort during due diligence on the management team to ensure they have the capabilities to run the company after it is acquired by EIC. This team may or may not include the former ownership, as EIC is looking for internal continuity with a proven track record. Once we own the company, we want to empower the management team to make decisions and grow the company. We want to remain in an entrepreneurial environment but with a couple of key advantages from what the company had on its own.

EIC provides all of the capital required to run the company and removes banking and fundraising from the responsibility of subsidiary management. When they have an opportunity that meets our well-defined requirements, they simply put forward a capital request and EIC looks after the rest. It falls upon Darryl and his finance group to make sure we have the necessary liquidity to fund any and all qualifying submissions from our subsidiaries.

EIC also provides support on major projects taking into account experience from other subsidiaries in the past. This support allows management to be comfortable that they have taken all of the necessary steps to be successful on what are often major endeavors including, for example, the new Dallas facility for Quest.

Our ability at EIC to acquire a great company does not mean that we suddenly know more about the business than those who have made it successful. As such, we empower these teams to build on their past success and imagine an even brighter future. We believe that this results in dedicated management teams who understand the companies they run and who enjoy coming to work every day. We are often asked how we compensate our management teams to keep them with us for so long after we acquire the company. The simple answer is that it is not just the compensation plan that helps us maintain strong subsidiary management teams. Rather, it is providing a job that they know and love and the tools to be successful. Of course, we compensate our people well, but people stay because they love the work they are doing. They also are part of the bigger EIC team and have the ability to work with and learn from other companies in the EIC family.

This model not only helps us keep the management teams in our acquired companies, but it enables us to purchase companies where we may not be the highest bidder. EIC has a reputation for how we treat the employees of the target after we acquire them, and this an important part of the divestiture process to many paternalistic owners. They do not want to see their company repackaged

and resold again in a few short years or folded into a bigger company where their employees may or may not have a future. When the vendors consider the overall value of our offer including our plan for the company on a go forward basis, we are often successful without the absolute highest price. Provincial Airlines, Regional One, Quest and LV Controls are all recent examples of acquiring exceptional companies based on the value of our overall proposal not necessarily the highest price.

The recent increase in attention paid to Environmental, Social and Governance (ESG) matters is a good thing for the capital markets and a great thing for society as a whole. EIC has always prided itself on our commitment to investing back into the communities we serve and the environment in which we all live. The increased focus on ESG has led us to re-evaluate how we communicate our culture and actions with the capital markets and with all of our stakeholders. We need to ensure that the steps we have taken already are well known and our plans to expand these programs are well communicated. We welcome the new focus on social and environmental responsibility. It has always been part of our DNA at EIC.

Those of you who have followed us since the beginning know that our first acquisition at EIC was Perimeter Aviation from the Wehrle family. From the first meeting, Bill Wehrle the airline's founder, was adamant that we understand the importance of the airline to the First Nation Communities that we service. Not only is Perimeter the lifeline in and out of many First Nations Communities but it is one of the biggest non-government employers and as a result we needed to invest back into the communities. That investment has grown and changed over the last 15 years, but I would like to take a moment to describe a few of the initiatives that we have undertaken.

We have invested back into the First Nations Communities we service in many ways. Many First Nations have limited access to capital to develop their economy. We are currently running a pilot program with one of the Communities we service where we will be funding, at no cost to the First Nation, a fish processing plant to enable the fishermen to ship finished product and earn higher prices for their catch. We then ship the product back to the south at discounted rates as we generally have surplus capacity on southbound flights.

We are very proud of our program to provide opportunities for First Nation Children to take a trip from their isolated communities and experience a professional sporting event. For each Winnipeg Blue Bomber home game, we bring in at least 50 children and chaperones from communities we service. Each community selects which children will attend the game from their community. While in Winnipeg they are provided with food at the stadium, a team souvenir and then get to meet some of the players following the game. Through the great support of the Victoria Inn hotel chain, the children spend the night in Winnipeg before flying home the next day. We run a similar program with the Winnipeg Jets, albeit with smaller numbers because of limited access to tickets. The program exposes the children to things that many take for granted and has been met with an excellent response.

We have focused our Life in Flight pilot training program on recruits from First Nation Communities. There are limited job and educational opportunities in the North and the Life in Flight program provides the funding and training to become a fully certified pilot earning strong wages servicing their home communities. Should the individual ultimately decide to continue their career flying aircraft in other parts of Canada or around the world it will give them the training and job experience to succeed. To take this program one step further and to honor Bill Wehrle, who left us far too soon when he passed away in 2015, we began the Bill Wehrle Scholarship program which provides the necessary funding for training in an aviation career for an indigenous person. Many of you met Tik Mason, our first graduate in this program, at the 2019 AGM. He is an incredible role model of what a career in aviation can look like.

Social responsibility can take other forms as well. I am very proud of Calm Air’s initiative to keep Canada’s far north pristine. Calm Air provides no cost transport of certain recycling to take items that would otherwise end up in landfills south to recycling depots where they can be recycled into new products.

It can also take the form of reducing our carbon footprint. Our airlines generally utilize turbo prop equipment which is generally more fuel efficient than jet engine alternatives. Unfortunately, there are no alternative forms of power for the aircraft that we operate and as such we must focus on driving the efficiency of those which we operate. Accordingly, our airlines have already taken on and completed projects which increase the horsepower of our engines thereby increasing the amount of product that can be transported and thereby increasing fuel efficiency. We have also designed and had certified multi-blade propellers for our aircraft which further increase their operating efficiency.

Our initiatives have not been limited to our Aerospace & Aviation segment. The new Quest facility in Texas has been designed to be a zero-waste facility where all by-products of the production process are recycled. The facility has the technology to reduce water use, enhance energy efficiency and recycle wherever possible. In addition, the Quest facility in the US has maintained a perfect safety record since it began production, with a keen focus on employee safety driven by a strong tone from the top.

Social Responsibility is not always easy to define and put into a neatly described program. Sometimes it is a simple as a gut feeling that you need to take a certain action. I am very proud that we have developed a culture and a tone from the top that our people should always feel empowered to act. Our CEO loves the saying "You are never wrong when you do the right thing". From our very beginning, this is a culture we have worked hard to develop. There is one more example I would like to share, and it relates to a company we have held for quite a while. While we were doing our due diligence and discussing the staff and management with the

vendor, he explained that he had very recently hired a young man with material limitations and social anxiety. He thought he could make a difference in this person's life and wanted us to know about it and wanted our approval to continue. We were, of course very supportive of the project and told him we wanted him to keep going. We were even more interested in the acquisition as it showed the company had a culture that would fit in with EIC. Moving forward to today, the individual is a valued member of our team and has developed into an exceptional employee. Social responsibility is hard to define but it is easy to tell when you are doing the right thing.

In last year's Chairman's Message, I spoke to you about the challenges that we were facing from a short and distort campaign. I am pleased to tell you that this challenge has substantially abated, and our stock has begun to return to a more normal trading range. I want to thank all of our stakeholders for their support during the last year. Our business model has proven very resilient over the last 15 years and has been responsible for the exceptional returns that EIC has generated for our shareholders. We have no intention of changing it now. With the recent capital raises, our balance sheet is in great shape with sufficient liquidity to move quickly when we uncover the right opportunities that will drive future growth. Investments we have made in acquisitions, new contracts, and organic growth will drive another year of growth in 2020, and we expect to extend our seven-year track record of double-digit EBITDA percentage growth again this year. Thank you again for your ongoing support.

Hon. Gary Filmon, P.C., O.C., O.M.
Chairman, Board of Directors

CEO's Message

The consistent execution of our strategy focused on long-term growth with our eyes fixed firmly on the horizon resulted in another year of stellar results. We hit new highs on all of our financial metrics which enabled us to increase our dividend for the 14th time and extend our 5% cumulative dividend growth rate that we have maintained since inception. Even with this increase our payout ratio declined to 57% on a Free Cash Flow less Maintenance Capital Expenditures basis and to 71% on an Adjusted Net Earnings basis. This marks the first time in our history that the payout ratio has fallen below 60% for a fiscal year.

We provided guidance to our shareholders and met that guidance even with the impact of a bankruptcy of a major customer at Regional One. We have achieved double digit EBITDA and Revenue growth in each of the last five years and fully expect to extend that performance in 2020, but I will save that discussion for later in this message. Lets first focus on what was achieved in 2019 and how it was achieved.

- Revenue increased by 11% to $1.34 billion
- EBITDA increased by 18% to $329 million
- Net Earnings per share increased 15% to $2.58
- Adjusted Net Earnings per share increased by 7% to $3.15, marking the first time this key measure has exceeded $3.00
- Monthly dividend increased by 4% to $0.19 per share
- The payout ratio calculated on a Free Cash Flow less Maintenance Capital Expenditures basis fell to 57% from 60%
- The payout ratio calculated on an Adjusted Net Earnings basis fell to 71% from 74%

I would like to remind everyone that the results were impacted by the implementation of the IFRS 16 accounting standard which places all leases on the balance sheet. This change has absolutely no impact on cash outflows as lease payments are unchanged, but serves to increase EBITDA while decreasing Net Earnings and Adjusted Net Earnings.

Our business model has always been based on a strong balance sheet with limited debt and significant liquidity. Our aggregate leverage (including both secured debt and convertible debentures) has consistently been maintained between 2.5 and 3.5 times since inception. As important, we have ensured that we manage our debt maturities to minimize refinancing risk when debt facilities come due. Our dedication to this strategy was very clear in 2019. One of our convertible debenture issues was in the money and was coming due in 2021, so we decided to call the debenture and issue a new one in its place. This decision served to increase our common share equity as most holders converted to common shares, which improved our liquidity and leverage as the proceeds of the replacement convertible debenture were available to pay down our revolving long-term debt facility. The offering was oversubscribed and the underwriters exercised the full overallotment option, bringing the gross proceeds of the 5.75% debentures with a strike price of $49.00 to $86.25 million. The new debenture not only featured a lower interest rate but also a much higher strike price than the one it was replacing.

Later in the year, our acquisition team negotiated two acquisitions that were accretive to our shareholders. In order to ensure that we maintained our modest leverage, we chose to fund these purchases through an offering of common shares. Like the debenture offering, there was strong demand in the market and the offering was significantly oversold allowing the underwriters to exercise their full overallotment option to bring the gross proceeds of the $37.65 per share offering to $80.5 million.

Finally, we improved our credit facility twice during the year. After extending the term of the facility and reducing rates during our annual discussions with our bank syndicate in February of last year, our lenders approached us with a new substantively improved facility in November. This facility increased our available capital by $500 million to $1.6 billion, reduced interest rates, increased our permitted leverage, minimized security requirements, and added a new member to the syndicate to facilitate further growth in the future.

It is important to remember that these improvements to our balance sheet do not in any way signal a change to our balance sheet strategy or an increase in our appetite for leverage. In fact, the opposite is true. The public offerings reduced our leverage and the new bank facility increased our liquidity and our ability to act quickly should an opportunity be identified. Our balance sheet strategy has served us well for 15 years and we don't plan to change it now.

I have been asked why we consistently invest capital in excess of what we generate internally. The answer is very straight forward. We have a high standard for what returns are required in order to proceed with an investment, whether in an acquisition or in organic growth. If an opportunity meets that standard, it is the responsibility of EIC head to make sure that the capital is available to proceed. 2019 is a great example of the efficacy of this model. We accessed the capital markets twice to raise additional capital and even with

a number of the investments not yet evident in our results (more on that in a moment when I discuss 2020), we generated double digit top line and EBITDA growth, while reducing leverage and achieving the highest Net Earnings per share and Adjusted Net Earnings per share in our history. Accretive investment and disciplined balance sheet management results in success. As discussed in greater detail in the message from our chairman, it is precisely this formula that has generated an annual compounded rate of return of 21% for shareholders since EIC's inception. Our return performance is matched by very few other TSX listed companies.

Our model has always been based on generating growth through a combination of disciplined investment in acquisitions and organic growth. I believe that there is however a bit of a misconception in the capital markets on the balance of that investment. Our success as an acquirer of businesses is well understood but the investments made to achieve organic growth are less well known. Since our inception in May of 2004, we have invested a total of approximately $1.8 billion in capital. Of that amount, approximately $750 million was utilized for our 13 platform acquisitions. A further $1.1 billion was invested in organic growth investments and tuck-in acquisitions to grow the platform acquisitions.

Our acquisition of LV Control was the first stand-alone entity we have acquired since the purchase of Quest in 2017. LV Control is an industry leader in the design, manufacture, and support of design control systems for grain elevators and farm input centers. The company is a great addition to our Manufacturing segment and creates exposure to the agricultural economy. It has a dominant market position in western Canada with opportunity to expand in eastern Canada and the United States. It has a long track record of profitability and will continue to be run by the vendors.

The acquisition of AWI is a great example of a company which will be absorbed into an existing EIC company and facilitate its further growth. AWI is the glazier that installs Quest's windows in the eastern United States. In Canada, Quest is responsible for the installation of its product while in the United States the purchaser contracts with a third party for installation. AWI comes with a significant order book and provides a great vertical integration opportunity which will enable Quest to generate additional revenue from projects where it will already produce the windows. The vendor will stay on, manage the company, and assist Quest as we expand into other markets in the United States.

Our growth is also driven by investment in organic expansion. Provincial Aerospace is an example of a number of these investments. Three years ago we committed to the design, construction, certification, and operation of the Force Multiplier, a short-term fully staffed rental surveillance aircraft. This aircraft went into service in 2019 and began to generate revenue on a meaningful basis in the fourth quarter of the year. It has already completed projects with multiple governments and Provincial is in negotiations with multiple parties for its next deployment. Demand has exceeded our expectations and we are currently considering adding additional aircraft to the fleet. It is the perfect example of investing with a long-term focus. The project took several years to complete and the demand was unproven, but the foresight of Provincial management combined with the access to EIC capital made the project possible. 2020 will see its first full year of contribution to EIC results.

Provincial was awarded the in-service support for the fleet of aircraft to be supplied by Airbus for use in Canada's Fixed Wing Search and Rescue. The first aircraft has recently been delivered and deliveries will continue over the next three years. In order to execute this contract, Provincial will need to acquire a hangar in Winnipeg in which to complete overhauls. We will begin construction of this facility in late 2020 or early 2021. We have begun to earn revenue as we ramp the capabilities to be ready to maintain the aircraft as they arrive and the revenue will continue to increase until all of the aircraft are in service.

Provincial has had the contract for the surveillance of Canada's 200 mile territorial limit for over three decades. In early 2019, it was announced that Provincial had been awarded the contract for an expanded version of the contract which will begin late in 2020. The larger contract will require an investment of over $50 million in additional larger aircraft and new ground facilities. This investment began in 2019 and will be completed by the third quarter of 2020. This investment will facilitate increased earnings for years to come.

Keewatin was awarded the Manitoba Government RFP for general transportation in 2019. Investment in additional King Air capacity was made in 2019 and will drive revenue for at least the next five years.

Not only have we won new contracts to expand our business, we have also renewed existing contracts across our aviation businesses. Contracts for passenger and medevac work in Nunavut have recently been renewed and provides stability for years to come.

In addition to the investment in the Aerospace & Aviation segment, perhaps our most high profile expansion investment is the new plant in Dallas for Quest. We held an investor day in Dallas in the fall to show off this new state of the art facility to our shareholders. The plant is 60% larger than our Toronto facility and was completed on time and on budget. We have slowly ramped up production in Dallas to make sure the product matches the quality that our customers expect. We have also grown our team to be able to manage this larger enterprise. This slower ramp up has reduced the profitability of Quest in the short-term as we bring the Dallas facility up to speed. The demand for the product remains very strong and we look forward to the next stage of Quest's growth as it enters new geographic markets to take advantage of our new facility.

One of the great challenges of running a public company is the market's focus on quarterly reporting and what will happen next quarter. At EIC, we pride ourselves on taking a longer term perspective. Long-term profitable growth, a dividend you can count on, and one that increases over time requires a much different perspective. We believe that this perspective has driven our annual shareholder return of over 20% since inception.

2019 was a great example of this strategy. We benefited from investments made in the past as our financial performance hit new highs and we made investments in acquisitions and Growth Capital Expenditures that will drive our growth in 2020 and beyond. I am very pleased to confirm the preliminary guidance for 2020 we gave on our Q3 conference call. We again expect EBITDA to grow between 10% and 15% this year marking our 8th year of double-digit growth.

I would like to take a moment to thank our shareholders, our employees and all stakeholders for their support over the last few years. The short and distort campaign was stressful and temporarily reduced our share price, but the spurious nature of their allegations became evident as we delivered consistent, profitable growth. It is your support that made this performance possible. We have embedded growth that will drive our 2020 results and our balance sheet is strong and liquid, putting us in a great position to execute on the opportunities we uncover. Thanks again for your support. I look forward to discussing our progress with you again soon.

Mike Pyle
Chief Executive Officer

February 20, 2020

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PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 2019 ("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 Consolidated Financial Statements of the Corporation for the year ended December 31, 2019. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Corporation's 2019 financial results include the impact of IFRS 16, a substantial change in lease accounting standards, effective January 1, 2019. The Corporation was required to adopt IFRS 16 and used the modified retrospective approach. Financial results prior to 2019 were not prepared on this basis. As a result, the comparability of the Corporation's 2019 EBITDA, Net Earnings, and Adjusted Net Earnings prior to 2019 is impacted. The Corporation provided guidance on the impact of IFRS 16 adoption in *Section 10 – Accounting Policies* of its annual 2018 MD&A that 2019 annual EBITDA would increase approximately $20 million and Net Earnings and Adjusted Net Earnings would decrease approximately $0.05 per share. In addition, the opening balance sheet as of January 1, 2019, includes right of use assets of $120 million and a right of use lease liability of $123 million as a result of the adoption.

FORWARD-LOOKING STATEMENTS

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

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

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to those risk factors set out in this report described in *Section 12 – Risk Factors* of the MD&A. We caution that the list of risk factors set out herein is not exhaustive and that when relying on forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements.

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

EXCHANGE INCOME CORPORATION

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

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

(ii) to maximize shareholder value through on-going 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.

(a) **Aerospace & Aviation** – includes a variety of operations within the aerospace and aviation industries. It includes providing scheduled airline, charter service and emergency medical services to communities located in Manitoba, Ontario, and Nunavut. These services are provided by: **Calm Air**, **Perimeter**, **Bearskin** (as a division of Perimeter), **Keewatin**, **Custom Helicopters**, our equity investment in **Wasaya,** and other aviation supporting businesses ("the **Legacy Airlines**"). **Regional One** is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts. **Provincial** (comprised of PAL Airlines, PAL Aerospace, and Moncton Flight College) provides scheduled airline, charter service, and emergency medical services in Newfoundland and Labrador, Quebec, New Brunswick, and Nova Scotia and through its aerospace business Provincial designs, modifies, maintains and operates custom sensor-equipped aircraft. Provincial provides maritime surveillance and support operations in Canada, the Caribbean and the Middle East. Through Moncton Flight College, Provincial offers a full range of pilot flight training services, from private pilot licensing to commercial pilot programs. Together all these operations make up the Aerospace & Aviation segment. To assist in further explaining the results of the segment, the Corporation may refer to the Legacy Airlines, Regional One, and Provincial.

(b) **Manufacturing** – provides a variety of manufactured goods and related services in several industries and geographic markets throughout North America. **Quest** is a manufacturer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in Canada and the United States. **WesTower** is focused on the engineering, design, manufacturing, and construction of communication infrastructure and the provision of technical services. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector. **Stainless** manufactures specialized stainless steel tanks, vessels, and processing equipment. **LV Control** is an electrical and control systems integrator focused on the agricultural material handling segment. The **Alberta Operations** manufactures specialized heavy-duty pressure washing and steam systems, commercial water recycling systems and custom tanks for the transportation of various products, primarily oil, gasoline, and water. **Overlanders** manufactures precision sheet metal and tubular products.

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 years indicated are as follows:

FINANCIAL PERFORMANCE	2019	per share basic	per share fully diluted	2018	per share basic	per share fully diluted
For the year ended December 31						
Revenue	$ 1,341,374			$ 1,203,392		
EBITDA(1)	328,813			277,765		
Net Earnings	83,636	$ 2.58	$ 2.49	70,769	$ 2.25	$ 2.18
Adjusted Net Earnings(1)	102,127	3.15	2.97	92,360	2.94	2.80
Adjusted Net Earnings payout ratio(1)		71%	75%		74%	78%
Free Cash Flow(1)	245,772	7.58	6.55	223,363	7.10	6.22
Free Cash Flow less Maintenance Capital Expenditures(1)	126,075	3.89	3.48	114,367	3.64	3.38
Free Cash Flow less Maintenance Capital Expenditures payout ratio(1)		57%	64%		60%	64%
Dividends declared	72,742	2.2275		68,460	2.175	
FINANCIAL POSITION	**December 31, 2019**			December 31, 2018		
Working capital	$ 307,912			$ 301,141		
Capital assets	965,018			877,691		
Total assets	2,266,557			1,957,298		
Senior debt	719,559			727,511		
Equity	729,843			617,247		
SHARE INFORMATION	**December 31, 2019**			December 31, 2018		
Common shares outstanding	34,703,237			31,316,006		
	December 31, 2019			December 31, 2018		
Weighted average shares outstanding during the period - basic	32,437,022			31,457,420		

Note 1) As defined in *Section 13 – Non-IFRS Financial Measures and Glossary*.

SIGNIFICANT EVENTS

Normal Course Issuers Bid ("NCIB")

On February 8, 2019, the Corporation renewed its NCIB. Under the renewed NCIB, purchases can be made during the period commencing on February 22, 2019, and ending on February 21, 2020. Under the renewed NCIB, the Corporation can purchase a maximum of 1,567,004 shares and daily purchases will be limited to 21,522 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.

On February 19, 2020, subsequent to December 31, 2019, the Corporation renewed its NCIB. Purchases under the NCIB can commence on February 22, 2020 and will end on February 21, 2021. Under the renewed NCIB, the Corporation can purchase a maximum of 1,736,542 shares and daily purchases will be limited to 27,411 shares, other than block purchase exemptions.

Joint Venture with SkyWest, Inc.

In February of 2019, the Corporation, together with SkyWest, Inc. ("SkyWest") established Aero Engines LLC, a joint venture to acquire, lease and sell CF34 engines, which further expanded its relationship with SkyWest from that of a lessee of CRJ200 aircraft from Regional One to joint venture partners. At the time Aero Engines LLC was established, it acquired 14 CF34 engines and the Corporation acquired 12 CRJ700 airframes. Subsequently, the joint venture entered into an agreement to lease all of its engines together with the Corporation's airframes for a 10-year term to a US operator. The commencement of the leases is occurring in phases that started in the fourth quarter of 2019 and will continue during the first half of 2020.

Aerial Surveillance Contract Award

On March 4, 2019, PAL Aerospace was awarded the Department of Fisheries and Oceans contract by the Government of Canada. The new five-year contract takes effect in September 2020 with subsequent options to renew for up to five additional years. This new award will materially increase the scope and nature of services provided under the existing contract between PAL Aerospace and the Government of Canada. PAL Aerospace's critical role in the delivery of Canada's aerial surveillance program provides the Government of Canada with the capability to monitor domestic and foreign vessel activities and detect potential illegal activity. The program also contributes significantly to pollution surveillance, environmental monitoring, and marine security for several other federal departments and agencies.

Convertible Debenture Offering

On March 26, 2019, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued $86.25 million principal amount of debentures including the exercise of the full $11.25 million overallotment option that was granted to the underwriters. The debentures bear interest at 5.75% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity of the debentures is March 31, 2026.

Appointment of Chief Financial Officer

On April 10, 2019, Darryl Bergman was appointed the Chief Financial Officer of the Corporation. Mr. Bergman is a Chartered Professional Accountant and has over 25 years of multi-national finance, treasury and enterprise risk management experience in a variety of business sectors, including energy, food processing, chemical, steel, and pulp and paper. He joins the Corporation from Northland Power Inc., where he was Vice President, Corporate Finance and Treasurer.

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. Prior to the redemption date on April 26, 2019, $24.7 million principal amount of debentures were converted into 780,112 common shares at a price of $31.70 per share. On April 26, 2019, the remaining outstanding debentures in the principal amount of $3.1 million were redeemed by the Corporation.

Life in Flight Program

On May 8, 2019, at the Corporation's Annual General Meeting, the Corporation unveiled its Life in Flight program to proactively address the impact of the worldwide shortage of pilots on the Corporation's airline operations. The program will be integrated into each of the Corporation's airlines and will leverage the knowledge and training capacity of Moncton Flight College, which was acquired on February 28, 2018. Subsequent to the initial announcement, the Corporation has expanded its Life in Flight program to include aircraft maintenance engineers as an additional tool to address the shortage the industry is experiencing. More information on the program can be found at www.lifeinflight.ca.

Dividend Increase

On August 7, 2019, the Corporation increased its monthly dividend by 4% or $0.09 per annum to $2.28 per annum. The increase was effective beginning with the August dividend, which was paid to shareholders on September 13, 2019.

Acquisition of L.V. Control Mfg. Ltd.

On October 4, 2019, the Corporation acquired all the shares of L.V. Control Mfg., Ltd. ("LV Control") for up to $53.5 million. LV Control is an electrical and control systems integrator focused on the agricultural material handling segment with primary activities in grain handling, crop input, feed processing, and seed cleaning and processing. The total purchase price before normal post-closing adjustments included $42.1 million paid in cash at closing, shares of the Corporation issued at closing with a value of $5.4 million, and the ability to earn up to an additional $6.0 million of consideration if post-close targets are met.

Acquisition of Advanced Window, Inc.

On October 17, 2019, the Corporation acquired all the shares of Advanced Window, Inc. ("AWI") for up to US $18.0 million. AWI is a full-service glazier that operates in the northeastern United States, specializing in sales, consultation, design, engineering, installation, and service of pre-glazed fenestration products. The total purchase price before normal post-closing adjustments included US $15.0 million paid in cash at closing and shares of the Corporation issued at closing with a value of US $3.0 million.

Bought Deal Financing of Common Shares

On October 29, 2019, the Corporation closed a bought deal financing of common shares, resulting in the issuance of 2,139,000 shares of the Corporation at $37.65 per share. This includes the full exercise of an overallotment option to purchase 279,000 shares, representing 15% of the size of the offering. The net proceeds of the offering were $76.5 million and were used to repay debt drawn earlier in the month to complete the acquisitions of LV Control and AWI.

New Credit Facility

On February 1, 2019, the Corporation amended its credit facility as part of its annual renewal and negotiated more favourable pricing and extended its term. The revised credit facility included improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility.

On November 5, 2019, the Corporation entered into a new credit facility. This enhanced credit facility increased to approximately $1.3 billion, included even more favourable pricing than negotiated earlier in the year, provided more favourable covenants, and extended its term. The revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. The Corporation’s maximum leverage ratio under the new facility has been increased to 4.0 times and the accordion feature increased to $300 million from $100 million. The maturity of the facility has been extended to November 5, 2023.

2. ANNUAL RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the year ended December 31, 2019, and the comparative 2018 year.

				Year Ended December 31, 2019
	Aerospace & Aviation	**Manufacturing**	**Head Office**[2]	**Consolidated**
Revenue	**$ 974,739**	**$ 366,635**	**$ -**	**$ 1,341,374**
Expenses[1]	**675,549**	**310,900**	**26,112**	**1,012,561**
EBITDA	**299,190**	**55,735**	**(26,112)**	**328,813**
Depreciation of capital assets				**129,328**
Amortization of intangible assets				**18,196**
Finance costs - interest				**54,020**
Depreciation of right of use assets				**22,501**
Interest expense on right of use lease liabilities				**4,500**
Acquisition costs				**5,046**
Other				**(10,624)**
Earnings before income taxes				**105,846**
Current income tax expense				**11,790**
Deferred income tax expense				**10,420**
Net Earnings				**$ 83,636**
Net Earnings per share (basic)				**$ 2.58**
Adjusted Net Earnings				**$ 102,127**
Adjusted Net Earnings per share (basic)				**$ 3.15**

				Year Ended December 31, 2018
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 883,962	$ 319,430	$ -	$ 1,203,392
Expenses[1]	636,052	267,219	22,356	925,627
EBITDA	247,910	52,211	(22,356)	277,765
Depreciation of capital assets				118,591
Amortization of intangible assets				19,596
Finance costs - interest				51,706
Acquisition costs				3,686
Other				(4,616)
Earnings before income taxes				88,802
Current income tax expense				14,318
Deferred income tax expense				3,715
Net Earnings				$ 70,769
Net Earnings per share (basic)				$ 2.25
Adjusted Net Earnings				$ 92,360
Adjusted Net Earnings per share (basic)				$ 2.94

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

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

REVENUE AND EBITDA

On a consolidated basis, the Corporation generated revenue of $1.3 billion, an increase of $138.0 million or 11% over the comparative period. The Aerospace & Aviation segment revenue increased $90.8 million and the Manufacturing segment revenue increased $47.2 million.

EBITDA of $328.8 million was generated by the Corporation during 2019, an increase of $51.0 million or 18% over the comparative period. This includes a $6.0 million one-time bad debt write-off because of an airline customer bankruptcy, which decreased EBITDA during the year, and the adoption of IFRS 16, which increased EBITDA compared to the prior year. This performance was primarily attributable to a significant increase in the Aerospace & Aviation segment.

During the period, the Corporation's head office costs increased $3.8 million over the prior period largely due to increased performance-based compensation, including the addition of the new Restricted Share Plan, increased costs associated with information technology and cybersecurity, and recruitment and other costs associated with filling the Corporation's vacant Chief Financial Officer position.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $90.8 million or 10% to $974.7 million.

Revenue in the Legacy Airlines and Provincial increased by $60.1 million or 10% over the comparative year. Aerospace revenue increased with the deployment of the Force Multiplier aircraft and greater in-service support revenue as overseas maritime surveillance flying hours increased. Passenger and medevac volumes increased driven by higher volumes in Newfoundland & Labrador and Quebec, which was due to activity in the natural resource sector, increased passenger and medevac volumes in the Kivalliq region, and increased passenger revenue in the Manitoba market. The segment also benefitted from revenue associated with a new long-term contract to provide general transportation services to the judicial system within northern Manitoba.

Regional One's revenues for the current period increased by $30.6 million or 11%. As seen in the table below, this was driven by increases in both main revenue streams over the comparative period.

Regional One Revenue	Year Ended December 31,		**2019**		2018
Sales and service revenue		$	**220,665**	$	196,534
Lease revenue			**83,523**		77,009
		$	**304,188**	$	273,543

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

Within the sales and service revenue stream, parts revenue is the most predictable and stable from both sales and margin perspectives. The sale of parts generally comprises the biggest portion of this revenue stream and margins on parts sales are relatively consistent. Sales of aircraft engines and entire aircraft vary on a period to period basis, both in volume and in price, but are generally higher dollar transactions. Margins on these transactions vary by the type of aircraft or engine, its amount of available green time and overall market demand and are typically lower than margins on part sales. Regional One also provides asset management services to clients who own aircraft and who require asset management expertise such as managing return conditions and remarketing. This line of business levers the core competencies of the company and is relatively new, therefore third-party asset management revenues are still comparatively minor but growing. Margins are high because there are few incremental direct costs associated with the sales and capital investment is not required.

Sales and service revenue increased by 12% over the comparative period. This was a result of higher volumes of parts sales and whole aircraft and engines due to investments made into working capital in prior years.

Lease revenue increased by $6.5 million or 8% in the current year. The leasing portfolio experienced higher utilization of aircraft by customers and had more assets on lease in the portfolio compared to the prior year, including higher utilization of the CRJ900 fleet of aircraft. In addition, the lease of 10 CRJ200 aircraft to SkyWest, announced in December 2018, is positively impacting lease revenue in 2019. Lease revenue increased despite a customer bankruptcy at the end of the third quarter of 2019, which left several large assets not leased in the fourth quarter of 2019. These aircraft are in the process of being redeployed and are expected to be re-leased in 2020. The deployment of 10 airframes together with 14 engines owned by the joint venture with SkyWest is currently being phased in and did not contribute in a meaningful way in 2019. The deployment of these assets will be phased in through the end of the second quarter of 2020.

In the Aerospace & Aviation segment, EBITDA increased $51.3 million or 21% to $299.2 million.

EBITDA contributed by the Legacy Airlines and Provincial increased by $47.7 million or 33%. The increase in EBITDA was primarily driven by the 10% increase in revenue. Capacity sharing across airline subsidiaries and investment in additional aircraft in prior periods helped to reduce third party charter costs. The segment also benefitted from cost savings associated with operational efficiencies and our investment in Wasaya. Finally, rapid fuel price escalation in the second and third quarters of 2018 negatively impacted margins in the prior period. Fuel surcharges were implemented near the end of the third quarter of 2018 when it became apparent the increase in fuel price was not temporary in nature. The implementation of these surcharges removed this headwind experienced in 2018.

The growth in EBITDA was achieved despite industry-related labour challenges. Industry-wide labour shortages resulted in continued higher overtime, contractor and training costs. The implementation of EIC's Life in Flight program will help mitigate the impact moving forward but will require time to implement and for new recruits to complete the training process. EIC has expanded its Life in Flight program to include an offering for aircraft maintenance engineers to address maintenance labour challenges.

Regional One's EBITDA increased $3.6 million or 3% over the prior period. During the period, Regional One experienced a one-time $6.0 million accounts receivable write-off due to a customer bankruptcy, which decreased EBITDA. Increased lease revenue drove the increase in EBITDA as margins on lease revenue exceed 95% as the direct cost of leasing is depreciation on the lease portfolio, which is included outside of EBITDA. In addition, growth in parts revenue, which also contributes strong margins, increased EBITDA compared to the prior year. Regional One's customers are typically smaller carriers and as a result there can be a higher risk of customer insolvency. Management believes, however, that the returns generated by Regional One justify the collection risk of receivables from smaller carriers. This was the first significant write-off since Regional One was acquired in 2013.

Manufacturing Segment

The Manufacturing segment revenue increased by $47.2 million or 15% to $366.6 million over the prior year. EBITDA increased by $3.5 million to $55.7 million. EBITDA at Quest was lower than the prior period from additional production costs incurred at the Dallas facility. The Quest team continues to increase production at the new plant in a responsible manner to ensure that there are no issues with product quality resulting in higher costs for the short term. The Canadian plant continued to operate at full capacity but at lower margins as a result of additional direct costs required to meet the higher demand, plus additional investment in employees to support current and future growth. Quest management has spent 2019 investing in the infrastructure to manage a company that with the US expansion will be more than double the size than when acquired in 2017. AWI, acquired in the fourth quarter, performed as expected.

The balance of the segment collectively experienced growth in EBITDA. The segment continued to benefit from an increase in custom manufacturing, high levels of defence spending worldwide and a continuing focus on operational efficiencies. LV Control, acquired in the fourth quarter, performed as expected and contributed to the growth in EBITDA. Growth Capital Expenditures made in the current and prior years enabled the segment to respond to increased demand from customers, increasing EBITDA.

NET EARNINGS

Year Ended December 31		**2019**		2018
Net Earnings	$	**83,636**	$	70,769
Net Earnings per share	$	**2.58**	$	2.25

Net Earnings was $83.6 million, an increase of $12.9 million or 18% over the prior period. The increase in EBITDA of 18% was partially offset by depreciation on right of use assets and interest expense on right of use liabilities as a result of the adoption of IFRS 16. The adoption of IFRS 16 in 2019 negatively impacted Net Earnings compared to the 2018 year. In addition, increased depreciation on assets purchased through acquisition and Growth Capital Expenditures resulted in a $10.7 million increase in depreciation expense. Interest expense increased by $2.3 million due to the funding of Moncton Flight College in 2018 and other investments throughout 2018 and 2019. This increase was partially offset by two separate decreases in the Corporation's borrowing rates throughout 2019 as a result of amendments to its credit facility. Acquisition costs incurred by the Corporation increased $1.4 million in 2019 compared to the 2018 year, reducing Net Earnings. During the year, the Corporation had a one-time account receivable write-off as a result of a customer bankruptcy, which reduced Net Earnings. More than offsetting this write-off, a gain on the revaluation of contingent consideration increased Net Earnings during the period. This was a non-cash adjustment that impacted Net Earnings but had no impact on Free Cash Flow. The revaluation of contingent consideration is required when the amount that will ultimately be paid to vendors differs from the amount previously estimated (*Section 9 – Critical Accounting Estimates and Judgments*).

Income tax expense increased by $4.2 million, and the effective rate of tax increased to 21.0% from 20.3%. The Corporation's proportion of pre-tax earnings in higher tax rate jurisdictions increased compared to the prior period, resulting in an increase in the

effective rate of tax. Partially offsetting this shift was an increase in the remeasurement of contingent consideration, which increased pre-tax earnings in 2019 compared to 2018 and is not taxable. Current tax expense decreased as a result of the ability to claim accelerated tax depreciation on qualifying capital expenditures throughout the 2019 year in both Canada and the United States.

Net Earnings per share increased 15% over the prior year to $2.58. The increase in Net Earnings was partially offset by a 3% increase in the weighted average number of shares outstanding compared to 2018. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

ADJUSTED NET EARNINGS *(Section 13 – Non-IFRS Financial Measures and Glossary)*

Year Ended December 31,		2019		2018
Net Earnings	$	**83,636**	$	70,769
Acquisition costs, net of tax		**4,049**		3,122
Amortization of intangible assets, net of tax		**13,283**		14,305
Interest accretion on acquisition contingent consideration		**1,068**		2,568
Accelerated interest accretion on redeemed debentures, net of tax		**91**		1,596
Adjusted Net Earnings	$	**102,127**	$	92,360
per share - Basic	$	**3.15**	$	2.94
per share - Diluted	$	**2.97**	$	2.80

Adjusted Net Earnings increased by $9.8 million or 11% over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $13.3 million in intangible asset amortization, $1.1 million in interest accretion on contingent consideration and $4.0 million in acquisition costs (all net of tax). In addition, Adjusted Net Earnings included a $0.1 million net of tax add-back of accelerated interest accretion on redeemed debentures. The adoption of IFRS 16 in 2019 negatively impacted Adjusted Net Earnings compared to the 2018 year.

Adjusted Net Earnings per share increased 7% over the prior period to $3.15. The increase in Adjusted Net Earnings was partially offset by a 3% increase in the weighted average number of shares outstanding compared to 2018. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

FREE CASH FLOW *(Section 13 – Non-IFRS Financial Measures and Glossary)*

FREE CASH FLOW Year Ended December 31,		2019		2018
Cash flows from operations	**$**	**217,237**	$	164,643
Change in non-cash working capital items		**45,058**		55,598
Acquisition costs, net of tax		**4,049**		3,122
Principal payments on right of use liabilities		**(20,572)**		-
	$	**245,772**	$	223,363
per share - Basic	**$**	**7.58**	$	7.10
per share - Fully Diluted	**$**	**6.55**	$	6.22

The Free Cash Flow generated by the Corporation during the period was $245.8 million, an increase of $22.4 million or 10% over the comparative year. The main reasons for this increase are the $51.0 million or 18% increase in EBITDA and the decrease in current tax expense, partially offset by increased interest costs and principal payments on right of use lease liabilities. Free Cash Flow is discussed further in *Section 13 – Non-IFRS Measures and Glossary*. Free Cash Flow was impacted by the $6.0 million one-time write-off due to a customer bankruptcy.

Because of the increase in Free Cash Flow described above, Free Cash Flow per share increased by 7% to $7.58. The increase in Free Cash Flow was partially offset by a 3% increase in the weighted average number of shares outstanding compared to 2018. Details around the increase in shares outstanding can be found in *Section 7 – 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 discussion of changes in working capital is included in *Section 4 – Investing Activities*.

3. FOURTH QUARTER RESULTS

The following section analyzes the financial results of the Corporation for the three months ended December 31, 2019, and the comparative three-month period in 2018.

	Three Months Ended December 31, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office**(2)	**Consolidated**
Revenue	**$ 252,640**	**$ 110,647**	**$ -**	**$ 363,287**
Expenses(1)	**172,078**	**96,204**	**6,257**	**274,539**
EBITDA	**80,562**	**14,443**	**(6,257)**	**88,748**
Depreciation of capital assets				**34,181**
Amortization of intangible assets				**4,784**
Finance costs - interest				**12,873**
Depreciation of right of use assets				**6,029**
Interest expense on right of use lease liabilities				**1,126**
Acquisition costs				**845**
Other				**(3,478)**
Earnings before income taxes				**32,388**
Current income tax expense				**2,913**
Deferred income tax expense				**4,192**
Net Earnings				**$ 25,283**
Net Earnings per share (basic)				**$ 0.74**
Adjusted Net Earnings				**$ 29,757**
Adjusted Net Earnings per share (basic)				**$ 0.88**

	Three Months Ended December 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 234,172	$ 81,565	$ -	$ 315,737
Expenses(1)	171,152	70,468	4,610	246,230
EBITDA	63,020	11,097	(4,610)	69,507
Depreciation of capital assets				30,191
Amortization of intangible assets				5,266
Finance costs - interest				13,056
Acquisition costs				1,793
Other				(3,145)
Earnings before income taxes				22,346
Current income tax recovery				(645)
Deferred income tax expense				4,545
Net Earnings				$ 18,446
Net Earnings per share (basic)				$ 0.59
Adjusted Net Earnings				$ 24,670
Adjusted Net Earnings per share (basic)				$ 0.79

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

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

REVENUE AND EBITDA

Revenue generated by the Corporation during the fourth quarter was $363.3 million, an increase of $47.6 million or 15% over the comparative period. Of the increase, $18.5 million relates to the Aerospace & Aviation segment and $29.1 million relates to the Manufacturing segment.

EBITDA generated by the Corporation during the fourth quarter was $88.7 million, an increase of $19.2 million or 28% over the comparative three-month period. The Aerospace & Aviation segment generated $17.5 million of the increase and the Manufacturing segment generated $3.3 million of the increase. The head office costs of the Corporation increased by $1.6 million over the comparative period primarily due to higher compensation costs and increased costs associated with information technology and cybersecurity during the fourth quarter of 2019.

Aerospace & Aviation Segment

In the Aerospace & Aviation segment, revenue increased by $18.5 million or 8% to $252.6 million.

Revenue in the Legacy Airlines and Provincial increased by $21.2 million or 14% over the comparative period. The primary reasons for the increase compared to the prior period are largely consistent with the drivers for the annual increase discussed above.

Regional One's revenue decreased by 3% from the comparative three-month period. This was driven by a decrease in sales and service revenue as summarized in the table below.

Regional One Revenues Three Months Ended December 31,	**2019**	2018
Sales and service revenue	$ **59,125**	$ 61,517
Lease revenue	**19,187**	19,569
	$ **78,312**	$ 81,086

The sales and service revenue decreased compared to the prior period as the fourth quarter of 2018 included a higher than average sales of aircraft and engines. The sale of parts is the most consistent portion of sales and service revenue and increased 17% over the prior period, partially offsetting the decrease in engine and aircraft sales.

Lease revenue decreased by 2% compared to the fourth quarter in 2018. Consistent with the annual discussion above, the lease revenue generated in the fourth quarter of 2019 was impacted by the bankruptcy of a customer that left several large assets not leased in the fourth quarter of 2019. The relatively flat lease revenue compared to the prior period was achieved despite this headwind due to increased utilization within the portfolio and the contribution of other assets purchased in 2018 and 2019.

In the Aerospace & Aviation segment, EBITDA increased by $17.5 million to $80.6 million. This is the result of increases across the segment.

EBITDA contributed by the Legacy Airlines and Provincial increased by $16.1 million or 46%. The increase at the Legacy Airlines and Provincial is driven primarily by the 14% increase in revenue. The factors driving the increase in EBITDA in the fourth quarter are largely consistent with the annual discussion above and were achieved despite labour challenges, which resulted in higher wage and training costs.

Regional One contributed EBITDA of $29.4 million for the quarter, an increase of $1.4 million over the prior period. Regional One generated stronger than typical margins from aircraft and engine sales during the fourth quarter. Combined with consistent margins on increased part sales, the contribution from the sales and service revenue stream more than offset a slight decrease in lease revenue.

Manufacturing Segment

EBITDA at Quest was consistent with the prior period. Quest has built an infrastructure to manage a company that is more than twice the size it was when EIC acquired the company in late 2017, which will support the growth into 2020 and beyond and has resulted in higher costs in the short-term. As the US plant ramps up, margins will improve as the infrastructure to support that growth is already in place. These additional costs were partially offset by the contribution of AWI, acquired partway through the fourth quarter of 2019. In aggregate, the remaining companies within the segment posted both revenue and EBITDA growth for reasons consistent with the annual discussion above.

NET EARNINGS

Three Months Ended December 31		2019		2018
Net Earnings	$	**25,283**	$	18,446
Net Earnings per share	$	**0.74**	$	0.59

Net Earnings for the three months ended December 31, 2019, was $25.3 million, an increase of 37% over the comparative period. The 28% increase in EBITDA was partially offset by depreciation on right of use assets and interest accretion on right of use liabilities as a result of the adoption of IFRS 16. In addition, depreciation expense increased by $4.0 million as a result of the investments made in Growth Capital Expenditures throughout 2019 and 2018. In both the current and prior periods, a gain was recorded as a result of the revaluation of contingent consideration, which is required when we believe that the amount ultimately paid to vendors will differ from the amount estimated at the acquisition's close (*Section 9 – Critical Accounting Estimates and Judgments).*

Income tax expense increased by $3.2 million in the fourth quarter of 2019 and the effective tax rate increased to 21.9% from 17.5%. The increase is mostly attributable to the increase in the Corporation's proportion of pre-tax earnings being generated in higher tax rate jurisdictions compared to the prior period.

Net Earnings per share increased 25% over the prior period to $0.74. The increase in Net Earnings was partially offset by the 8% increase in the weighted average number of shares outstanding compared to 2018. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

ADJUSTED NET EARNINGS *(Section 13 – Non-IFRS Financial Measures & Glossary)*

Three Months Ended December 31		2019		2018
Net Earnings	$	**25,283**	$	18,446
Acquisition costs, net of tax		**797**		1,426
Amortization of intangible assets, net of tax		**3,492**		3,844
Interest accretion on acquisition contingent consideration		**185**		954
Adjusted Net Earnings	$	**29,757**	$	24,670
per share - Basic	$	**0.88**	$	0.79
per share - Diluted	$	**0.81**	$	0.75

Adjusted Net Earnings increased by $5.1 million or 21% over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $3.5 million in intangible asset amortization, $0.2 million in interest accretion on contingent consideration and $0.8 million in acquisition costs (all net of tax).

Adjusted Net Earnings per share increased 11% over the prior period to $0.88. The increase in Adjusted Net Earnings was partially offset by an 8% increase in the weighted average number of shares outstanding compared to the fourth quarter of 2018. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

FREE CASH FLOW *(Section 13 – Non-IFRS Financial Measures and Glossary)*

FREE CASH FLOW				
Three Months Ended December 31		**2019**		2018
Cash flows from operations	**$**	**66,066**	$	100,413
Change in non-cash working capital items		**7,077**		(42,076)
Acquisition costs, net of tax		**797**		1,426
Principal payments on right of use liabilities		**(5,309)**		-
	$	**68,631**	$	59,763
per share - Basic	**$**	**2.02**	$	1.91
per share - Fully Diluted	**$**	**1.75**	$	1.66

The Free Cash Flow generated by the Corporation for the fourth quarter of 2019 was $68.6 million, an increase of $8.9 million or 15% over the comparative period. The primary reason for the increase is the 28% increase in EBITDA, partially offset by an increase in current taxes and principal payments on right of use lease liabilities.

Because of the increase in Free Cash Flow discussed above, Free Cash Flow per share increased the 6% over the prior period to $2.02. The increase in Free Cash Flow was partially offset by the 8% increase in the weighted average shares outstanding during the period. Details around the increase in shares outstanding can be found in *Section 7 – 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 discussion of changes in working capital is included in *Section 4 – Investing Activities*.

4. 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

L.V. Control Mfg. Ltd.

On October 4, 2019, the Corporation acquired all the shares of LV Control. LV Control is an electrical and control systems integrator focused on the agricultural material handling segment with primary activities in grain handling, crop input, feed processing, and seed cleaning and processing.

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

Consideration given:		
Cash	$	**42,100**
Issuance of 134,000 shares of the Corporation at $40.30 per share		**5,400**
Estimated working capital settlement		**81**
Contingent cash consideration - earn out		**5,442**
Total purchase consideration	$	**53,023**

The purchase price included an initial payment of cash and the issuance of common shares to the vendors, plus a multi-year earn out if certain performance targets are met for fiscal periods 2020 and 2021. The maximum earn out that can be achieved by the vendors is $6.0 million. The contingent consideration recorded by the Corporation reflects the discounted liability of the estimated likelihood of performance targets being met for fiscal 2020 and 2021, which was assessed as of the date of acquisition.

Advanced Window, Inc.

On October 17, 2019, the Corporation acquired all the shares of AWI. AWI is a full-service glazier that operates in the northeastern United States, specializing in sales, consultation, design, engineering, installation, and service of pre-glazed fenestration products.

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

Consideration given:		
Cash	$	**19,802**
Issuance of 103,570 shares of the Corporation at $38.24 per share		**3,960**
Estimated working capital settlement		**271**
Total purchase consideration	$	**24,033**

CAPITAL EXPENDITURES

CAPITAL EXPENDITURES	Year Ended December 31, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 114,415**	**$ 4,141**	**$ 1,141**	**$ 119,697**
Growth Capital Expenditures	**111,261**	**8,063**	**-**	**119,324**
	$ 225,676	**$ 12,204**	**$ 1,141**	**$ 239,021**

CAPITAL EXPENDITURES	Year Ended December 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 104,402	$ 2,584	$ 788	$ 107,774
add: finance lease principal payments	-	1,222	-	1,222
Maintenance Capital Expenditures	104,402	3,806	788	108,996
Growth Capital Expenditures	31,448	17,557	-	49,005
	$ 135,850	$ 21,363	$ 788	$ 158,001

Maintenance Capital Expenditures increased by 10% over the prior period, relatively consistent with the percentage growth in EBITDA excluding the increase attributable to the adoption of IFRS 16 and consistent with the guidance provided for 2019. The Corporation expects that the annual percentage increase in Maintenance Capital Expenditures will be relatively consistent with the annual percentage increase in EBITDA as the increased level of reinvestment in absolute dollars is required to support the growing EBITDA of its underlying subsidiaries.

Aerospace & Aviation

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the twelve months ended December 31, 2019, was $74.5 million, an increase of 8% from 2018. The fleet of aircraft operated by the airlines has increased, resulting in increased Maintenance Capital Expenditures to maintain the growing fleet of aircraft. During the year ended December 31, 2019, the Legacy Airlines and Provincial invested $70.9 million in Growth Capital Expenditures. These expenditures primarily relate to investments required to support new contracts awarded to the Corporation, including the Government of Manitoba General Transport contract for the Legacy Airlines and the Department of Fisheries and Oceans contract for Provincial.

Regional One's Maintenance Capital Expenditures for the year ended December 31, 2019, was $39.9 million, an increase of 14% over the prior year because of investments in the lease portfolio during 2018 and 2019. The increase in the number of assets and the replacement of lower value assets with higher value assets in the last two years increased depreciation expense in 2019. Depreciation expense is a proxy for Maintenance Capital Expenditures at Regional One, which approximates the reinvestment required to maintain the earning capacity within the lease portfolio. The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	December 31, 2019		December 31, 2018	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**58 (1)**	**46**	46	54

Note 1) The aircraft total above includes 10 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 Regional One lease portfolio is comprised of several different types of aircraft and engines, but the predominant platforms are the Bombardier CRJ aircraft, the GE CF34 engines that are used on those aircraft, and Embraer ERJ aircraft. Other platforms included in the portfolio are the Dash-8 and ATR aircraft. Regional One is not a traditional leasing company. It does not acquire assets with the intention of owning them for a long duration and deriving earnings solely from the financing spread. Regional One typically acquires assets with the intent of leasing them for a shorter duration, consuming available green time and producing cash flows, and then generating further profits once the aircraft have been retired from the active fleet and parted out. It is important to note that not all the aircraft and engines in the portfolio will be on lease at any given time.

Growth Capital Expenditures at Regional One represent the difference between net capital assets acquired (assets purchased less assets sold or transferred to inventory) and the amount of Maintenance Capital Expenditures. Because of the timing between the

removal of assets from the lease portfolio and the replacement of those assets can vary from quarter to quarter, it is possible that negative Growth Capital Expenditures may arise in a particular quarter. However, we do not expect that negative Growth Capital Expenditures would consistently occur over a longer period as it is the Corporation's intention to maintain or grow the lease portfolio.

During the year ended December 31, 2019, the Corporation invested $47.0 million in excess of Maintenance Capital Expenditures into Regional One. This investment includes both investments in inventory and Growth Capital Expenditures. Investment in inventory on a year to date basis was $6.6 million, which is discussed further below in *Investment in Working Capital*. For the year ended December 31, 2019, Regional One invested $40.4 million in Growth Capital Expenditures, which was mainly the ten CRJ700 airframes purchased from SkyWest, and the purchases of a CRJ700 aircraft, a CRJ900 aircraft, and three Dash-8 Q400 aircraft.

Manufacturing Segment

Maintenance Capital Expenditures in the Manufacturing segment 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.

For the year ended December 31, 2019, Maintenance Capital Expenditures of $4.1 million were made by the Manufacturing segment. In the prior year, principal lease payments on finance leases were included in Maintenance Capital Expenditures. With the adoption of IFRS 16, the principal payment of all lease costs that fall under the standard is deducted in the reconciliation of Free Cash Flow. Without this change, Maintenance Capital Expenditures increased $1.6 million in 2019. The variance over the prior period relates primarily to investments made at Quest's Canadian plant.

During the year ended December 31, 2019, Growth Capital Expenditures of $8.1 million were made by the Manufacturing segment. Most of the investments were made in Quest's new US plant and at WesTower in equipment to support its growing wireline business.

INVESTMENT IN WORKING CAPITAL

During 2019, the Corporation invested $45.1 million into working capital across several entities. Details of the investment in working capital are included in Note 24 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

The Corporation continued to invest in Regional One's inventory of parts and aircraft for resale as Regional One has demonstrated an ability to generate exceptional returns on investment. During 2019, this included the investment in two CRJ700 airframes that will be parted out and therefore have been recorded in inventory. Regional One's investment in inventory throughout 2018 and 2019 supported a 16% increase in part sales during 2019. In addition, Regional One purchased whole aircraft and engines for resale, which have been included in inventory. These purchases were partially offset by sales throughout 2019.

During the fourth quarter, the Corporation experienced slow payment of receivables from a significant government customer. Due to a cybersecurity breach at the customer, the customer was unable to process payments for an extended period of time. The Corporation expects to collect the overdue receivables in the first quarter of 2020.

The Corporation began to invest working capital to support the various contracts it has been awarded in 2019, including the Department of Fisheries and Oceans contract, which was awarded in March 2019, and the Manitoba General Transportation contract, which was awarded during the second quarter of 2019. These investments will continue throughout 2020.

In the Manufacturing segment, the Corporation invested working capital to support Quest's US expansion as the plant has started its ramp up. The Manufacturing segment has also invested in working capital during 2019 as a result of increased revenue from the telecommunications companies in Canada, particularly in the fourth quarter as work was performed later in the year compared to prior years. The Corporation expects to continue to invest in working capital in these areas throughout 2020.

5. 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

			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
April	April 30, 2019	0.1825	5,877	April 30, 2018	0.1825	5,807
May	May 31, 2019	0.1825	5,882	May 31, 2018	0.1825	5,791
June	June 28, 2019	0.1825	5,887	June 29, 2018	0.1825	5,759
July	July 31, 2019	0.1825	5,890	July 31, 2018	0.1825	5,754
August	August 30, 2019	0.19	6,127	August 31, 2018	0.1825	5,735
September	September 30, 2019	0.19	6,128	September 28, 2018	0.1825	5,726
October	October 31, 2019	0.19	6,583	October 31, 2018	0.1825	5,730
November	November 29, 2019	0.19	6,587	November 30, 2018	0.1825	5,710
December	December 31, 2019	0.19	6,594	December 31, 2018	0.1825	5,715
Total		**$ 2.2275**	**$ 72,742**		$ 2.175	$ 68,460

Dividends declared for the twelve months ended December 31, 2019, increased over the comparative period because of the increase in the dividend rate per month in the current and prior periods. The Corporation increased the monthly dividend rate per share by $0.0075 during the first quarter of 2018 (4% increase). On August 7, 2019, the Corporation announced that it increased the monthly dividend rate by $0.0075 per month (4% increase) to $2.28 per annum. The increase became effective for the August dividend that was paid to shareholders on September 13, 2019.

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.

Adjusted Net Earnings excludes acquisition costs, amortization of intangible assets, and unusual one-time items. Amortization of intangible assets results from intangible assets that are recorded when the Corporation completes an acquisition as part of the purchase price allocation for accounting purposes. There are no future capital expenditures associated with maintaining or replacing these intangible assets, therefore intangible asset amortization is not considered when assessing the ability to pay dividends. Acquisition costs are 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 include depreciation on all capital expenditures and is not impacted by the period to period variability in Maintenance Capital Expenditures. The Adjusted Net Earnings payout ratio is negatively impacted starting in 2019 as a result of the adoption of IFRS 16 and the comparability to ratios before the 2019 period is impacted.

Free Cash Flow less Maintenance Capital Expenditures is a measure that ensures that the resulting payout ratio reflects the replacement of capital assets that is necessary to maintain 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 adoption of IFRS 16 on January 1, 2019, has no impact on this payout ratio and therefore results in 2019 are directly comparable to prior periods.

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 air services. Therefore, a single quarter can be impacted by seasonal variations that do not impact the Corporation's ability to pay dividends over a longer period.

In February 2019, the Corporation announced its intention to lower its payout ratio over a three-year period to 50% on a Free Cash Flow less Maintenance Capital Expenditures basis and 60% on an Adjusted Net Earnings basis. At the time of this announcement, the Free Cash Flow less Maintenance Capital Expenditures payout ratio was 60%, and the Adjusted Net Earnings payout ratio was 74%. The Corporation made progress towards these goals in 2019, improving the Free Cash Flow less Maintenance Capital Expenditures payout ratio to 57% and the Adjusted Net Earnings payout ratio to 71%. As evidenced by the increase in the dividend beginning in August 2019, the intention to reduce the payout ratios as set out above does not preclude increases in the dividend when results warrant.

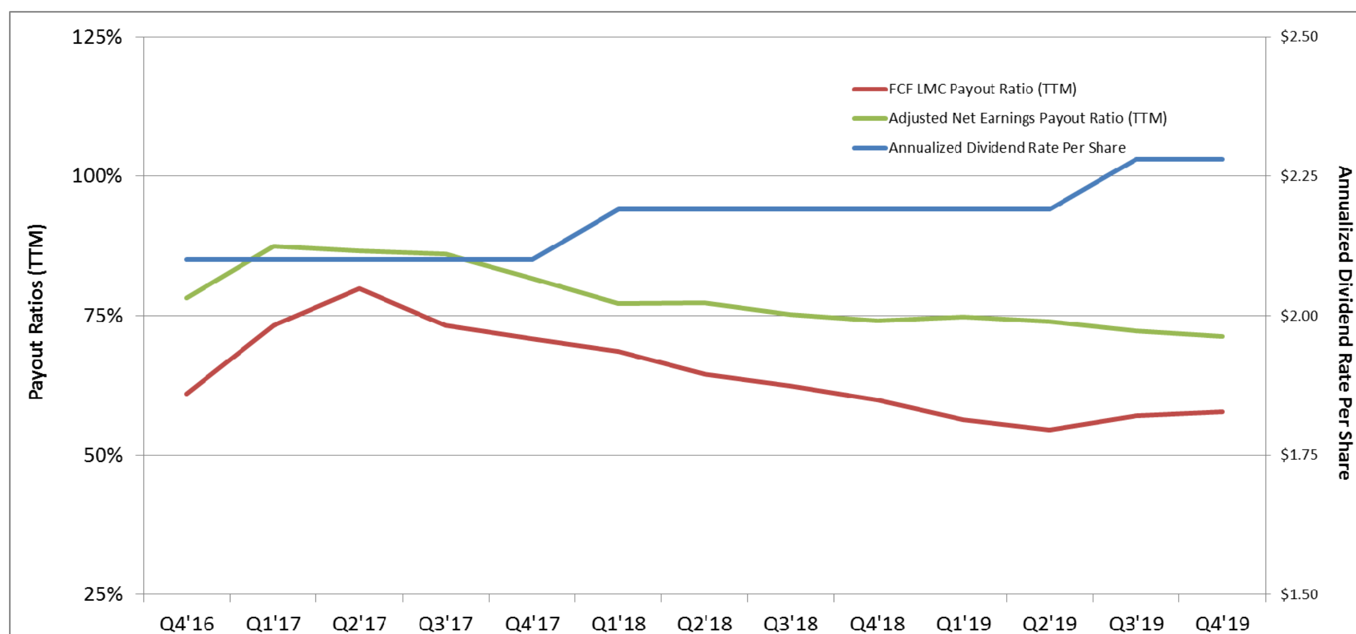
Payout Ratios

Basic per Share Payout Ratios for the Corporation	**2019**		2018	
Periods Ended December 31	**Three Months**	**Annual**	Three Months	Annual
Adjusted Net Earnings	***65%***	***71%***	*69%*	*74%*
Free Cash Flow less Maintenance Capital Expenditures	***52%***	***57%***	*51%*	*60%*

During the 2019 year, the Corporation generated stronger Free Cash Flow less Maintenance Capital Expenditures compared to the prior period. This resulted in an improvement in the Free Cash Flow less Maintenance Capital Expenditures payout ratio, from 60% at December 31, 2018, to 57% at December 31, 2019. Growth in Adjusted Net Earnings resulted in the Adjusted Net Earnings payout ratio improving over the prior year to 71% from 74%.

The nature of Maintenance Capital Expenditures means it can fluctuate from period to period based on the timing of maintenance events, as discussed in *Section 4 – Investing Activities*. The Adjusted Net Earnings payout ratio is not impacted by the timing differences in Maintenance Capital Expenditures and is therefore a more stable metric.

The graph that follows shows the Corporation's historical Free Cash Flow less Maintenance Capital Expenditures trailing twelve-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.



6. OUTLOOK

2019 was an exceptional year for EIC as it secured many long-term contracts and executed on growth initiatives providing embedded growth for 2020 and beyond.

Long-term contracts were secured across EIC, which were concentrated in our aerospace and aviation businesses. Cornerstone contracts such as the Government of Nunavut medical and government passengers contract and the Department of Fisheries and Oceans contract were won as the incumbents. A new contract with the Government of Manitoba for general transportation services

for the judicial system within northern Manitoba was awarded. Additional commercial contracts, such the supply of precision machine parts to a major aerospace and defence OEM and the passenger movements for a major mine in Labrador, were extended. These new and renewed agreements, combined with the contracts secured in previous years, provides EIC a foundation of contracts to drive its business forward and to further expand. None of our significant existing North American contracts in the Aerospace & Aviation segment expire in 2020 or 2021.

2019 not only secured our base business but also has aligned EIC for growth in 2020 and beyond based on the many growth initiatives completed in the year:

- Force Multiplier was a concept aircraft built by EIC based on the belief that there was high demand from customers who had a short-term need for ISR capability. This was confirmed in 2019 as Force Multiplier was deployed on multiple missions in the second half of the year and there is a strong backlog of inquiries for 2020.
- The concept of a second Quest facility became a reality as the Dallas plant was completed and product was delivered to multiple jobs in the second half of 2019. The production occurred in a methodical manner to ensure quality and on-time delivery at the level our customers have come to expect from us. Although this methodical ramp up in production resulted in little financial benefit from this facility in 2019, this will change in 2020 as EIC continues to increase production staffing levels and output from this new facility. In addition to the financial benefit, the new facility, which more than doubles our production space, provides the sales team the confidence to sell our increased production capacity as we currently are fully sold out for 2020 and well into 2021. The new facility will increase our ability to service our customers and will enable us to build the backlog moving forward based on the many opportunities in the market.
- The new Department of Fisheries and Oceans contract, which we have already held for three decades, not only secures our base level of business for the long-term, but also provides for increased scope. Under the new contract, we will provide the Government with aircraft that have increased capacity, range, and the newest technology. This will increase the mission capabilities of these aircraft, providing better service for Canada. The higher level of service and scope of the contract will increase the revenue under the contract once it begins in September 2020.
- In February 2019, the Corporation, together with SkyWest, established Aero Engines LLC, a joint venture to acquire, lease and sell CF34 engines, which further expanded our relationship with SkyWest from that of a lessee of CRJ200 aircraft from Regional One to joint venture partners. At the time Aero Engines LLC was established, it acquired 14 CF34 engines and the Corporation acquired 12 CRJ700 airframes. Subsequently, the joint venture entered into an agreement to lease all of its engines together with the Corporation's airframes for a 10-year term to a US operator. The commencement of these leases is occurring in phases that started in the fourth quarter of 2019 and will continue during the first half of 2020.
- The new contract with the Government of Manitoba to provide general transportation services was fully implemented in August 2019. After purchasing all the aircraft and equipment in 2019, EIC will benefit from a full year of operations in 2020.
- The first Fixed Wing Search and Rescue aircraft will arrive in Canada in 2020, with all 16 to be received by 2023. Our role in the contract of providing in-service support and maintenance for these aircraft will naturally increase in scope as these aircraft come into service
- Two acquisitions, LV Control and AWI, were completed in the fourth quarter of 2020. Both companies have performed as expected to date, both from a financial and operational perspective. EIC will benefit from a full year of operations for these two companies in 2020 and beyond.

The security of our long-term contracts plus the new initiatives provide EIC a base of embedded growth for 2020. Notwithstanding this embedded growth, EIC expects to execute on additional opportunities in 2020, some of which are known and others that will be unearthed throughout the year, which EIC will opportunistically pursue. Currently, our maritime surveillance business is bidding on a multi-year contract to provide services in Europe. Our medevac operations expect the Government of Manitoba medevac contract RFP to resume in 2020. As well, EIC continues to pursue acquisition opportunities both through vertical integration and stand-alone opportunities. We would expect that one or more of these contracts and/or acquisitions will be executed in 2020.

In 2019, EIC increased its ability to fund both organic growth and acquisitions through three significant financings. The first was a convertible debenture offering for $86.25 million, including the overallotment. The second was an equity offering of $80.5 million, including the overallotment option. The third was a new credit facility that increased the capital available under the facility by $300 million plus it increased the size of the accordion feature. As a result, EIC now has approximately $580 million of undrawn credit facility available plus a $300 million accordion feature. This puts EIC in a strong position to continue to execute on both our growth initiatives and the acquisition opportunities that we continue to see in the market.

While our business as a whole has a strong outlook moving into 2020, we continue to watch world events closely. Trade tensions throughout the world and political dynamics result in a world economic outlook that can be hyper-sensitive to change. Potential

changes could quickly impact foreign exchange rates, fuel, foreign demand, and economic growth. While we monitor and are aware of these factors, we believe our diversified model builds in a degree of protection to these potential issues. In 2019, we locked in a portion of our credit facility interest rates, which when combined with our convertible debentures results in approximately half of our long-term debt fixed to long-term rates. Likewise, if fuel prices were to rise rapidly as experienced in 2018, we have shown the ability to pass this through over the long-term, only negatively impacting our results in the short-term. Although trade tensions are high, the new Quest plant in Texas significantly lowers this risk. Additionally, while our flight training school is one of the largest in the world and performs work for Chinese nationals, this work is tied to long-term contracts that have been renewed recently. The recent outbreak of the coronavirus has not resulted in any impact on the flow of Chinese national students to date, however, we continue to monitor this situation. While a significant down-turn in economic demand would undoubtedly result in lower demand for certain parts of our operations, we believe our diversified model as well as a high level of contracted and government work provides us a higher level of protection compared to many other companies.

Our operations continue to be seasonally slower in the first quarter, as winter conditions impact a number of our operations. Most notably, certain of our airline subsidiaries are impacted by the winter road season during the first few months of the calendar year, during which fewer people and cargo are moved by our airlines. Additionally, the first quarter will be impacted by several other events that will put pressure on the quarter's results. There was a major blizzard in Atlantic Canada in January that shut-down all aviation operations in that region for almost a full week. In addition to no flying operations in the region, one of our hangars was flooded, further increasing the disruption to operations. The Force Multiplier aircraft will be in for a heavy check in the first quarter, which will make it unavailable for several weeks. Additionally, several of the Regional One aircraft that came back off of lease from an insolvent customer in 2019 are in the process of being redeployed and will not be on lease for the full quarter. The Quest plant continues to ramp up its production with significant gains in efficiency not expected until later in the year. These factors will further impact the seasonally slow first quarter. Many of the growth initiatives discussed above will take effect gradually as the year progresses resulting in significant gains in performance after the first quarter.

Capital Expenditures

Maintenance Capital Expenditures will continue to grow in line with EBITDA growth as the two increased in a relatively consistent manner in 2019 excluding the impact of the adoption of IFRS 16. We expect this pattern to hold true in 2020 as EBITDA grows. Maintenance Capital Expenditures will continue to be concentrated towards the first quarter of the year. The maintenance departments schedule the events to maximize the utilization of the fleets, resulting in more of these events occurring in the first four months of the year to match the airlines' lower capacity requirements in this time period. A higher portion of Maintenance Capital Expenditures will be incurred during the first quarter of 2020 than was the case in 2019 as we have more prescribed large engine overhauls in this period. This will result in a lower proportion of Maintenance Capital Expenditures later in the year.

The vast majority of the Growth Capital Expenditures for the embedded growth has already been invested in 2019. The only significant amount remaining is approximately half the total capital expenditure for the Department of Fisheries and Oceans aircraft and modifications to increase the scope of the contract, which will be completed by mid-2020. Opportunities within the Legacy Airlines to add more capacity may result in EIC acquiring additional aircraft within the year as well.

A key tenet to EIC's business model is to continue to invest in our subsidiaries. As such, EIC will continue to assess prospects to grow through additional investment as opportunities are developed by their subsidiaries throughout the year. Regional One is the most fluid example as their business opportunities can arise and be acted upon in short order. Their ability to be opportunistic is a key aspect of their business model and our long-term investment strategy.

7. LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position, Free Cash Flow and capital resources remain strong and, after the redemption of the 2014 convertible debentures on April 26, 2019, the Corporation has no long-term debt coming due until December 2022. Our strong balance sheet, recently enhanced with the Corporation's equity offering during the fourth quarter of 2019, combined with the recent changes to our credit facility and convertible debentures, have increased our access to capital to make acquisitions and invest in our operating subsidiaries.

As at December 31, 2019, the Corporation had a cash position of $22.1 million (December 31, 2018 - $43.0 million) and a net working capital position of $307.9 million (December 31, 2018 - $301.1 million) which represents a current ratio of 2.10 to 1 (December 31, 2018 – 2.26 to 1). Working capital increased during the 2019 period as a result of investments made as discussed in *Section 4 – Investing Activities.* Working capital has been impacted by the adoption of IFRS 16 as a portion of the lease liability is presented as a current liability. Finally, the earn out for Quest was settled during the second quarter of 2019, increasing working capital as the amount due to the vendor had previously been recorded in Accounts Payable and Accrued Expenses at December 31, 2018.

The Corporation aims to maintain leverage ratios at consistent levels over time. There are points where leverage temporarily rises because of a significant acquisition where the associated EBITDA has not yet been realized in the Statement of Income. Our target

leverage range, based on senior debt to EBITDA normalized for the full year contribution of recent acquisitions, is between 1.5 and 2.5, which we are currently within. Under the Corporation's amended credit facility announced on November 5, 2019, our leverage covenant with our lenders allows for a senior leverage ratio maximum of 4.0, including an adjustment for subsidiaries acquired partway through a given year.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	December 31 2019	December 31 2018
Total senior debt outstanding (principal value)	$ 723,049	$ 727,169
Convertible debentures outstanding (par value)	335,725	277,335
Common shares	709,546	588,498
Total capital	$ 1,768,320	$ 1,593,002

Credit facility

On February 1, 2019, the Corporation amended its credit facility, which reduced the interest rate charged on utilized and unutilized portions of the facility and extended the maturity to May 7, 2023. On November 5, 2019, the Corporation entered into a new credit facility. The new credit facility further reduced the interest rate charged on utilized and unutilized portions of the facility and extended its term to November 5, 2023. The Corporation was also granted more favourable covenants, including an increase of the maximum secured debt to EBITDA to 4.0 from 3.25. This provides additional flexibility to the Corporation.

It is extremely important that this new enhanced facility is not interpreted as a change in our attitude towards debt. Maintaining a strong balance sheet has always been a cornerstone of our business strategy. Limited leverage and access to capital have enabled our Company to move quickly when an opportunity is uncovered, and this facility enhances our ability to do so while reducing interest costs.

The size of the Corporation's credit facility as at December 31, 2019, is approximately $1.3 billion, with $1.1 billion allocated to the Corporation's Canadian head office and US $150 million allocated to EIIF Management USA, Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of December 31, 2019, the Corporation had drawn $211.9 million and US $393.6 million (December 31, 2018 - $229.1 million and US $365.1 million). During the year, the Corporation made draws on its credit facility to fund the acquisition of AWI and LV Control, the investment in both inventory and capital assets at Regional One associated with its joint venture with SkyWest, Growth Capital Expenditures associated with recent contract awards at the Legacy Airlines and Provincial and to fund payment of the full earn out due to the vendor of Quest. These draws were offset with repayments made against the credit facility with the net proceeds of the March 2019 convertible debenture offering and the net proceeds from the October 2019 common share offering.

During the year, 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. At December 31, 2019, US $187.8 million (December 31, 2018 – US $186.0 million) of the Corporation's US denominated borrowings are hedged with these swaps.

During the second quarter of 2019, the Corporation entered an interest rate swap with certain members of its lending syndicate whereby the Corporation has fixed interest rates on $190.0 million of its Canadian credit facility debt for a period of four years.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at December 31, 2019, and the changes in the amount of convertible debentures outstanding during the year ended December 31, 2019:

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

Par value	Balance, beginning of year	Issued	Converted	Redeemed / Matured	Balance, end of year
Unsecured Debentures - March 2014[1]	$ 27,860	$ -	$ (24,730)	$ (3,130)	$ -
Unsecured Debentures - June 2016	68,975	-	-	-	68,975
Unsecured Debentures - December 2017	100,000	-	-	-	100,000
Unsecured Debentures - June 2018	80,500	-	-	-	80,500
Unsecured Debentures - March 2019	-	86,250	-	-	86,250
Total	$ 277,335	$ 86,250	$ (24,730)	$ (3,130)	$ 335,725

Note 1) On April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were due March 31, 2021.

On March 26, 2019, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued $86.25 million principal amount of debentures including the exercise of the full $11.25 million overallotment option that was granted to the underwriters. The debentures bear interest at 5.75% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity of the debentures is March 31, 2026. Most of the proceeds were used to make a repayment on the credit facility.

On April 26, 2019, the Corporation exercised its right to call its 7 year 6.0% 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. Prior to the redemption date, $24.7 million principal amount of debentures were converted into 780,112 common shares at a price of $31.70 per share. On April 26, 2019, the remaining outstanding debentures in the principal amount of $3.1 million were redeemed by the Corporation.

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the year ended December 31, 2019:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of year		31,316,006
Issued upon conversion of convertible debentures	various	780,112
Issued under dividend reinvestment plan (DRIP)	various	212,625
Shares cancelled under NCIB	various	(58,600)
Issued under employee share purchase plan	various	49,265
Issued under deferred share plan	various	18,220
Issued under First Nations community partnership agreements	various	9,039
Issued to L.V. Control Mfg. Ltd. vendors on closing	October 4, 2019	134,000
Issued to Advanced Window, Inc. vendors on closing	October 17, 2019	103,570
Prospectus offering, October 2019	October 29, 2019	2,139,000
Shares outstanding, end of year		34,703,237

The Corporation issued 212,625 shares under its dividend reinvestment plan ("DRIP") during the 2019 year and received $7.4 million for those shares in accordance with the DRIP.

During the 2019 year, debentures with a face value of $24.7 million were converted into 780,112 shares of the Corporation. The Corporation issued a notice of redemption for its March 2014 convertible debenture series on March 26, 2019, and the remaining outstanding debentures were redeemed on April 26, 2019.

During the year, the Corporation issued shares to the vendors of LV Control and AWI. On October 4, 2019, the Corporation issued 134,000 shares with a value of $5.4 million as part of the acquisition of LV Control. On October 17, 2019, the Corporation issued 103,570 shares with a value of $4.0 million as part of the acquisition of AWI.

On October 29, 2019, the Corporation closed a bought deal financing of common shares, resulting in the issuance of 2,139,000 shares of the Corporation at $37.65 per share. This includes the full exercise of an overallotment option to purchase 279,000 shares, representing 15% of the size of the offering. The net proceeds of the offering were $76.5 million and were used to repay debt drawn earlier in the month to complete the acquisitions of LV Control and AWI.

The weighted average shares outstanding during the three and twelve months ended December 31, 2019, increased by 8% and 3%, respectively. The increase is attributable to debentures that have converted into shares during the first half of 2019, shares issued for the Corporation's October 2019 common share offering, and shares issued in connection with the purchase of LV Control and AWI, partially offset by shares repurchased and cancelled under the Corporation's NCIB throughout 2018 and 2019.

Normal Course Issuers Bid

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 can be made through the facilities of the TSX during the period 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 twelve months ended December 31, 2019, the Corporation purchased 58,600 shares through its NCIB. The Corporation paid $2.2 million to purchase these shares at a weighted average purchase price of $37.41. All shares purchased under the NCIB were cancelled.

On February 19, 2020, subsequent to December 31, 2019, the Corporation renewed its NCIB. Purchases under the NCIB can commence on February 22, 2020 and will end on February 21, 2021. Under the renewed NCIB, the Corporation can purchase a maximum of 1,736,542 shares and daily purchases will be limited to 27,411 shares, other than block purchase exemptions.

The Corporation sought renewal of the NCIB because it believes that, from time to time, the market price of its shares may not fully reflect the value of the shares. The Corporation believes that, in such circumstances, the purchase of shares represents an accretive use of capital.

Schedule of Financial Commitments

The following are the financial commitments of the Corporation and its subsidiaries at December 31, 2019:

	Total	Less Than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	$ 723,049	$ -	$ 723,049	$ -
Convertible debentures (par value)	335,725	-	168,975	166,750
Lease payments excluded from right of use lease liability	12,103	3,400	4,623	4,080
Right of Use lease liability payments (undiscounted value)	130,869	27,333	59,057	44,479
	$ 1,201,746	$ 30,733	$ 955,704	$ 215,309

8. RELATED PARTY TRANSACTIONS

The following transactions were carried out by the Corporation with related parties.

Property Leases

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. In addition, the Corporation leased office space for its head office from a company controlled by a director of the

Corporation. These leases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2019 under these leases was $3.9 million (2018 – $3.9 million) and the lease term maturities range from 2020 to 2026.

Key Management Compensation

The Corporation identifies its key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Corporation's board (whether executive or otherwise). The key management personnel includes the executive management team and the board of directors.

Compensation awarded to key management for the 2019 year and the comparative 2018 year is as follows:

Year ended December 31,		2019		2018
Salaries and short-term benefits	$	**4,967**	$	5,457
Share-based payments		**4,107**		3,718
	$	**9,074**	$	9,175

Co-investments with CRJ Capital Corp.

CRJ Capital Corp., a corporation controlled by the CEO of Regional One, can, subject to the approval of the Corporation, co-invest with the Corporation, on a non-controlling basis, in certain aircraft assets. As a co-investor in these isolated aircraft assets, CRJ Capital Corp. receives profits as money is collected on the sale of the aircraft assets. In connection with this agreement, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During 2019, CRJ Capital Corp. invested US $4.0 million (2018 - US $6.5 million), generating returns paid or payable to CRJ Capital Corp. of US $0.3 million (2018 - US $0.7 million). As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at December 31, 2019, was US $13.5 million (December 31, 2018 - US $10.0 million). At December 31, 2019, US $0.2 million is recorded as accounts payable due to CRJ Capital Corp. (December 31, 2018 - less than US $0.1 million recorded in accounts receivable).

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated 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. The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of the consolidated financial statements. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

Accounting Estimates

Business Combinations

The Corporation's business acquisitions have been accounted for using the acquisition method of accounting. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair values of the acquired company's assets and assumed liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and assumed liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the subsidiary and the equity interests issued by the Corporation. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Corporation is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration liability is generally recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, order backlog, certifications, software intellectual property, and trade names. To determine the fair value of customer-based intangible assets (excluding trade names and software intellectual property), the Corporation uses the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which

are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates, and anticipated average income tax rates. To determine the fair value of the trade name and software intellectual property intangible assets, the Corporation uses the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates, and anticipated average income tax rates.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the year, the estimated liability for additional purchase consideration associated with CarteNav and Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $10.6 million and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

Revenue and income from fixed price construction contracts at WesTower Communications Ltd., Provincial Aerospace Ltd., Stainless Fabrication, Inc., and AWI are recognized over time and generally use an input based measure such as the ratio of actual costs incurred to date over estimated total costs. The Corporation has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance factors, contract profit can differ significantly from earlier estimates. Management believes, based on its experience that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labour, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions and the accuracy of the original bid estimate. Revenue and income from fixed price construction contracts at Quest Window Systems Inc. and Quest USA Inc. are recognized over time and generally use an output based measure based on units produced and/or delivered, as applicable. The output based measure provides a more reliable method for Quest's window construction contracts as evidence of completion over time.

Since the Corporation has many contracts in process at any given time, these changes in estimates can offset each other without impacting overall profitability. However, changes in cost estimates on larger, more complex construction projects can have a material impact on the Corporation's consolidated financial statements and are reflected in the results of operations when they become known.

Estimating the transaction price of a contract is an involved process that is affected by a variety of uncertainties that depend on the outcome of a series of future events. The estimates must be revised each period throughout the life of the contract when events occur and as uncertainties are resolved. The major factors that must be considered in determining total estimated revenue include (*a*) the basic contract price, (*b*) contract options, (*c*) change orders, (*d*) claims, and (*e*) contract provisions for penalty and incentive payments, including award fees and performance incentives. The Corporation is required to make estimates of variable consideration in determining the transaction price, subject to the guidance on constraining estimates of variable consideration.

A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. Unpriced change orders are change orders that have been approved as to scope but unapproved as to price. For such change orders, the Corporation will include in the transaction price an estimate of the variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Claims are amounts in excess of the agreed contract price or amounts not included in the original contract price, that the Corporation seeks to collect from clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. Judgment is required to determine if the claim is an enforceable obligation based on the specific facts and circumstances, however, the Corporation will include in the transaction price an estimate of the variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Given the above-noted critical accounting estimates associated with the accounting for construction contracts, it is reasonably possible, on the basis of existing knowledge, that

outcomes within the next financial year or later could be different from the estimates and assumptions adopted and could require a material adjustment to revenue and/or the carrying amount of the asset or liability affected.

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans, and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft and changing market prices for aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2019, would result in an increase of approximately $6.0 million (2018 - $5.4 million) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

Goodwill and indefinite life intangible assets are not amortized. Goodwill and all indefinite life intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit ("CGU") to its recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use.

Fair value less costs of disposal calculates the recoverable amount using EBITDA multiples based on financial forecasts prepared by management (level 3 within the fair value hierarchy).

Intangible Assets

The recoverable amount is forecasted with management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the cash generating units operate.

The recoverable amount of the CGUs was based on value in use using a discounted cash flow model, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates, and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 2.5% and 5.0%, and discount rates (pre-tax) ranging between 15% and 16%.

The Corporation has concluded that no impairments of its indefinite lived intangible assets existed as a result of this assessment as at December 31, 2019. However, the assessment identified that a reasonably possible change in a key assumption could result in the recoverable amount being less than the carrying value for one cash generating unit, with an indefinite life intangible asset of $3.8 million. Based on the high end of management's reasonable range, the recoverable amount was greater than its carrying value by approximately $8.6 million (or 18%). If a change in the assumption of the discount rate increased by approximately 1.75 percentage points, the carrying amount of each of the cash generating unit would exceed the reasonable range of the recoverable amount.

Goodwill

The recoverable amount of the goodwill CGUs was calculated based on the fair value less costs of disposal, using an EBITDA multiple approach (Level 3 within the fair value hierarchy) based on the Corporation's assessment of market participant assumptions.

The Corporation used its forecasted EBITDA based on its approved budget and used its best estimate of market participant EBITDA multiples (Level 3 within the fair value hierarchy). The EBITDA multiple used for the Aerospace & Aviation segment was 8.0x (2018 – 7.5x) and was 7.5x (2018 – 7.0x) for the Manufacturing segment.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2019.

Deferred Income Taxes

The Corporation is subject to income taxes in Canada, the United States, and certain other jurisdictions. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax

determination is uncertain. The Corporation maintains provisions for uncertain tax positions that are believed to appropriately reflect our risk with respect to tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The Corporation regularly assesses the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by the relevant taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

The Corporation may purchase certain aircraft and aircraft components in the normal course of the operations at Regional One. The Corporation must assess whether the aircraft and engines should be recognized as either inventory or capital assets depending on the anticipated use of such assets, including the ability to lease these tangible assets to customers. The determination is based on available cycle times related to aviation components and whether such assets are expected to be used in more than one period, in which case they would be classified as capital assets and amortized over their useful lives commencing when the asset is available for use and capable of operating in a manner intended by management. The Corporation reviews its tangible assets on a regular basis to assess whether reclassifications are required between capital assets and inventory.

In the normal course of Regional One's business, it may acquire entire aircraft or components of an aircraft for breakdown into saleable parts. Regional One determines the carrying value of its inventory using the average cost to sales percentage based on the expected selling price. Accordingly, the carrying value of inventory and recognition of the related cost of sale requires estimates related to the margins that Regional One will ultimately earn on the parts. The Corporation has a process whereby such estimates are reviewed and assessed for reasonableness on a regular basis and the underlying inventory may be appraised by a third party. However, due to unforeseen changes in market conditions or other factors, the estimated average cost to sales percentages may differ significantly from earlier estimates. Management believes, based on its industry experience, that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of the carrying value of inventory and related cost of sales. However, many factors can and do change throughout a component part's life, which can result in a change to future average cost to sales percentage estimates. Some of the factors that can change include significant changes in worldwide utilization of certain aircraft types which the parts support, the available supply of original equipment manufacturer or aftermarket parts, and changes in airworthiness directives by aviation authorities. Such changes can alter the supply and demand associated with Regional One's parts inventory and therefore, it is possible that outcomes within the next financial year could be different from the estimates and assumptions and could result in an impairment of inventory or a decrease in the average cost to sales percentage on future sales.

Measurement and Presentation of Right of Use Assets and Liabilities

The application of IFRS 16 Leases requires assumptions and estimates 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.

10. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for years ended December 31, 2019, and 2018 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2019 consolidated financial statements.

Adoption of IFRS 16 *Leases*

The Corporation's adoption of IFRS 16 was 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. The impact of adoption is summarized in Note 3 – Significant Accounting Policies of the Corporation's consolidated financial statements.

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.

11. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design and operating effectiveness of the Corporation's internal controls over financial reporting as at December 31, 2019, and has concluded that the internal controls over financial reporting are effective.

LV Control was acquired on October 4, 2019 and AWI was acquired on October 17, 2019. In accordance with section 3.3(1)(b) of National Instrument 52-109, management has limited the scope of its design and evaluation of internal controls over financial reporting to exclude the controls at LV Control and AWI. These entities had revenue of $25.8 million included in the consolidated results of the Corporation for the period ended December 31, 2019. As at December 31, 2019, these entities had current assets of $32.1 million, non-current assets of $78.4 million, current liabilities of $22.7 million, and non-current liabilities of $13.0 million.

There have been no other material changes to the Corporation's internal controls during the 2019 year that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were effective as at December 31, 2019.

12. RISK FACTORS

The Corporation and its subsidiaries ("Subsidiary" or "Subsidiaries") are subject to a number of risks. These risks relate to the organizational structure of the Corporation and the operations of the Subsidiary entities. The risks and uncertainties described below are all of the significant risks that management of the Corporation is aware of and believe to be material to the business and results of operations of the Corporation. When reviewing forward-looking statements and other information contained in this report, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect future results of the Corporation. The Corporation and its Subsidiaries operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management of the Corporation to predict all risk factors or the impact of such factors on the business of the Corporation. The Corporation assumes no obligation to update or revise these risk factors or other information contained in this report to reflect new events or circumstances, except as may be required by law.

RISK GOVERNANCE

The Corporation maintains a formalized framework whereby it applies an ongoing systematic approach to managing conditions of uncertainty by applying policies, procedures, or practices in the analysis, evaluation, control, and communication of its key risks. This Enterprise Risk Management ("ERM") framework is a top-down driven initiative that strives to promote a culture of risk awareness and

where possible, integrates risk management into strategic, financial, and operational objectives from the head office level through to its Subsidiaries. This ongoing process includes an assessment of current risk exposures, risk mitigation activities currently in place to address such exposures, and additional risk mitigation activities to consider going forward. Furthermore, any new risks are discussed and appropriately addressed at such time.

For each identified risk, a risk leader has been identified and is accountable for implementing measures to further mitigate the impact of such risks and/or limit the likelihood of these risks from materializing. The risk leader works with the Corporation's respective functions (i.e. Finance, IT, Operations, and/or Human Resources) in the design and implementation of the corresponding risk-mitigating actions. The Risk and Controls department will further provide a level of assurance on the effectiveness and efficiency of controls over these mitigating actions as necessary. A summary of this risk evaluation is presented each quarter to the members of the Audit Committee and the Board of Directors to report on the changes in the overall position of the Company's current risk exposures and mitigation activities from the previous quarter.

The most significant risks are categorized by their source and described as follows:

Category	Risks
External	• 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
Operational	• 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 • Global Offset Risk • Intellectual Property Risk
Financial	• Availability of Future Financing • Income Tax Matters • Commodity Risk • Foreign Exchange • Interest Rates • Credit Facility and the Trust Indentures • Dividends • Unpredictability and Volatility of Share Prices • Dilution Risk • Credit Risk

Human Capital	• Reliance on Key Personnel • Employees and Labour Relations • Conflicts of Interest

EXTERNAL RISKS:

Economic and Geopolitical Conditions

External economic factors over which the Corporation exercises no influence could affect customer demand and disposable income. Economic and geopolitical conditions may impact demand for products and services provided by the Corporation's Subsidiaries and in general may also impact the Corporation's operating costs, costs and availability of fuel, foreign exchange costs, and costs and availability of capital. A weaker economy will impact the Corporation's ability to sustain its operating results and create growth.

In the Aerospace & Aviation segment, a downturn in economic growth could have the effect of reducing demand for passenger travel, as well as the demand for charter and cargo services. Reduced demand will have an impact on revenue, but will have a larger impact on profitability because of the significant fixed costs of the aviation operations. The exposure to economic risk is mitigated as many of the communities serviced by the Aerospace & Aviation segment have no alternative transportation access, making aviation services a de facto essential service. In addition to the sensitivity of operations to cycles driven by the economy, the operating results of the Aerospace & Aviation segment are also subject to seasonal fluctuations due to a variety of factors including weather, changes in purchasing patterns, pricing policies and the demand and supply levels of aviation related assets.

Provincial is affected by changes in economic and geopolitical conditions in its aerospace business. Geopolitical events drive the need for aerospace related services such as maritime surveillance, larger aerospace modification contracts or mission system software. In the event that such events decrease, so does potentially the need for aerospace related services. Many of these aerospace contracts are long-term, significant dollar contracts that continue to exist as minimum regional or national safeguards; therefore, even as such events and conditions change, there is a certain level maintained as a necessity in many instances to ensure the continued safety of the region or country.

Regional One is exposed to economic factors that adversely impact the global commercial aviation industry generally. The global commercial aviation industry is historically cyclical and has been negatively affected in the past by geopolitical events, high oil prices, lack of capital, and weak economic conditions. As a result of these economic conditions, Regional One has had customers that have ceased operations or filed for bankruptcy or otherwise reorganized in the past. In addition, any reduction in the global operating fleet of aircraft will result in reduced demand for parts and maintenance activities for the type of aircraft involved. Further, tight credit conditions may negatively impact the amount of liquidity available to customers to buy parts, services, engines, and aircraft. A deteriorating airline environment may also result in airline bankruptcies, and Regional One may not be able to fully collect outstanding accounts receivable. It may also diminish Regional One's ability to deploy aircraft that are part of its lease pool. Reduced demand from customers caused by weak economic conditions, including tight credit conditions and customer bankruptcies, may adversely impact Regional One's financial condition or results of operations.

Negative changes in the economy will impact each of the Corporation's manufacturing operations differently as the Manufacturing segment is diversified and geographically dispersed. For instance, a downturn in the oil and gas industry will have a greater impact on some regions, like Alberta and North Dakota, whose economies are driven by oil and gas more than others. With uncertainties in the US political environment, a US economy downturn impacts the operations of Stainless, Quest, and AWI more than our other operations as their products and services are provided to a wide variety of US customers. WesTower is impacted by the large telecommunication companies' capital expenditure programs that are often on a different cycle than the general economy. Ben Machine is a direct supplier to a number of large manufacturers whose sales may be dependent upon governmental decisions on defence and security spending. The Manufacturing segment has historically experienced some time lag between the economy weakening and the reduced demand for its products as the Manufacturing segment generally has a reasonable order backlog, as well, some of the Manufacturing segment's projects are longer in nature, which gives it a buffer to prepare for a reduction in demand.

Competition

New competition or increased competition could have a significant impact on the Corporation's business, results from operations, and financial condition.

The airline Subsidiaries currently focus on niche markets in Manitoba, Ontario, Nunavut, Newfoundland and Labrador, Quebec, Nova Scotia, and New Brunswick and experience different levels of competition depending on the geography and the nature of service provided. The objective of these companies is to provide the best service through efficient management of operations, maintaining an owned fleet of appropriately sized aircraft, maintaining significant ground infrastructure and fostering strong relationships with

customers. The airline Subsidiaries would be exposed to downside earnings risk if a well-capitalized competitor were to commence operations or if a current competitor were to significantly expand services in the niche markets where the entities currently operate. The greatest impact would be on the segment's scheduled operations, as competition would put pressure on load factors resulting in declining margins due to the nature of fixed costs in these operating entities. This impact would be more pronounced in the short-term until the affected Subsidiary made the appropriate operational changes to respond to the competition.

The aerospace design and build business within Provincial is largely driven by the customization of aircraft and the integration of various component systems. The activities of original equipment manufacturers ("OEM") of such systems could impact the integration activities associated with these systems, resulting in a decreased need for customization and therefore less revenue.

The markets for the products and services of Regional One are highly competitive. Regional One faces competition from a number of sources, both domestic and international. Regional One's competitors include aircraft and aircraft parts manufacturers, airline and aircraft service companies, other companies providing maintenance, repair, and overhaul services, other aircraft spare parts distributors and redistributors, aircraft leasing companies and other after-market service providers. Some of Regional One's competitors may have substantially greater financial and other resources than it has and others may price their products and services below Regional One's selling prices. These competitive pressures could adversely affect Regional One's business, results from operations and financial condition.

The market for the products of our manufacturing Subsidiaries is competitive; however, the level of competition is lower on the more customized products as a result of the uniqueness of the products. Increased competition from current or new competitors would put pressure on margins and revenues. The Manufacturing segment's current competitive position in its principal markets is sound and the subsidiaries continuously look to differentiate themselves from their competitors by providing value-added services that competitors may not be able to provide.

The competitive environment in the manufacturing industry has been impacted by customers seeking to take advantage of the low cost environments that exist in certain countries. As a result, there is the possibility of increased competition from suppliers that have manufacturing operations in these countries. The loss of any significant production contract to competitors in low cost countries could have an adverse effect on the profitability of the manufacturing Subsidiaries of the Corporation. The customized nature of the products manufactured by the manufacturing Subsidiaries is a mitigating factor.

Government Funding for First Nations Health Care

Many of the communities which Perimeter, Bearskin (as a division of Perimeter), Keewatin, Calm Air, Custom Helicopters and Provincial provide services to have very limited medical resources and as a result, trips to medical facilities outside of their communities are required to seek adequate medical care. Perimeter, Bearskin, Keewatin, Calm Air, Custom Helicopters, and Provincial invoice the federal government of Canada for the cost of the ticket for the trips. Medevac flights are utilized when a patient requires urgent care at a larger medical facility and cannot wait for a scheduled flight, or is in such a condition that would make travel on a regular flight impossible. If any or all of the government agencies that are serviced by Perimeter, Keewatin, Calm Air, Provincial, Bearskin, and Custom Helicopters decide to reduce or eliminate funding for medical-related transportation services, this would have a significant negative impact on Perimeter, Keewatin, Calm Air, Provincial, Bearskin, and Custom Helicopters as applicable.

Access to Capital

One of the objectives of the Corporation is to continue to acquire additional companies or interests therein in order to expand and diversify the Corporation's investments. The ability to execute on this objective is dependent on the Corporation's ability to raise funds in the capital markets. If the capital markets' desire for income producing investments, such as the common shares and debentures issued by the Corporation, were to significantly decrease, the Corporation would have difficulty in executing its acquisition objectives. The Corporation's current level of leverage is considered reasonable, which gives the Corporation the ability to undertake acquisitions, up to a given size, in the short-term without being dependent on the capital markets.

Market Trends and Innovation

The success of the Subsidiaries is dependent on their ability to anticipate and respond in a timely manner to changing consumer preferences, tastes and demands. Accordingly, any sustained failure to identify and respond to emerging trends could adversely affect consumer acceptance of products or the ability to continue to obtain orders, which could have an adverse effect on the Corporation's business, results from operations and financial condition.

The Subsidiaries continue to invest in technology and innovation as the industries in which they operate are constantly undergoing development and change. Their ability to anticipate changes in technology in order to successfully develop and introduce new and enhanced products or to purchase new equipment and train employees on a timely basis using such technologies will be a significant factor in the Subsidiaries remaining competitive. If there is a shift away from the use of such technologies, costs may not be recovered, adversely affecting the Corporation's results of operations and financial condition. In addition, if other technologies in

which the investment of the Subsidiaries is not as great or their expertise is not as fully developed emerge as the industry-leading technologies, the Subsidiaries may be placed at a competitive disadvantage, which could have an adverse effect on the Corporation's business, results from operations and financial condition.

General Uninsured Loss

Each of the Subsidiaries carries comprehensive general liability, fire, flood and extended coverage insurance with policy specifications, limits and deductibles customarily carried for similar businesses. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not fully insurable on an economically viable basis. Should an uninsured or underinsured loss occur, anticipated profits and cash flows could be negatively impacted.

Climate

The Corporation's results of operations could be impacted by fluctuations from weather and natural disasters. Severe weather conditions and natural disaster conditions can significantly disrupt service by impeding the movement of goods or disruptions with landing and take-offs, which could have an adverse effect on the Corporation's business, results of operations and financial condition. This disruption could also impact Moncton Flight College's ("MFC") ability to maintain its flight training schedule, leading to fewer flights being flown. In addition, increases in frequency, severity or duration of severe weather events, including changes in the global climate, could result in increases in fuel consumption to avoid such weather, turbulence-related injuries, delays and cancellations, any of which would increase the potential for loss of revenue and higher costs. Certain of our airline subsidiaries are impacted by the length of winter road season, which is impacted by the weather during the first few months of the calendar year. The colder the winter season, the longer the winter roads are available for customers to use as an alternative to flying with the airlines of the Corporation.

Acts of Terrorism

The occurrence of a terrorist attack could cause a decrease in passenger demand for travel and an increase in security measures, travel restrictions and related costs in the airline industry. This could have an adverse effect on the Corporation's business, results from operations and financial condition.

Pandemic

The spread of contagious disease could have a significant impact on passenger demand for air travel and the ability to continue full operations. The Corporation cannot predict the likelihood of such an event occurring nor the impact it could have on operations. Alternatively, this event could increase the demand for the Corporation's medical travel services. The spread of contagious disease, depending on the severity, could also impact supply chains around the world and could negatively impact the Corporation's ability to access inputs required for its operations. Such events could have an impact on the Corporation's business, results from operations and financial condition.

Level and Timing of Defence Spending

A significant portion of the revenues of Provincial and Ben Machine comes from sales to aerospace and defence customers, including sales to governments, directly and indirectly, from various countries. If defence spending on their products and services decrease, these Subsidiaries will experience the effects of program restructures, reductions and cancellations. These events could have a material negative impact on the Corporation's Subsidiaries' future revenue, earnings, and operations. In order to minimize these impacts, management continuously reviews the Corporation's Subsidiaries' current and future programs, developing risk mitigation strategies to address any potential change to each program.

Government-Funded Defence and Security Programs

Like most companies that supply products and services to governments, the Corporation and its Subsidiaries can be audited and reviewed from time to time. Any adjustments that result from government audits and reviews may have a negative effect on the results of operations of the Corporation. Some costs may not be reimbursed or allowed in negotiations of fixed-price contracts.

OPERATIONAL RISKS:

Significant Contracts and Customers

The Corporation and its Subsidiaries are currently parties to a number of significant contracts with key customers, including governments. Within the Aerospace & Aviation segment, these significant contracts are for a variety of services but primarily relate to charter work, cargo, medevacs, medical related passenger travel, aircraft modifications, airborne maritime surveillance operations and the maintenance of certain specialized surveillance aircraft, including the Fixed Wing Search and Rescue ("FWSAR") Aircraft Replacement Program with the Government of Canada. Within the Manufacturing segment, these significant contracts are for the production or installation of certain products and maintenance related services. Overall, the Corporation's significant contracts are

spread over a number of different Subsidiaries, thereby reducing the Corporation's overall reliance on a single contract or customer. The loss of any one of these significant contracts or customers could have a negative impact on the operations and cash flow of the Corporation.

Operational Performance and Growth

The Corporation's principal source of funds is cash generated from its Subsidiaries and other investments. It is expected that funds from these sources will provide it with sufficient liquidity and capital resources to meet its current and future financial obligations at existing business levels. In the event that additional capital and operating expenditures depend on increased cash flow or additional financing in the future, lack of those funds could limit or delay the future growth of the Subsidiaries and their cash flow. Furthermore, the underperformance of a material Subsidiary and/or combination thereof could have an adverse effect by also limiting or delaying future growth of the Subsidiaries and their cash flow, while also potentially impacting the amount of cash available for dividends to the Shareholders.

Laws, Regulations, and Standards

The Corporation and its Subsidiaries are subject to a variety of federal, provincial, state and local laws, regulations, and guidelines including but not limited to income, health and safety, competition, employment standards, securities laws (disclosure and insider trading), privacy laws, and airline safety. New, or changes in, accounting standards and pronouncements may also impact the Corporation's financial results. Failure by the Corporation to comply with applicable laws, regulations, and standards could result in financial penalties, assessments or legal action that could have an adverse effect on the reputation and financial results of the Corporation and its Subsidiaries. Furthermore, the financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have an adverse effect on the Corporation's business, results from operations, and financial condition.

The Corporation's aviation Subsidiaries are made up of 703, 704 and 705 operators. Transport Canada issued an amendment to the Canadian Aviation Regulations ("CAR") with respect to Pilot Fatigue and Flight Duty Times on December 12, 2018. Implementation requirements take effect in December 2020 for CAR 705 operators and December 2022 for CAR 703 and 704 operators. Medevac operations are exempt from the regulation changes. Fundamental changes to CAR 700 series and specifically work/duty/flight hours will have an impact on EIC aviation companies based on the Company's approval for Aerial operations, Commuter or Airline operations and may result in an increase in the number of pilots required by EIC. This impact is recognized as industry wide and EIC and its aviation companies continue to enhance a multidimensional strategy to address aviation industry pilot recruitment and retention challenges inclusive of this additional regulatory impact. Flight schedules, operating schedules, and fatigue risk management systems will be further examined in order to mitigate the impacts of the new regulations. Additionally, the acquisition of MFC and the introduction of the Life in Flight program provides a further mitigation measure by giving airline subsidiaries direct access to pilots and limits disruption to planned routes.

The airline industry in Canada, the United States and elsewhere in the world is subject to strict government standards and regulations. Government entities such as Transport Canada, the Competition Bureau, the Canadian Transportation Agency ("CTA"), the Federal Aviation Administration and other government entities may implement new laws or regulatory schemes, or render decisions, rulings or changes in policy that could have a material adverse effect on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations, increasing airport and/or user fees, or reducing the demand for air travel. With the adoption of Bill C-49, the CTA implemented new regulations in 2019 for airline passenger rights. The regulations govern flights to, from, and within Canada, including connecting flights, and specify the requirements governing a carrier's obligations in the case of a flight delay, cancellation or denial of boarding, as well as minimum standards of treatment, compensation and assistance in completing the planned itinerary. The Corporation and its Subsidiaries continue to monitor the impact of such regulations on current operations, inclusive of compensation policies already in place, to address their impact. These new regulations could have an adverse effect on the Corporation's results from operations and financial condition.

The Canadian Federal Government outlined a Pan-Canadian Framework which benchmarks pricing for carbon emissions in response to global climate change initiatives. The framework outlines that jurisdictions may either implement an explicit price-based system, such as a carbon tax or levy, or a cap-and-trade system. The impact of this legislation applies to a broad set of emission sources which includes fossil fuel sources including jet fuel used within the aviation industry. Certain provinces such as British Columbia and Quebec had previously implemented a carbon pricing system. In other provinces, such as Manitoba, where no pricing system was previously in place, the federal nation-wide carbon tax pricing came into effect on April 1, 2019. This will have the greatest impact on our airline Subsidiaries while also having potential indirect implications through the supply chains of our other industries. Furthermore, the Company may be subject to mandated greenhouse gas emissions reduction, reporting or carbon trading requirements in other jurisdictions where the Company operates. This legislation could result in additional costs, which the Corporation might be unable to fully pass on through its sales prices, having an adverse impact on the Company's margins and financial results.

With respect to Regional One, its products that are to be installed in an aircraft, such as engines, engine parts, components, and airframe and accessory parts and components, must meet certain standards of airworthiness established by the Federal Aviation Administration or other regulatory agencies. New and more stringent governmental regulations may be adopted in the future that, if enacted, could have an adverse impact on the Aerospace & Aviation Subsidiaries of the Corporation.

While management believes that affected entities are currently in compliance with all applicable government standards and regulations, there can be no assurance that the Subsidiaries will be able to continue to comply with all applicable standards and regulations. A failure to comply with applicable standards and regulations could result in the revocation of the operating certificate of the applicable Subsidiary and a temporary or permanent cessation of flight operations or the inability to sell its products and carry on business in the case of Regional One.

Certain of the Subsidiaries process, transmit and store credit card data and are therefore subject to compliance with certain requirements established by credit card companies. Non-compliance with these requirements, whether through system breaches or limitations, may result in substantial fines and/or temporary or permanent exclusion from one or more credit card acceptance programs. The inability to process one or more credit card brands could have a material impact on the passenger bookings, revenue, and profitability of certain of the Subsidiaries.

The Corporation's business practices must comply with Canada's Corruption of Foreign Public Officials Act, the U.S. Foreign Corrupt Practices Act, and any local anti-bribery or anti-corruption laws that may be applicable. These anti-bribery or anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence government officials or private individuals for the purpose of obtaining or retaining a business advantage regardless of whether those practices are legal or culturally expected in a particular jurisdiction. These risks can be more acute in emerging markets. If violations of these laws were to occur, they could subject the Corporation and/or its Subsidiaries to fines and other penalties, reduced access to future government contracts as well as increased compliance costs and could have an adverse effect on the Corporation's reputation, business and results from operations and financial condition.

Ben Machine and Provincial are parties to non-disclosure agreements relating to technical assistance agreements and manufacturing licensing agreements involving U.S. International Traffic in Arms Regulations ("ITAR") controlled defence articles and technical data, and therefore assume all rights, responsibilities, liabilities, and obligations that may exist regarding the transfer of such information. In the event that Ben Machine or Provincial is not compliant with such regulations, there is a risk of incurring fines and other penalties that could lead to increased compliance costs or restriction of information that could hinder the acquisition of future contracts. This could have an adverse effect on the Corporation's reputation, business, results from operations, and financial condition.

Certain of our subsidiaries regularly engage in business transactions with US-based suppliers and customers. The United States-Mexico-Canada Agreement was negotiated in late 2018, replacing the previous North American Free Trade Agreement. While the discussions around the renegotiation of a free trade agreement and its impact have led to a better understanding of such implications, uncertainty continues to exist on the outcome of these renegotiations until fully implemented. This could negatively impact the operations and financial condition of our Subsidiaries. Among the possible risks are the possibilities of new tariffs, increased difficulty associated with the movement of goods and people across the border and changes to access to work permits by employees. Furthermore, such events can have a more pervasive impact on our risk position by influencing variables within other key risks (e.g. select commodities, interest rates, etc.).

The legalization of cannabis has led to additional policies to ensure a safe workplace environment. While the rules and policies around this topic area continue to evolve, there is a risk that such rules may impact the Company's ability to fulfill its obligations without having to implement additional protocols, disclosure or training. This may have an adverse effect on the Corporation's operations and financial results in order to maintain safety and compliance requirements.

Acquisition Risk

Led by a formal corporate development department, the Corporation regularly reviews potential acquisition opportunities to support its strategic objective to expand and diversify the Corporation's investments. The Corporation's ability to successfully grow or diversify through additional acquisitions will be dependent on a number of factors, including the identification of suitable acquisition targets in both new and existing markets, the negotiation of purchase agreements on satisfactory terms and prices, securing attractive financing arrangements, and, where applicable, the integration of newly acquired operations into the existing business.

In pursuing a strategy of acquiring other businesses or interests, the Corporation will face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to, incurring higher capital expenditures and operating expenses than expected, entering new unfamiliar markets, incurring undiscovered liabilities at acquired businesses, disrupting ongoing business, diverting management resources, failing to maintain uniform standards, controls and policies, impairing relationships with employees, suppliers, and customers as a result of changes of ownership, causing increased expenses for accounting and computer systems and incorrectly valuing acquired entities.

The Corporation may not adequately anticipate all the demands that its growth will impose on its personnel, procedures, and structures, including its financial and reporting control systems, data processing systems and management structure. Moreover, the Corporation's failure to retain qualified management personnel at any acquired business may increase the risk associated with integrating the businesses. If the Corporation cannot adequately anticipate and respond to these demands, it may fail to realize the expected operating performance and its resources will be focused on incorporating new operations into its structure rather than on areas that may be more profitable. In addition, although the Corporation conducts what it believes to be a prudent level of investigation regarding the operating condition of the businesses it purchases, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual operating condition of these businesses.

The Corporation conducts business, legal and financial due diligence investigations in connection with its acquisitions and the purchase and sale agreements pursuant to which the Corporation directly or indirectly acquires a business or interest will generally contain customary representations and warranties with respect to the applicable business and related indemnities from the vendors regarding corporate matters, taxes, litigation, environmental, operations, employee matters and financial statements, among other things. However, there can be no assurance that the Corporation will uncover all risks associated with the investment through its due diligence investigations, that the representations and warranties given by such vendors will adequately protect against such risks or that the Corporation will recover any losses incurred in the event of a breach of a representation or warranty.

Concentration and Diversification Risk

The Corporation's performance is dependent on the results of its Subsidiaries which are concentrated in two segments: Aerospace & Aviation and Manufacturing. Although diversification exists, financial results are heavily tied to the North American economy. An economic decline, major shift in consumer demands, or change in technology could result in both segments experiencing simultaneous negative results. In the event that both segments experience a downturn leading to negative results, this could have an adverse effect on the Corporation's business, results from operations and financial condition.

Similarly, becoming economically dependent on one Subsidiary or customer could result in an imbalance in the diversification level of the Corporation. This could have either an adverse or favourable effect on the Corporation's financial condition or results from operations. Furthermore, considerable pressure may be placed on resources and systems to manage the imbalance.

Regional One's portfolio of parts, engines and leased aircraft are concentrated in specific types of regional aircraft. The aircraft related assets leasing and sales industry can experience periods of undersupply and oversupply. As a result, Regional One's profitability is susceptible to economic conditions specific to the regional aircraft platform that underlies its business strategy.

Maintenance Costs

The Corporation's airline Subsidiaries rely on aircraft that are tailored to operate in extreme and remote environments. Many such aircraft types are no longer in production, so by nature, the airline Subsidiaries are working with aging aircraft and have specific aging aircraft protocols to ensure the safety and longevity of the aircraft. A comprehensive, in-house maintenance division within each Subsidiary continually assesses the airframe, engines, and components of each aircraft in the fleet. The ongoing maintenance costs, as well as the fleet renewal costs, may be significantly higher than anticipated, adversely impacting the Corporation's business, results from operations, and financial condition.

Access to Parts and Relationships with Key Suppliers

The Subsidiaries are at times dependent on the continued efficient supply of component parts, fuel and raw materials from various suppliers. Any shortage of supply of these required items would jeopardize the ability of the Subsidiaries to provide their products or services.

Casualty Losses

The Subsidiaries are subject to the inherent business risk of liability claims and adverse publicity if any of their services is alleged to have resulted in adverse effects to a user, including an aircraft accident in the case of the entities within the Aerospace & Aviation segment. There can be no assurance that the Corporation's insurance coverage will be sufficient or remain available at reasonable costs to cover one or more large claims. Additionally, any incident or disaster involving one of the segments could significantly harm the Corporation's reputation for safety. In either event, the Corporation's business, results from operations and financial condition could be adversely affected.

Environmental Liability Risks

As an owner of real property, and in particular fuel farms, fuel storage containers, and other fuel transportation equipment, the Subsidiaries are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide that the Subsidiaries could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remedy such substances or locations, if any, could potentially result in claims against the Subsidiaries.

As at the date of this report, the Corporation is not aware of any material non-compliance of any of its Subsidiaries with environmental laws at any of its properties. As at the date of this report, the Corporation is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its Subsidiaries' properties or any pending or threatened claims relating to environmental conditions at its properties.

Future environmental regulatory developments in North America and abroad concerning environmental issues, such as climate change, could adversely affect the operations of the Subsidiaries, particularly in aviation, and increase operating costs and, through their impact on customers, reduce demand for the products and services of the Subsidiaries. Actions may be taken in the future by federal, provincial, state or local governments, the International Civil Aviation Organization, or by signatory countries through a new global climate change treaty to regulate the emission of greenhouse gases by the aviation industry. The precise nature of any such requirements and their applicability to the aviation Subsidiaries of the Corporation and their customers are difficult to predict, but the impact to the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits.

Dependence on Information Systems and Technology

Information systems are an important part of the business process of the Subsidiaries, including marketing their products and services, managing inventory, coordinating logistical support and managing finance functions. In addition, management of the Corporation and its Subsidiaries will continue to rely on information systems to analyze operating performance on an ongoing basis and to aid in the preparation of budgets and forecasts. Any disruptions in these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect the Corporation's business, results from operations and financial condition.

The integration of complex systems and technology presents significant challenges in terms of costs, human resources and development of effective internal controls. In the ordinary course of business, systems will require modifications and refinements to address the Corporation's growth and business requirements. The Subsidiaries could be adversely affected if they are unable to modify their systems as necessary.

The Corporation's reliance on information technology to manage its business exposes the Corporation to potential risks related to cybersecurity attacks and unauthorized access to the Corporation's customers', suppliers', counterparties' and employees' sensitive or confidential information (which may include personally identifiable information and credit information) through hacking, viruses or otherwise (collectively "cybersecurity threats"). The Corporation uses information technology systems and network infrastructure, which include controls for interconnected systems of generation, distribution, and transmission, some of which are shared with third parties for operating purposes. Through the normal course of business, the Corporation also collects, processes, and retains sensitive and confidential customer, supplier, counterparty and employee information.

Cybersecurity threats are continually growing and changing and require continuous monitoring and detection efforts to address. While the Corporation has security measures in place, its systems, assets, and information could be vulnerable to cybersecurity attacks and other data security breaches that could cause system failures, disrupt operations, adversely affect safety, result in loss of service to customers and result in the release of sensitive or confidential information. Despite such security measures, there is no assurance that cybersecurity threats can be fully detected, prevented or mitigated. Should such threats materialize, the Corporation could suffer costs, losses, and damages such as property damage, corruption of data, lower earnings, reduced cash flow, third party claims, fines, and penalties; all or some of which may not be recoverable.

International Operations Risks

Regional One, Provincial and Moncton Flight College conduct business with certain countries other than Canada and the United States, some of which are politically unstable or subject to military or civil conflicts. Consequently, Regional One, Provincial and Moncton Flight College are subject to a variety of risks that are specific to international operations, including the following:

- military conflicts, civil strife, and political risks;
- export regulations that could erode profit margins or restrict exports;
- compliance with applicable anti-bribery laws;

- the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;
- contract award and funding delays;
- potential restrictions on transfers of funds;
- import and export duties and value-added taxes;
- foreign exchange risk;
- transportation delays and interruptions;
- uncertainties arising from foreign local business practices and cultural considerations; and
- travel restrictions.

While Regional One, Provincial and Moncton Flight College have and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of doing business internationally, the Corporation cannot ensure that such measures will be adequate or that the regions in which Regional One, Provincial and Moncton Flight College operate will continue to be stable enough to allow it to operate profitably or at all.

Fluctuations in Sales Prices of Aviation Related Assets

Regional One uses a number of assumptions when determining the recoverability of inventories, aircraft, and engines, which are on lease, available for lease or for sale. These assumptions include historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Reductions in demand for inventories or declining market values, as well as differences between actual results and the assumptions utilized by Regional One when determining the recoverability of inventories, aircraft, and engines, could result in impairment charges in future periods.

Regional One's operations include leasing aircraft and engines to its customers on an operating lease basis in addition to finance leases or sale transactions. Its ability to re-lease or sell these assets on acceptable terms when the operating lease expires is subject to a number of factors which drive industry capacity, including new aircraft deliveries, availability of used aircraft and engines in the marketplace, competition, financial condition of customers, overall health of the airline industry and general economic conditions. Regional One's inability to re-lease or sell aircraft and engines could adversely affect its results of operations and financial condition.

Fluctuations in Purchase Prices of Aviation Related Assets

The success of Regional One's business depends, in part, on its ability to acquire strategically attractive aircraft and enter into profitable leases or sale transactions following the acquisition of such aviation related assets. The aircraft related assets leasing and sales industry can experience periods of undersupply and oversupply. Regional One may not be able to enter into profitable leases or sales transactions following the acquisition of the new aircraft. An acquisition of one or more aircraft may not be profitable and may not generate sufficient cash flow to justify those acquisitions. If Regional One experiences significant delays in the implementation of its business strategies, including delays in the acquisition and leasing or sale of the aviation related assets, its fleet management strategy and long-term results of operations could be adversely affected.

The other entities within the Aerospace & Aviation segment are also exposed to changes in demand and availability of aviation related assets mainly when these entities are looking to replace or grow their aircraft fleet and to a lesser degree when disposing of aircraft from their fleets.

Warranty Risk

Certain Subsidiaries are exposed to warranty risk through their manufacturing activities. In particular, Provincial manufactures highly complex and sophisticated surveillance aircraft, incorporating various technologies and components. These aircraft are subject to detailed specifications, which are listed in contracts with customers, as well as stringent certification or approval requirements. Similarly, software sales incorporate a standard practice 12-month warranty from the date of go-live and must meet stringent certification and approval requirements. Defects may be found in products before and/or after they are delivered to the customer. As well, contractual service levels may not be achieved. This could result in significant additional costs to modify and/or retrofit to correct defects or remediate service levels. The occurrence of defects and failures could give rise to non-conformity costs, including warranty and damage claims, negatively affecting reputation and profitability and could result in the loss of customers. Correcting such defects could require significant capital investment where such claims cannot be passed on to component equipment suppliers.

Global Offset Risk

Offset obligations are common in numerous countries in the global aerospace market. Provincial has significant business operations in the UAE. All government defence and aerospace supply contracts in the UAE are subject to offset obligations, calculated as a

percentage of the value of the supply contract. A profitable business within the UAE is required to generate offset credits within a certain time period. In the event that sufficient offset credits are not generated, Provincial may be subject to financial penalties which could have a material adverse effect on its business, results from operations and financial condition.

Intellectual Property Risk

Certain proprietary intellectual property is not protected by any patent or patent application, and, despite precautions, it may be possible for third parties to obtain and use such intellectual property without authorization. The Corporation and its Subsidiaries have generally sought to protect such intellectual property in part by confidentiality agreements with strategic partners and employees. There is no guarantee that these agreements adequately protect the trade secrets and other intellectual property or proprietary rights of the Corporation or its Subsidiaries. In addition, there can be no assurance that these agreements will not be breached, that adequate remedies for any breach will be in place, or that such persons or institutions will not assert rights to intellectual property arising out of these relationships. Furthermore, the steps taken and that may be taken in the future, may not prevent misappropriation of such solutions or technologies, particularly in respect of officers and employees who are no longer employed by the Corporation or its Subsidiaries or in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in Canada.

FINANCIAL RISKS:

Availability of Future Financing

The Corporation's ability to sustain continued growth depends on its ability to identify, evaluate and contribute financing to its Subsidiaries. The Corporation may require additional equity or debt financing to meet its capital and operating expenditure requirements. There can be no assurance that this financing will be available when required or available on commercially favourable terms or on terms that are otherwise satisfactory to the Corporation, in which event the financial condition of the Corporation may be materially adversely affected. Lack of those funds could limit or delay future growth of the Subsidiaries and the amount of cash available for dividends to shareholders may be reduced.

Income Tax Matters

The business and operations of the Corporation and its Subsidiaries are complex and the Corporation has, over the course of its history, undertaken a number of significant financings, reorganizations, acquisitions, divestitures, and other material transactions. The computation of income taxes payable as a result of these transactions involves many complex factors including the Corporation's interpretation of relevant tax legislation and regulations. While management believes that the provision for income tax is adequate and in accordance with IFRS and applicable legislation and regulations, tax filing positions are subject to review and adjustment by taxation authorities who may challenge the Corporation's interpretation of the applicable tax legislation and regulations. If any challenge to the Corporation's tax filing positions were to succeed, it could result in a reassessment of taxes or otherwise have a material adverse effect on the Corporation's tax obligations.

Furthermore, federal or provincial or foreign tax legislation may be amended, or its interpretation changed (whether by legislative or judicial action or decision), retroactively or for the future, which could adversely affect the Corporation's tax positions.

Commodity Risk

Certain Subsidiaries are vulnerable to price fluctuations in select commodities required to conduct business. Some of the products manufactured by the Subsidiaries require specialized raw materials. If such raw materials are not available or not available under satisfactory terms, the applicable Subsidiary may not be able to manufacture and fulfill customer orders. Sales levels and relationships with customers could be negatively affected as a result.

Fuel costs are a significant component of the total operating costs of the Aerospace & Aviation segment. Fuel prices have and may continue to fluctuate widely depending on many factors including international market conditions, geopolitical events, jet fuel refining costs and the Canada/US dollar exchange rate. The Corporation cannot predict future fuel prices. While most of the travel by the Aerospace & Aviation segment's customers is not discretionary (i.e. for medical or other necessary reasons) and overland travel from and to many of the communities serviced is only possible for brief periods of the year over winter roads, if prices were to escalate significantly it may impact demand for services.

The operations of the Manufacturing segment entities in Alberta have historically benefitted from rising oil prices. Lower oil prices have a negative impact on the Alberta Operations as lower oil prices hurt the Alberta oil and gas market. As oil prices increase, demand for products manufactured by the Alberta Operations increase.

The Aerospace & Aviation segment Subsidiaries providing scheduled and charter services are impacted by mineral commodity pricing as the service requirements of several major customers are impacted by mineral commodity pricing levels.

Foreign Exchange

The Corporation's financial results are sensitive to the fluctuating value of the Canadian dollar, particularly in relation to the US dollar. Our Canadian and US Subsidiaries are impacted differently from fluctuations in the Canada/US dollar exchange rate.

Our Canadian operations have significant US dollar inflows and outflows and it varies greatly by entity. For instance, many of our airline Subsidiaries have net annual outflows of US dollars as parts cost, engines, and aircraft purchases are often purchased in US dollars. As well, the price of fuel, while purchased in Canadian dollars, is impacted by fluctuations in the Canada/US dollar exchange rate. However other entities, including Quest and Provincial Aerospace have significant contracts under which the customer pays in US dollars. When viewed in total, EIC's Canadian operations do not have a large exposure to fluctuations in the Canada/US dollar exchange rate. It is important to note that while exchange rate fluctuations may have a short-term impact on any one of our Canadian Subsidiaries results that none of their business models are based on arbitraging between the two currencies and ultimately exchange rate changes will be reflected in their pricing charged to customers.

Our US Subsidiaries' operations are not impacted by fluctuations in the exchange rate as the vast majority of their revenues and expenditures are in US dollars. However when their results are included in EIC's consolidated results for financial reporting purposes, EIC's consolidated results will be impacted by the translation of our US Subsidiaries results from their domestic currency into the Corporation's reporting currency, which is Canadian dollars.

Interest Rates

As at December 31, 2019, the credit facility has a variable interest rate on the Canadian and US portions of the amount outstanding under the facility. A one-percentage point increase in average interest rates would cost the Corporation approximately $5.4 million (ignoring the impact of changes in foreign exchange rates) per annum for the credit facility based on the amounts outstanding as at December 31, 2019. The terms of the credit facility allow for the Corporation to choose the base interest rate between prime, bankers' acceptances or London Inter-Bank Offer Rate (LIBOR). The Corporation manages the base rate used on the outstanding facility and seeks financing terms in individual arrangements that are most advantageous. The Corporation considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps on a portion of its debt in order to manage this risk. The Corporation's outstanding debentures have fixed interest rates that are not affected by changes in rates.

Credit Facility and the Trust Indentures

The Corporation has significant debt service obligations pursuant to the financing agreements relating to the credit facility and the trust indentures. The degree to which the Corporation and its Subsidiaries are leveraged could have important consequences to shareholders, including:

- the ability of the Corporation and/or its Subsidiaries to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited;
- a substantial portion of cash flow from operations of the Subsidiaries of the Corporation will be dedicated to servicing its indebtedness, thereby reducing funds available for future operations;
- certain borrowings of the Corporation and/or its Subsidiaries will be at variable rates of interest, which will expose the Corporation and its Subsidiaries to future fluctuations of interest rates; and
- the Corporation and/or its Subsidiaries may be more vulnerable to economic downturns and may be limited in their ability to withstand competitive pressure.

The ability of the Corporation and/or its Subsidiaries to make scheduled payments of the principal of or interest on, or to refinance, their respective indebtedness will depend on future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The financing agreements relating to the credit facility and trust indentures that govern the debentures contain restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants may place significant restrictions on, among other things, the ability of the Subsidiaries and other restricted parties under such financing agreements to incur additional indebtedness, to create liens or other encumbrances, to pay dividends, to redeem equity or debt or make certain other payments, investments, capital expenditures, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the financing agreements relating to the credit facility contain a number of financial covenants that require the Corporation to meet certain financial ratios and financial condition tests. A failure to comply with the obligations and covenants under the financing agreements relating to the credit facility or the trust indentures that govern the debentures could result in an event of default under such agreements, as the case may be, which, if not cured or waived, could permit acceleration of indebtedness. If the indebtedness under such agreements were to be accelerated, there can be no assurance that the assets of the Corporation and its Subsidiaries under such agreements would be sufficient to repay that indebtedness in full.

Dividends

Although the Corporation intends to continue to declare and pay monthly dividends on common shares, there can be no assurance that dividends will continue in the future at the same frequency and in the same amounts, or at all. The actual amount of dividends declared and paid by the Corporation in respect of the common shares will depend upon numerous factors, including profitability, fluctuations in working capital, capital expenditures and the sustainability of margins of its Subsidiaries.

Unpredictability and Volatility of Share Prices

The market price of the common shares could be subject to significant fluctuations in response to variations in operating results, monthly dividends, and other factors. In addition, industry specific fluctuations in the stock market may adversely affect the market price of common shares regardless of the operating performance of the Corporation. There can be no assurance of the price at which the common shares will trade. The annual dividend yield on the common shares as compared to the annual yield on other financial instruments may also influence the price of common shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the common shares.

Dilution Risk

The authorized share capital of the Corporation is comprised of an unlimited number of common shares. The Corporation may issue additional common shares, or securities which are convertible, exchangeable or exercisable into common shares, for consideration and on those terms and conditions as are established by the Corporation without the approval of shareholders. The Corporation intends to pursue further acquisitions which will likely require the issuance of additional common shares.

Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations and the Corporation is exposed to credit risk from its customers or parties where the Corporation has advanced funds under a promissory note or loan arrangement. This includes lease arrangements for Regional One where long-term receivables are recognized with aviation companies in finance lease arrangements.

HUMAN CAPITAL RISKS:

Reliance on Key Personnel

The success of the Corporation is dependent on a number of key senior employees both at the Corporation's head office level and at the Subsidiary level. The loss of any one of these key employees would impair the Corporation's ability to operate at its optimum level of performance and could have an adverse effect on the Corporation's business, results from operations and financial condition. There can be no assurance that the Corporation will be able to retain its existing senior management, attract additional qualified executives or adequately fill new senior management positions or vacancies created by expansion or turnover at either at its head office or at a Subsidiary.

Employees and Labour Relations

The success of the Subsidiaries is dependent in large part upon their ability to attract and retain key management and employees. Recruiting and maintaining personnel in the industries in which the Subsidiaries are involved is highly competitive and it cannot be guaranteed that these entities will be able to attract and retain the qualified personnel needed for their businesses. In particular, skilled labour for the WesTower operations of tower maintenance and erection, engineers in Provincial's modification operations, software developers and certain metal fabricators are specialized and it can be difficult to find qualified personnel and retain them given the competitive environments in which these businesses operate. As well, the pilots, nurses and maintenance personnel within the Aerospace & Aviation segment's operations are in high demand within the aviation industry. The previously enacted Transport Canada regulations with respect to Pilot Fatigue and Flight Duty Times were published in late 2018, with an implementation period over the next 2 years. These regulations will have an additional impact on the number of pilots required for EIC Aviation Operators. The acquisition of MFC provides a mitigation measure by giving airline subsidiaries direct access to pilots and limits disruption to planned routes. A failure to attract or retain qualified personnel could have an adverse effect on the Corporation's business, results from operations and financial condition.

Certain employees have labour-related agreements but there can be no assurance that future agreements with employee unions or the outcome of arbitrations will be on terms consistent with the Corporation's expectations or comparable to agreements entered into by the Corporation's competitors. Any future agreements or outcomes of negotiations, mediations or arbitrations including in relation to wages or other labour costs or work rules may result in increased labour costs or other charges which could have an adverse effect on the Corporation's business, results from operations and financial condition.

There can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in the Corporation's service or otherwise adversely affect the ability of the Corporation to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition.

Conflicts of Interest

The Corporation may be subject to various conflicts of interest due to the fact that its directors and management are or may be engaged in a wide range of other business activities. The Corporation may become involved in transactions that conflict with the interests of these other business activities. The directors and management of the Corporation and associates or affiliates may from time to time deal with persons, firms, institutions or organizations with which the Corporation may be dealing, or which may be seeking investments similar to those desired by the Corporation. The interests of these persons could conflict with those of the Corporation. In addition, from time to time, these persons may be competing with the Corporation for available investment opportunities. Any such conflicts will be resolved in accordance with the provisions of the Canada Business Corporations Act relating to conflicts of interest.

13. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

EBITDA: is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash items such as gains or losses recognized on the fair value of contingent consideration items, asset impairment, and restructuring costs, and any unusual non-operating one-time items such as acquisition costs. It is used by management to assess its consolidated results and the results of its operating segments. EBITDA is a performance measure utilized by many investors to analyze the cash available for distribution from operations before allowance for debt service, capital expenditures, and income taxes.

Adjusted Net Earnings: is defined as Net Earnings adjusted for acquisition costs, amortization of intangible assets that are purchased at the time of the acquisition, interest accretion on acquisition contingent consideration, and non-recurring items. Adjusted Net Earnings is a performance measure, along with Free Cash Flow less Maintenance Capital Expenditures, which the Corporation uses to assess cash flow available for distribution to shareholders.

Free Cash Flow: for the year is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital, acquisition costs, principal payments on right of use 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.

Maintenance and Growth Capital Expenditures: Maintenance Capital Expenditures is defined as the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and depreciation recorded on assets in the Corporation's leasing pool. Other capital expenditures are classified as Growth Capital Expenditures as they will generate new cash flows and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

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

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

Purchases of inventory are not reflected in either Growth or Maintenance Capital Expenditures. Aircraft purchased for part out or re-sale are recorded as inventory and are not capital expenditures. If a decision is made to take an aircraft out of the lease portfolio and either sell it or part it out, the net book value is transferred from capital assets to inventory. For Regional One,

capital assets on the balance sheet include operating aircraft and engines that are either on lease or are available for lease. Individual parts are recorded within inventory and capital assets that become scheduled for part out have been transferred to inventory as at the balance sheet date.

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

14. SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table provides selected annual information for the Corporation for the years ended 2017 through to 2019.

		2019		2018		2017
Revenues	$	**1,341,374**	$	1,203,392	$	1,012,950
Expenses(1)		**1,012,561**		925,627		764,252
EBITDA	$	**328,813**	$	277,765	$	248,698
Total non-operating expense		**245,177**		206,996		176,538
Net Earnings	$	**83,636**	$	70,769	$	72,160
Net Earnings per share						
Basic	$	**2.58**	$	2.25	$	2.33
Diluted		**2.49**		2.18		2.26
Adjusted Net Earnings	$	**102,127**	$	92,360	$	79,727
Basic		**3.15**		2.94		2.58
Diluted		**2.97**		2.80		2.47
Dividends declared	$	**72,742**	$	68,460	$	65,087
Per share		**2.2275**		2.175		2.10
Free Cash Flow	$	**245,772**	$	223,363	$	191,114
Per share basic		**7.58**		7.10		6.17
Per share fully diluted		**6.55**		6.22		5.46
Free Cash Flow less Maintenance Capital Expenditures	$	**126,075**	$	114,367	$	91,946
Per share basic		**3.89**		3.64		2.97
Per share fully diluted		**3.48**		3.38		2.81
Financial Position						
Working capital	$	**307,912**	$	301,141	$	236,834
Total assets		**2,266,557**		1,957,298		1,749,197
Total long-term liabilities(2)		**1,153,905**		1,013,635		831,840
Total liabilities		**1,536,714**		1,340,051		1,171,689
Share Information						
Common shares outstanding as at December 31,		**34,703,237**		31,316,006		31,317,890
Weighted average common shares outstanding during the year - basic		**32,437,022**		31,457,420		30,960,708

Note 1) Expenses include direct operating expenses (excluding depreciation and amortization), cost of goods sold (excluding depreciation and amortization) and general and administrative expenses, but it excludes any unusual non-operating one-time items.

Note 2) Long-term liabilities include the non-current portions of long-term debt and finance leases, convertible debentures, long-term deferred revenue, long-term right of use lease liabilities, and other long-term liabilities.

The following summary reflects quarterly results of the Corporation:

	2019 (1)				2018				2017
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Revenue	**$ 363,287**	**$ 355,164**	**$ 325,907**	**$ 297,016**	$ 315,737	$ 308,179	$ 313,449	$ 266,027	$ 263,910
EBITDA	**88,748**	**89,002**	**87,237**	**63,826**	69,507	79,174	75,071	54,013	63,315
Net Earnings	**25,283**	**28,990**	**21,875**	**7,488**	18,446	24,162	19,547	8,614	16,920
Basic	**0.74**	**0.90**	**0.68**	**0.24**	0.59	0.77	0.62	0.27	0.55
Diluted	**0.71**	**0.83**	**0.65**	**0.23**	0.57	0.72	0.60	0.27	0.53
Adjusted Net Earnings	**29,757**	**33,073**	**26,573**	**12,724**	24,670	29,550	25,208	12,932	22,260
Basic	**0.88**	**1.03**	**0.83**	**0.41**	0.79	0.94	0.80	0.41	0.72
Diluted	**0.81**	**0.93**	**0.78**	**0.40**	0.75	0.86	0.76	0.40	0.68
Free Cash Flow ("FCF")	**68,631**	**67,166**	**65,729**	**44,246**	59,763	64,219	58,785	40,596	49,745
Basic	**2.02**	**2.08**	**2.05**	**1.41**	1.91	2.04	1.86	1.29	1.61
Diluted	**1.75**	**1.78**	**1.75**	**1.25**	1.66	1.76	1.66	1.15	1.45
FCF less Maintenance Capital Expenditures	**36,935**	**36,885**	**34,533**	**17,722**	33,743	41,103	29,679	9,842	27,748
Basic	**1.09**	**1.14**	**1.08**	**0.57**	1.08	1.31	0.94	0.31	0.90
Diluted	**0.99**	**1.03**	**0.97**	**0.55**	0.98	1.16	0.90	0.31	0.86
Maintenance Capital Expenditures	**31,696**	**30,281**	**31,196**	**26,524**	26,020	23,116	29,106	30,754	21,997
Growth Capital Expenditures	**29,790**	**32,060**	**16,392**	**41,082**	31,578	15,086	301	2,040	15,768

Note 1) On January 1, 2019, the Corporation adopted IFRS 16 using the modified retrospective method. Amounts prior to 2019 are not directly comparable to results after the adoption of IFRS 16.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is on SEDAR at www.sedar.com.

Independent auditor's report

To the Shareholders of Exchange Income Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Exchange Income Corporation and its subsidiaries (together, the Corporation) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
Richardson Building, One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6
T: +1 204 926 2400, F: +1 204 944 1020

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Travis Muhr.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
February 20, 2020

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at	December 31 2019	December 31 2018
ASSETS		
CURRENT		
Cash and cash equivalents	$ **22,055**	$ 42,970
Accounts receivable	**281,856**	232,910
Amounts due from customers on construction contracts (Note 17)	**26,698**	13,943
Inventory (Note 7)	**224,876**	216,150
Prepaid expenses and deposits	**31,185**	33,666
Income taxes receivable	**1,569**	641
	588,239	540,280
OTHER ASSETS (Note 8)	**80,201**	74,078
CAPITAL ASSETS (Note 9)	**965,018**	877,691
RIGHT OF USE ASSETS (Note 10)	**108,677**	-
INTANGIBLE ASSETS (Note 11)	**164,658**	144,571
GOODWILL (Note 11)	**359,764**	320,678
	$ **2,266,557**	$ 1,957,298
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ **210,496**	$ 199,256
Deferred revenue	**31,704**	26,546
Amounts due to customers on construction contracts (Note 17)	**14,847**	12,151
Current portion of long-term debt and finance leases (Note 12)	**-**	1,186
Current portion of right of use lease liability (Note 10)	**23,280**	-
	280,327	239,139
LONG-TERM DEBT AND FINANCE LEASES (Note 12)	**719,559**	726,325
OTHER LONG-TERM LIABILITIES	**33,173**	29,881
DEFERRED REVENUE	**-**	3,606
LONG-TERM RIGHT OF USE LEASE LIABILITY (Note 10)	**90,575**	-
CONVERTIBLE DEBENTURES (Note 13)	**310,598**	253,823
DEFERRED INCOME TAX LIABILITY (Note 26)	**102,482**	87,277
	1,536,714	1,340,051
EQUITY		
SHARE CAPITAL (Note 14)	**709,546**	588,498
CONVERTIBLE DEBENTURES - Equity Component (Note 13)	**13,214**	11,954
CONTRIBUTED SURPLUS	**9,837**	9,693
DEFERRED SHARE PLAN	**15,854**	13,525
RETAINED EARNINGS		
Cumulative Earnings	**471,569**	390,689
Cumulative Dividends (Note 15)	**(496,920)**	(424,178)
Cumulative impact of share cancellation under the NCIB (Note 14)	**(26,122)**	(25,053)
	(51,473)	(58,542)
ACCUMULATED OTHER COMPREHENSIVE INCOME	**32,865**	52,119
	729,843	617,247
	$ **2,266,557**	$ 1,957,298

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF INCOME

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

For the years ended December 31		2019		2018
REVENUE				
Aerospace & Aviation	$	974,739	$	883,962
Manufacturing		366,635		319,430
		1,341,374		1,203,392
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		544,243		513,863
Manufacturing expenses - excluding depreciation and amortization		264,151		228,766
General and administrative		204,167		182,998
		1,012,561		925,627
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		328,813		277,765
Depreciation of capital assets (Note 9)		129,328		118,591
Amortization of intangible assets (Note 11)		18,196		19,596
Finance costs - interest		54,020		51,706
Depreciation of right of use assets (Note 10)		22,501		-
Interest expense on right of use lease liabilities		4,500		-
Acquisition costs		5,046		3,686
Other (Note 5)		(10,624)		(4,616)
EARNINGS BEFORE INCOME TAXES		105,846		88,802
INCOME TAX EXPENSE (Note 26)				
Current		11,790		14,318
Deferred		10,420		3,715
		22,210		18,033
NET EARNINGS	$	83,636	$	70,769
NET EARNINGS PER SHARE (Note 18)				
Basic	$	2.58	$	2.25
Diluted	$	2.49	$	2.18

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

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

Attributable to common shareholders For the years ended December 31		2019		2018
NET EARNINGS	$	83,636	$	70,769
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 $(19) and $27, respectively.		(29,660)		48,330
Net gain (loss) on hedge of net investment in foreign operation, net of tax expense (recovery) of nil and $(1,016), respectively.		9,775		(17,243)
Net gain on hedge of restricted share plan, net of tax expense of $230 and nil, respectively.		625		-
Net gain on interest rate swap, net of tax expense of $2 and nil, respectively.		6		-
		(19,254)		31,087
COMPREHENSIVE INCOME	$	64,382	$	101,856

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

Exchange Income Corporation

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	20,491	-	-	-	-	-	-	-	**20,491**
Convertible debentures									
Converted into shares (Note 14)	120	(8)	-	-	-	-	-	-	**112**
Issued	-	3,866	-	-	-	-	-	-	**3,866**
Matured/Redeemed	-	(6,215)	6,215	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 14)	6,737	-	-	-	-	-	-	-	**6,737**
Shares issued under First Nations community partnership agreements (Note 14)	322	-	-	-	-	-	-	-	**322**
Deferred share plan vesting	-	-	-	3,829	-	-	-	-	**3,829**
Deferred share plan issuance	171	-	-	(171)	-	-	-	-	**-**
Shares issued under ESPP (Note 14)	1,654	-	-	-	-	-	-	-	**1,654**
Shares cancelled under NCIB (Note 14)	(17,468)	-	-	-	-	-	(12,979)	-	**(30,447)**
Comprehensive income	-	-	-	-	70,769	-	-	31,087	**101,856**
Dividends declared (Note 15)	-	-	-	-	-	(68,460)	-	-	**(68,460)**
Balance, December 31, 2018	**$ 588,498**	**$ 11,954**	**$ 9,693**	**$ 13,525**	**$ 390,689**	**$ (424,178)**	**$ (25,053)**	**$ 52,119**	**$ 617,247**
Balance, December 31, 2018	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 390,689	$ (424,178)	$ (25,053)	$ 52,119	**$ 617,247**
Adjustment relating to adoption of IFRS 16 (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**
Shares issued to acquisition vendors (Note 6)	9,360	-	-	-	-	-	-	-	**9,360**
Prospectus offering, October 2019 (Note 14)	77,596	-	-	-	-	-	-	-	**77,596**
Convertible debentures									
Converted into shares (Note 14)	25,087	(1,093)	-	-	-	-	-	-	**23,994**
Issued (Note 14)	-	2,497	-	-	-	-	-	-	**2,497**
Matured/Redeemed	-	(144)	144	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 14)	7,417	-	-	-	-	-	-	-	**7,417**
Shares issued under First Nations community partnership agreements (Note 14)	321	-	-	-	-	-	-	-	**321**
Deferred share plan vesting (Note 20)	-	-	-	2,806	-	-	-	-	**2,806**
Deferred share plan issuance (Note 14)	477	-	-	(477)	-	-	-	-	**-**
Shares issued under ESPP (Note 14)	1,913	-	-	-	-	-	-	-	**1,913**
Shares cancelled under NCIB (Note 14)	(1,123)	-	-	-	-	-	(1,069)	-	**(2,192)**
Comprehensive income	-	-	-	-	83,636	-	-	(19,254)	**64,382**
Dividends declared (Note 15)	-	-	-	-	-	(72,742)	-	-	**(72,742)**
Balance, December 31, 2019	**$ 709,546**	**$ 13,214**	**$ 9,837**	**$ 15,854**	**$ 471,569**	**$ (496,920)**	**$ (26,122)**	**$ 32,865**	**$ 729,843**

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

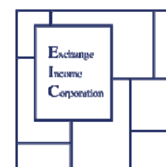
Exchange Income Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the years ended December 31		**2019**		2018
OPERATING ACTIVITIES				
Net earnings for the year	$	**83,636**	$	70,769
Items not affecting cash:				
Depreciation of capital assets (Note 9)		**129,328**		118,591
Amortization of intangible assets (Note 11)		**18,196**		19,596
Depreciation of right of use assets (Note 10)		**22,501**		-
Accretion of interest		**7,032**		10,145
Long-term debt discount		**220**		(520)
Gain on disposal of capital assets		**(1,220)**		(1,268)
Deferred income tax expense		**10,420**		3,715
Deferred share program share-based vesting (Note 20)		**2,806**		3,829
Other (Note 5)		**(10,624)**		(4,616)
		262,295		220,241
Changes in non-cash current and long-term working capital items (Note 24)		**(45,058)**		(55,598)
		217,237		164,643
FINANCING ACTIVITIES				
Proceeds from long-term debt & finance leases, net of issuance costs (Note 12)		**201,883**		299,543
Repayment of long-term debt & finance leases (Note 12)		**(185,635)**		(153,712)
Principal payments on right of use lease liabilities (Note 10)		**(20,572)**		-
Proceeds from issuance of convertible debentures, net of issuance costs (Note 13)		**82,091**		76,597
Redemption of convertible debentures (Note 13)		**(3,130)**		(121,731)
Issuance of shares, net of issuance costs		**86,162**		8,713
Payment for repurchase of shares under NCIB (Note 14)		**(2,192)**		(30,457)
Cash dividends (Note 15)		**(72,742)**		(68,460)
Other		**3,000**		-
		88,865		10,493
INVESTING ACTIVITIES				
Purchase of capital assets		**(250,555)**		(186,715)
Proceeds from disposal of capital assets		**15,844**		34,464
Purchase of intangible assets		**(4,310)**		(4,528)
Investment in other assets		**(8,502)**		(17,981)
Cash outflow for acquisitions, net of cash acquired		**(61,259)**		(32,206)
Settlement of contingent acquisition consideration		**(15,000)**		-
		(323,782)		(206,966)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(17,680)**		(31,830)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**42,970**		72,315
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(3,235)**		2,485
CASH AND CASH EQUIVALENTS, END OF YEAR	$	**22,055**	$	42,970
Supplementary cash flow information				
Interest paid	$	**46,293**	$	46,953
Income taxes paid	$	**13,357**	$	13,773

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



(in thousands of Canadian dollars, unless otherwise noted and 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 101 – 990 Lorimer Boulevard, Winnipeg, Manitoba, Canada R3P 0Z9.

As at December 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 Incorporated, EIC Aircraft Leasing Limited, Quest Window Systems Inc., CANLink Aviation Inc. ("Moncton Flight College"), LV Control Mfg. Ltd. ("LV Control"), 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 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"). These consolidated financial statements are presented in thousands of Canadian dollars, except per share information and share data.

The consolidated financial statements were approved by the Board of Directors of the Corporation for issue on February 20, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements, which have been consistently applied to all the years presented, unless otherwise stated, are as follows:

a) *Basis of Measurement*

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets, financial liabilities and derivative instruments measured at fair value.

b) *Principles of Consolidation*

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, including those identified in Note 1. All inter-company transactions have been eliminated for the purpose of these consolidated financial statements.

Subsidiaries are all entities (including structured entities) which the Corporation controls. The Corporation controls an entity when it is exposed to, or has the rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over those entities. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation and are de-consolidated from the date that control ceases.

c) *Revenue Recognition*

The Corporation recognizes revenue from the sale of retail and manufactured goods and from the sale of services. Revenue is recognized for the major business activities using the methods outlined below.

Aerospace & Aviation Segment

i. Aftermarket parts sales

Revenue from the sale of parts is recognized when control of the part has passed to the customer, which is generally when the part is shipped and the title has passed.

The Corporation is also party to consignment agreements where parts are sold with the Corporation acting as the consignee. With respect to consignment sales, the Corporation assesses whether it is a principal or an agent under the terms of the agreement. In circumstances where the Corporation is a principal, revenue is recognized in a manner consistent with other parts sales as described above. In circumstances where the Corporation is an agent, revenue is recorded net of the related cost of the part, such that the revenue recognized is equal to the margin earned by the Corporation.

ii. Aircraft and engine sales

Revenue from the sale of aircraft and engines is recognized when control of the asset has passed to the customer, which is generally when the asset has been delivered to the customer and title has passed.

iii. Aircraft and engine lease revenue

Revenue from the leasing of aircraft and aircraft components is recognized as revenue on a straight-line basis over the terms of the lease agreements. Certain of the Corporation's lease contracts call for billings either in advance of or subsequent to the customer's usage of the aircraft under the lease. Lease revenue received in advance is recorded as deferred revenue until such time that it has been earned. Security deposits received from customers are recorded as a liability within "Other Long-Term Liabilities" on the Statement of Financial Position. Certain leases require payments from the customer that are for the purpose of maintenance of the leased aircraft. In circumstances where the payment must be returned to the customer if it is not used for maintenance activities, the payment received from the customer is recorded as a maintenance liability. The maintenance liability is recorded in Other Long-Term Liabilities on the Statement of Financial Position.

The Corporation, as a dealer of certain aircraft and related components, may enter into a finance lease with customers. In such circumstances, the Corporation records a gross profit from the lease equivalent to the present value of the lease payments reduced by any down payments less the cost basis of the related asset. Interest is earned over the term of the lease and recognized using the effective interest method. Long-term lease receivables relating to sales-type leases are recorded on the statement of financial position within "Other Assets".

iv. Surveillance and aircraft modification services

Revenue from surveillance services is recognized when the surveillance flight has been taken. In the case of aircraft modification services, the customer is obligated to pay for work performed to date, therefore revenue is recognized over time as the modification services are performed. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. The timing of billings to the customer and customer payments can result in either an asset ("Amounts due from customers on construction contracts") or a liability ("Amounts due to customers on construction contracts").

v. Software development and sales of software licenses

Revenue from software development is recognized over time based on the completion of contractual performance obligations. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. The contract price is allocated to the performance obligations. When a performance obligation is completed and the customer is obligated to pay for the work performed, the associated revenue is recognized.

vi. Charter, passenger flight, medevac and cargo services

The Corporation records revenue from flight services (charter, passenger and cargo) when the flight has been completed. Payments for these services that are received in advance of the related flight are recorded as deferred revenue until the flight is taken, the ticket expires or the goods are shipped.

Where a customer receives loyalty points based on the value of the ticket purchased, the points awarded are recognized as a separate component of the purchase price of the ticket. The amount allocated to the loyalty points component is determined based on the fair value of the loyalty points relative to the fair value of the ticket purchased. The amount allocated to the loyalty points awarded is deferred and recognized as revenue when the loyalty points are redeemed by the passenger.

The Corporation performs regular evaluations of its deferred revenue liabilities and these evaluations may result in adjustments to the amount of revenue recognized. Due to the complexity associated with pricing, refunds, exchanges and historical experience with unused tickets and other factors, certain amounts are recognized as revenue based on estimates. Events and circumstances may cause actual results to be different from estimates.

vii. Fixed Base Operations ("FBO") sales and services

The Corporation records revenue from the sale of fuel, de-icing and other FBO sales and services when the goods or services have been delivered to the customer. Certain fuel sales transactions have the characteristics of agent sales and as a result, revenue from this type of transaction is recorded based on the net amount received from the customer. The net amount is the difference between the amount billed to the customer less the amount paid to the supplier of the fuel. The amount receivable from the customer and the amount owed to the fuel supplier are not recorded on a net basis because the legal right of offset does not exist.

viii. Pilot Training

The Corporation records revenue from the training of pilots over time based on the provision training, primarily flight training hours, which varies based on the actual flying hours provided to students each month.

Manufacturing Segment

i. Sale of equipment and manufactured goods

Revenue from the sale of equipment and manufactured goods is recognized when control of the asset has passed to the customer, which is generally at the time of delivery. Payments received from customers in advance of the delivery of the goods are recorded as deferred revenue.

ii. Manufactured window sales

Revenue from the manufacture and installation of window systems is recognized over time based on output measures such as surveys of work performed and units delivered, which represents the continuous transfer of control of goods and services to the customer. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset ("Amounts due from customers on construction contracts") or a liability ("Amounts due to customers on construction contracts").

iii. Tower construction services

Revenue from the construction of towers is recognized over time based on the stage of completion. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset ("Amounts due from customers on construction contracts") or a liability ("Amounts due to customers on construction contracts").

iv. Stainless tank sales

Revenue from the construction of stainless tanks is recognized over time based on the stage of completion. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset ("Amounts due from customers on construction contracts") or a liability ("Amounts due to customers on construction contracts").

d) Expenses

Aerospace & Aviation expenses – excluding depreciation and amortization

The fixed and variable costs along with the cost of sales incurred in the operations of the Corporation's Aerospace & Aviation segment are included in this line item on the Consolidated Statements of Income. This includes costs related to shipping and handling and the cost of sales of inventory. Depreciation and amortization are presented separately on a consolidated basis.

Manufacturing expenses – excluding depreciation and amortization

The cost of sales for the Corporation's Manufacturing segment is included in this line item on the Consolidated Statements of Income. This includes costs related to shipping and handling and the cost of sales of finished goods inventory. Depreciation and amortization are presented separately on a consolidated basis.

e) *Foreign Currency Translation*

Functional and presentation currency

Items included in the financial statements of each consolidated entity in the EIC group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is EIC's functional and presentation currency.

The financial statements of entities that have a functional currency different from that of the Corporation ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing exchange rate at the date of the statement of financial position, and income and expenses – at the average exchange rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

If the Corporation disposes of its entire interest in a foreign operation, or, loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If the Corporation disposes of part of an interest in a foreign operation that remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of income.

f) *Cash and Cash Equivalents*

Cash and cash equivalents are comprised of cash and temporary investments consisting of highly liquid investments having maturities of three months or less. Interest is recorded on an accrual basis.

g) *Financial Instruments*

Recognition

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

Classification

The Corporation classifies its financial assets and liabilities into the following measurement categories:

- those measured subsequently at fair value, either through profit or loss or through other comprehensive income
- those measured at amortized cost

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

For assets measured at fair value, gains and losses will be either recorded in profit or loss or other comprehensive income. For equity investments not held for trading, this will depend on whether the Corporation has made an irrevocable election at the time of initial recognition to account for the investment at fair value through other comprehensive income ("FVOCI").

The Corporation's cash and cash equivalents are classified as financial assets measured at fair value through profit of loss ("FVTPL"). Accounts and other receivables, loans receivable and deposits are classified as financial assets measured at amortized cost. Accounts payable, the Corporation's credit facility, and convertible debentures are classified as financial liabilities measured at amortized cost. All financial assets and liabilities measured at amortized cost use the effective interest rate method with interest income/expense recorded in the statement of operations, as applicable.

Measurement

The Corporation initially measures its financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, the Corporation shall measure a financial asset at one of amortized cost, FVOCI, or FVTPL. Measurement of financial liabilities is chosen at the time of initial recognition and unless specifically identified as FVTPL at the time of adoption, are subsequently measured at amortized cost.

The Corporation subsequently measures debt instruments based on the business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories:

Amortized cost: Assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

FVOCI: Debt instruments that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

The Corporation subsequently measures all equity investments at fair value. Where the Corporation has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Corporation's right to receive payments is established.

Impairment

Expected credit losses are to be recognized using a forward-looking approach that reflects any changes in credit risk associated with the financial instruments.

For trade receivables or contract assets that do not contain a significant financing component, the loss allowance is measured at initial recognition and throughout its life at an amount equal to its lifetime expected credit loss. For trade receivables, contract assets, or lease receivables that contain a significant financing component, the Corporation applies the general model.

For financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the time value of money. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reclassified from other comprehensive income.

Hedge Accounting and Derivatives

The Corporation enters into foreign currency, interest rate and share forward contract derivatives to manage the associated risks. Derivative instruments are recorded on the consolidated statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts that are required to be accounted for separately. Changes in the fair value of derivative instruments are recognized in the consolidated statement of income, except for effective changes for designated derivatives under hedge accounting as described below. All cash flows associated with purchasing and selling derivatives are classified as consistent with the hedged item in the consolidated statement of cash flow.

The Corporation documents at the inception of the hedging transaction the economic relationship between the hedging instrument and hedged item including whether the hedging instrument is expected to offset changes in the cash flows or the fair

value of the hedged item. The Corporation documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedging relationship.

Hedges of a net investment in a foreign operation

The Corporation applies hedge accounting to certain foreign currency differences arising between the functional currency of the foreign operation and the Corporation's presentation currency, regardless of whether the net investment is held directly or through an intermediate parent. The Corporation designates either financial liabilities and/or derivative financial instruments as hedging items of the net investments in a foreign operation. When the hedged net investment is disposed of, the relevant amounts in the translation reserve is transferred to the statement of income as part of the gain or loss on disposal.

Financial Liabilities

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective.

Derivative financial instruments

The Corporation may enter into derivative financial instruments to hedge its foreign currency exposure associated with its net investment in a foreign operation. Gains and losses on such derivative instruments are recognized in other comprehensive income to the extent the hedge is effective.

Cash flow hedges of foreign currency, interest rate, and Restricted Share Plan liabilities

The Corporation applies hedge accounting to certain designated derivatives related to the cash flow hedge of foreign currency, interest rate, and Restricted Share Plan liabilities. Under hedge accounting, to the extent effective, the gain or loss on the hedging derivatives is recorded in other comprehensive income. Premiums paid for option contracts and the time value of the option contracts are deferred as a cost of the hedge in other comprehensive income, if applicable. Amounts accumulated in other comprehensive income are reclassified to the statement of income in the corresponding line item to the hedged risk.

On initial designation of the derivative or financial liability as a hedging instrument, the Corporation formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives, the strategy in undertaking the hedge transaction and the hedged risk, the identification of the nature of the risk being hedged and how the Corporation will assess whether the hedging relationship meets the hedge effectiveness requirements. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging relationship meets the hedge effectiveness requirements including the economic relationship, the conclusion that credit risk does not dominate the value changes from that economic relationship and the hedge ratio is appropriate. To the extent that the hedge is ineffective, such differences are recognized in the statement of income. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to the statement of income as part of the gain or loss on disposal.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the statement of income.

h) Inventory

Raw material and parts inventories have been valued at the lower of cost and net realizable value. Work in progress and finished goods inventories have been valued at the lower of cost of materials and labour, plus systematically allocated overhead, and net realizable value. Cost is determined using the average cost method and net realizable value is computed as the actual selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory items previously written-down to net realizable value can be subsequently reversed, up to the original cost of the inventory, if the net realizable value of the inventory subsequently recovers.

The Corporation classifies its inventory into the following categories:

- Parts and other consumables: this includes the inventory of the Aerospace & Aviation segment subsidiaries and represents items utilized in the operations and repair of the aircraft and items purchased for resale, as applicable.
- Raw materials: this includes items used in the manufacturing of products by the Manufacturing segment subsidiaries that have no labour work performed on them.

- Work in process: this includes items that have begun to be utilized in production by the Manufacturing segment subsidiaries.
- Finished goods: this includes items that have completed the manufacturing process and are available for sale or items purchased for resale by the Manufacturing segment subsidiaries.
- Aviation parts for resale: Cost for aviation parts and components is established based upon the price paid for the inventory, including any costs of purchase, costs of conversion and other costs to bring such inventories to their present location and condition. Regional One's parts inventory carrying value is determined using the average cost to sales percentage method at expected selling prices. The average cost to sales percentage is based on historical profitability or from contracted rates under certain procurement arrangements. Remanufactured inventory cost is based upon the price paid for the cores and also includes expenses incurred for freight, direct manufacturing costs, third party repair costs, and overhead, as applicable.

i) Capital Assets

Tangible assets comprised mainly of land, buildings, aircraft, aircraft spare parts, machinery, tooling, and equipment are valued at cost less accumulated depreciation and impairment losses. The cost of purchased capital assets is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire it. The cost of self-constructed assets includes the cost of material, direct labor, an appropriate proportion of production overheads and borrowing costs to construct. When an asset includes major components that have different useful lives, they are accounted for as separate items.

Expenditures incurred to replace a component in a tangible asset that is accounted for separately, including major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the asset. Any replacement of an essential component will result in the original component being written off and the replacement being capitalized. All other expenditures such as ordinary maintenance and repairs are recognized in the statement of income as an expense as incurred.

In regards to the maintenance of the Corporation's aircraft, costs for routine aircraft maintenance as well as repair costs are charged as maintenance expense as incurred. Costs for major aircraft frame, engine overhauls and other major aircraft components incurred on aircraft are capitalized and amortized over the useful economic life of the components concerned.

Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of the assets. For the Aerospace & Aviation segment's aircraft related assets, the useful lives are primarily based on miles flown on the aircraft related item. Land is not depreciated. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate in the period of the change. The estimated useful lives of the main categories of depreciable capital assets are:

Buildings	20 – 50 years
Aircraft frames and rotables	2 – 30 years
Aircraft engines	3 – 20 years
Aircraft propellers	4 – 7 years
Aircraft landing gear	7 – 15 years
Equipment	5 – 10 years
Other	2 – 15 years
Leasehold improvements	over the term of the lease

The aviation related capital assets of Regional One have useful lives that range between 1 – 12 years and depend on the condition and expected useful lives of the assets in leasing arrangements.

Gains or losses arising on the disposal of tangible fixed assets are included in the statement of income in earnings before income taxes.

j) Intangible Assets

Intangible assets are recorded at cost. The Corporation has intangible assets with indefinite lives which are not amortized. Intangible assets with finite lives are amortized as follows:

Customer contracts	Straight line based on contract term
Customer relationships	Straight-line over 5 – 10 years
Non-compete contracts	Straight-line over 5 years
Operating certificates	Straight-line over 2 – 30 years or until expiry
Information technology systems	Straight-line over 3 – 10 years
Backlog	Over the term of the backlog

The depreciation method and estimates of useful lives ascribed to separately identifiable intangible assets are reviewed at least each financial year end and if necessary amortization is adjusted for on a prospective basis.

The indefinite life intangible assets, including trade names, are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupportable the change in the useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.

k) Goodwill

Goodwill is recognized to the extent of the excess of the purchase price over the fair value of the underlying identifiable net assets acquired in a business combination. Goodwill acquired through a business combination is allocated to each cash-generating unit (“CGU”), or group of CGUs, that are expected to benefit from the related business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

l) Impairment of Long-Lived Assets

Capital assets and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the Corporation’s indefinite life intangible assets, are included in the related CGU and are tested annually for impairment or when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). The recoverable amount is the higher of an asset or CGU’s fair value less costs of disposal and value in use. An impairment loss is recognized for the amount by which the asset or CGU’s carrying amount exceeds its recoverable amount. The Corporation determines the fair value less costs of disposal as an amount obtainable from the sale of an asset or CGU in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal but when no active market exists it is derived using estimation techniques including discounted cash flow analysis or earnings multiples, as applicable. The Corporation determines value in use as being the present value of the expected future cash flows of the relevant asset or CGU.

Goodwill is reviewed for impairment annually or more frequently if an indicator of impairment exists. For purposes of impairment testing, goodwill is allocated to each CGU (or group of CGUs) based on the level at which management monitors goodwill, however not higher than an operating segment. Management has allocated its goodwill to its two operating segments which represents the lowest level at which goodwill is monitored.

The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

m) Current and Deferred Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized directly in other comprehensive income or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss. Deferred income tax is provided on temporary differences arising on investment in subsidiaries and associates, except, in the case of subsidiaries where the timing of the

reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are reviewed annually and reduced to the extent it is no longer probable that sufficient profits will be available to allow all or part of the asset to be recovered.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current. Tax related amounts are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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.

n) Employee Benefits

Share-Based Compensation – Deferred Share Plan

Certain employees of the Corporation and the Corporation's Board of Directors participate in a share-based compensation plan of the Corporation's shares (Note 20). The plan consists of individuals being granted "deferred shares" which are essentially phantom shares. The deferred shares granted to the Corporation's non-management Board of Directors vest immediately at the time of the grant and the deferred shares granted to the employees of the Corporation vest evenly over a three-year period. The deferred shares are redeemable upon certain events and the Corporation will issue common shares from treasury equal to the number of deferred shares that have vested.

The dividend rate declared by the Corporation on issued Corporation shares is also applied to the deferred shares. The dividend amount on the deferred shares is converted into additional deferred shares based on the market value of the Corporation's shares at the time of the dividend. These additional deferred shares vest at the same time as the deferred shares that the dividend rate was applied to.

The Deferred Share Plan is accounted for as an equity-settled award. Under this method, the deferred shares granted are valued at the grant date when the grant is approved by the Corporation's board. The grant date value is based on the market price of the Corporation's stock at the grant date. As the deferred shares vest the Corporation records an expense and increases equity in accordance with the graded vesting model, including an estimate of forfeitures.

Share-Based Compensation – Restricted Share Plan

During 2018, the Corporation replaced its deferred share plan with a restricted share plan for employees of the Corporation. The plan consists of individuals being granted "restricted shares" which are essentially phantom shares. The first grant under this new plan occurred in March 2019. The restricted shares granted to employees of the Corporation vest on December 31 of the year that is two years following the applicable award date. The Corporation records an expense over the vesting period relating to the fair value of the initial grant and any changes in the value of the Corporation's share price will result in a fair value measurement adjustment in the Consolidated Statement of Income.

The dividend rate declared by the Corporation on issued Corporation shares is also applied to the restricted shares. The dividend amount on the restricted shares is converted into additional restricted shares based on the market value of the Corporation's shares at the time of the dividend. These additional restricted shares vest at the same time as the restricted shares that the dividend rate was applied to.

The Restricted Share Plan is accounted for as a cash-settled award. Under this method the restricted shares granted are valued at the grant date when the grant is approved by the Corporation's board. Over the vesting period, the cost of the program, including any fair value adjustments based on the change in the trading price of the Corporation's shares and an estimate for forfeitures, is recorded as an expense in the Statement of Income with a corresponding liability recorded in Accounts Payable and Accrued Liabilities. The grant date value is based on the market price of the Corporation's shares at the grant date.

Share-Based Compensation – Employee Share Purchase Plan

Certain employees of the Corporation participate in a share based compensation plan of the Corporation's shares. The fair value of shares to be awarded to employees is recognized as compensation expense on a straight-line basis over the applicable vesting period net of estimated forfeitures. For a share granted to an employee who is eligible to retire at the grant date, the fair value of the share is expensed on the grant date. For a share granted to an employee who will become eligible to retire during the vesting period, the fair value of the share is expensed over the period from the grant date to the date the employee becomes eligible to retire.

Pension Plan

The Corporation has pension-related costs associated with the defined contribution pension plans to which certain Calm Air, Bearskin, Custom, Provincial, and WesTower personnel are entitled. The Corporation's accounting policy is to expense contributions as earned during the period when the contributions become payable and are recorded within general and administrative expenses of the Aerospace & Aviation segment. During 2019, the Corporation recorded defined contribution pension plan costs of $4,979 (2018 – $4,315).

o) Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the Corporation's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Corporation performs evaluations to identify onerous contracts which are contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it and, where applicable, records provisions for such contracts.

Onerous contract provisions are recognized when the unavoidable costs of meeting the obligation exceed the economic benefit derived from the contract. The provision for onerous contracts is measured at the present value of the estimated future cash flows underlying the obligations less any estimated recoveries, discounted at the credit adjusted risk-free rate.

p) Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of income in the period in which they are incurred.

q) Leases

Adoption of IFRS 16 Leases

The Corporation's adoption of IFRS 16 was 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.

The following tables show 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.

Right of Use Lease Liability Reconciliation on Transition		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 fewer 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 the 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 payments 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.

IAS 17 - Leases - 2018

Leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. A finance lease results in a depreciable capital asset and a liability associated with the future payments of the lease being recognized. All other leases are classified as operating leases with total lease rental payments recognized as a straight-line expense over the term of the lease.

r) *Share Capital*

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

s) *Dividends*

Dividends on common shares of the Corporation are recognized in the Corporation's financial statements in the period in which the dividends are declared.

t) *Earnings per Share*

Basic earnings per share ("EPS") is calculated by dividing the net income for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Corporation's potential dilutive instruments are convertible debentures and deferred shares under the Corporation's Deferred Share Plan. The dilutive impact of convertible debentures is calculated using the "if converted" method.

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated 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. The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of these consolidated financial statements. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

Accounting Estimates

Business Combinations

The Corporation's business acquisitions have been accounted for using the acquisition method of accounting. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair values of the acquired company's assets and assumed liabilities. There are various assumptions made when determining the fair values of the acquired company's assets and assumed liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the subsidiary and the equity interests issued by the Corporation. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Corporation is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration liability is generally recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, order backlog, certifications, software intellectual property, and trade names. To determine the fair value of customer based intangible assets (excluding trade names and software intellectual property), the Corporation uses the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates, and anticipated average income tax rates. To determine the fair value of the trade name and software intellectual property intangible assets, the Corporation uses the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the year, the estimated liability for additional purchase consideration associated with CarteNav and Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $10,624 and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

Revenue and income from fixed price construction contracts at WesTower Communications Ltd., Provincial Aerospace Ltd., Stainless Fabrication, Inc., and AWI are recognized over time and generally use an input-based measure such as the ratio of actual costs incurred to date over estimated total costs. The Corporation has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance factors, contract profit can differ significantly from earlier estimates. Management believes, based on its experience that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labour, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions and the accuracy of the original bid estimate. Revenue and income from fixed price construction contracts at Quest Window Systems Inc. and Quest USA Inc. are recognized over time and generally use an output based measure based on units produced and/or delivered, as applicable. The output based measure provides a more reliable method for Quest's window construction contracts as evidence of completion over time.

Since the Corporation has many contracts in process at any given time, these changes in estimates can offset each other without impacting overall profitability. However, changes in cost estimates on larger, more complex construction projects can have a material impact on the Corporation's consolidated financial statements and are reflected in the results of operations when they become known.

Estimating the transaction price of a contract is an involved process that is affected by a variety of uncertainties that depend on the outcome of a series of future events. The estimates must be revised each period throughout the life of the contract when events occur and as uncertainties are resolved. The major factors that must be considered in determining total estimated revenue include (a) the basic contract price, (b) contract options, (c) change orders, (d) claims, and (e) contract provisions for penalty and incentive payments, including award fees and performance incentives. The Corporation is required to make estimates of variable consideration in determining the transaction price, subject to the guidance on constraining estimates of variable consideration.

A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. Unpriced change orders are change orders that have been approved as to scope but unapproved as to price. For such change orders, the Corporation will include in the transaction price an estimate of the variable consideration only to the extent

that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that the Corporation seeks to collect from clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. Judgment is required to determine if the claim is an enforceable obligation based on the specific facts and circumstances, however, the Corporation will include in the transaction price an estimate of the variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Given the above-noted critical accounting estimates associated with the accounting for construction contracts it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year or later could be different from the estimates and assumptions adopted and could require a material adjustment to revenue and/or the carrying amount of the asset or liability affected.

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans, and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft and changing market prices for aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2019, would result in an increase of approximately $6,015 (2018 - $5,369) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

Goodwill and indefinite life intangible assets are not amortized. Goodwill and all indefinite life intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash-generating unit ("CGU") to its recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use.

Fair value less costs of disposal calculates the recoverable amount using EBITDA multiples based on financial forecasts prepared by management (level 3 within the fair value hierarchy).

Intangible Assets

The recoverable amount is forecasted with management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the cash generating units operate.

The recoverable amount of the CGUs was based on value in use using a discounted cash flow model, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates, and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three-year period which are extrapolated using estimated terminal growth rates ranging between 2.5% and 5.0%, and discount rates (pre-tax) ranging between 15% and 16%.

The Corporation has concluded that no impairments of its indefinite lived intangible assets existed as a result of this assessment as at December 31, 2019. However, the assessment identified that a reasonably possible change in a key assumption could result in the recoverable amount being less than the carrying value for one cash generating unit, with an indefinite life intangible asset of $3,800. Based on the high end of management's reasonable range, the recoverable amount was greater than its carrying value by approximately $8,600 (or 18%). If a change in the assumption of the discount rate increased by approximately 1.75 percentage points, the carrying amount of each of the cash generating unit would exceed the reasonable range of the recoverable amount.

Goodwill

The recoverable amount of the goodwill CGUs was calculated based on the fair value less costs of disposal, using an EBITDA multiple approach (Level 3 within the fair value hierarchy) based on the Corporation's assessment of market participant assumptions.

The Corporation used its forecasted EBITDA based on its approved budget and used its best estimate of market participant EBITDA multiples (Level 3 within the fair value hierarchy). The EBITDA multiple used for the Aerospace & Aviation segment was 8.0x (2018 – 7.5x) and was 7.5x (2018 – 7.0x) for the Manufacturing segment.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2019.

Deferred Income Taxes

The Corporation is subject to income taxes in Canada, the United States, and certain other jurisdictions. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation maintains provisions for uncertain tax positions that are believed to appropriately reflect our risk with respect to tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The Corporation regularly assesses the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by the relevant taxing authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

The Corporation may purchase certain aircraft and aircraft components in the normal course of the operations at Regional One. The Corporation must assess whether the aircraft and engines should be recognized as either inventory or capital assets depending on the anticipated use of such assets, including the ability to lease these tangible assets to customers. The determination is based on available cycle times related to aviation components and whether such assets are expected to be used in more than one period, in which case they would be classified as capital assets and amortized over their useful lives commencing when the asset is available for use and capable of operating in a manner intended by management. The Corporation reviews its tangible assets on a regular basis to assess whether reclassifications are required between capital assets and inventory.

In the normal course of Regional One's business, it may acquire entire aircraft or components of an aircraft for breakdown into saleable parts. Regional One determines the carrying value of its inventory using the average cost to sales percentage based on the expected selling price. Accordingly, the carrying value of inventory and recognition of the related cost of sale requires estimates related to the margins that Regional One will ultimately earn on the parts. The Corporation has a process whereby such estimates are reviewed and assessed for reasonableness on a regular basis and the underlying inventory may be appraised by a third party. However, due to unforeseen changes in market conditions or other factors, the estimated average cost to sales percentages may differ significantly from earlier estimates. Management believes, based on its industry experience, that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of the carrying value of inventory and related cost of sales. However, many factors can and do change throughout a component part's life, which can result in a change to future average cost to sales percentage estimates. Some of the factors that can change include significant changes in worldwide utilization of certain aircraft types which the parts support, the available supply of original equipment manufacturer or aftermarket parts, and changes in airworthiness directives by aviation authorities. Such changes can alter the supply and demand associated with Regional One's parts inventory and therefore, it is possible that outcomes within the next financial year could be different from the estimates and assumptions and could result in an impairment of inventory or a decrease in the average cost to sales percentage on future sales.

Measurement and Presentation of Right of Use Assets and Liabilities

The application of IFRS 16 Leases requires assumptions and estimates 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. ACQUISITIONS

Acquisition of L.V. Control Mfg. Ltd.

On October 4, 2019, the Corporation acquired all the shares of L.V. Control Mfg., Ltd. ("LV Control"). LV Control is an electrical and control systems integrator focused on the agricultural material handling segment with primary activities in grain handling, crop input, feed processing, and seed cleaning and processing.

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

Consideration given:		
Cash	$	42,100
Issuance of 134,000 shares of the Corporation at $40.30 per share		5,400
Estimated working capital settlement		81
Contingent consideration - earn out		5,442
Total purchase consideration	$	**53,023**

The purchase price included an initial payment of cash and the issuance of common shares to the vendors, plus a multi-year earn out if certain performance targets are met for fiscal periods 2020 and 2021. The maximum earn out that can be achieved by the vendors is $6,000. The contingent consideration recorded by the Corporation reflects the discounted liability of the estimated likelihood of performance targets being met for fiscal 2020 and 2021, which was assessed as of the date of acquisition.

The preliminary purchase price allocation will be finalized in 2020 when the final settlement of working capital and other post-closing adjustments will occur. The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Cash	$	610
Accounts receivable		4,047
Inventory		1,714
Prepaid expenses and deposits		16
Income taxes receivable		133
Capital assets		102
Right of use assets		232
Intangible assets		25,740
		32,594
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		1,113
Deferred revenue		2,725
Right of use lease liabilities		232
Deferred income tax liability		7,183
Fair value of identifiable net assets acquired		21,341
Goodwill		31,682
Total purchase consideration	$	**53,023**

Of the $25,740 acquired intangible assets, $15,000 was assigned to customer relationships, $5,000 was assigned to trade name, $4,200 was assigned to software intellectual property, and $1,540 was assigned to backlog. The customer relationship, backlog, and software intellectual property intangible assets are subject to amortization while the trade name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies, and the profitability of the acquired business.

Advanced Window, Inc.

On October 17, 2019, the Corporation acquired all the shares of Advanced Window, Inc. ("AWI"). AWI is a full-service glazier that operates in the northeastern United States, specializing in sales, consultation, design, engineering, installation, and service of pre-glazed fenestration products.

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

Consideration given:		
Cash	$	19,802
Issuance of 103,570 shares of the Corporation at $38.24 per share		3,960
Estimated working capital settlement		271
Total purchase consideration	$	**24,033**

The preliminary purchase price allocation will be finalized in 2020 when the final settlement of working capital and other post-closing adjustments will occur. The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Cash	$	33
Accounts receivable		14,176
Amounts due from customers on construction contracts		629
Capital assets		1,277
Right of use assets		488
Intangible assets		9,703
		26,306
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		7,782
Deferred revenue		3,089
Right of use lease liability		488
Taxes Payable		1,513
Fair value of identifiable net assets acquired		13,434
Goodwill		10,599
Total purchase consideration	$	**24,033**

Of the $9,703 acquired intangible assets, $4,158 was assigned to backlog, $2,905 was assigned to trade name, and $2,640 was assigned to customer relationships. The customer relationship and backlog intangible assets are subject to amortization while the trade name is considered to have an indefinite life. The goodwill, which is deductible for tax purposes, is attributable to the skilled workforce, expansion capabilities into other geographies and the profitability of the acquired business.

Acquisition of CANLink

On February 28, 2018, the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College"). Moncton Flight College, headquartered in Moncton, New Brunswick, is a flight training college in Canada. Moncton Flight College offers domestic Canadian pilot training as well as a foreign pilot program.

The components of the consideration paid to acquire Moncton Flight College are outlined in the table below.

Consideration given:		
Cash (net of closing adjustments)	$	**25,396**
Issuance of 176,102 shares of the Corporation at $34.06 per share		**5,998**
Working capital and other post-closing adjustments		**(262)**
Contingent cash consideration - earn out		**15,902**
Total purchase consideration	$	**47,034**

The purchase price included an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments, plus a multi-year earn out if certain performance targets are met for fiscal periods 2018 and 2019. The maximum earn out that could be achieved by the vendors was $20,000. The contingent consideration recorded by the Corporation reflected the discounted liability of the estimated likelihood of performance targets being met for fiscal 2018 and 2019, which was assessed as of the date of acquisition. The allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Cash	$	**1,193**
Accounts receivable		**1,159**
Inventory		**1,682**
Prepaid expenses and deposits		**160**
Capital assets		**10,342**
Intangible assets		**21,100**
		35,636
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		**1,446**
Income taxes payable		**4,097**
Deferred revenue		**2,225**
Other long-term liabilities		**96**
Deferred income tax liabilities		**5,423**
Fair value of identifiable net assets acquired		**22,349**
Goodwill		**24,685**
Total purchase consideration	$	**47,034**

Of the $21,100 acquired intangible assets, $13,500 was assigned to customer relationships and $7,600 was assigned to trade name. The customer relationship intangible asset is subject to amortization while the trade name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies, and the profitability of the acquired business.

Wings Over Kississing

On December 19, 2018, the Corporation completed the acquisition of certain assets and operations of Wings Over Kississing ("Wings"), subject to customary post-closing adjustments. The acquisition provides the Corporation access to new markets for its rotary-wing operations in Manitoba and strengthens the Corporation's relationship with its First Nation customers. The components of the consideration paid to acquire these assets are outlined in the table below.

Consideration given:		
Cash	$	**8,003**
Issuance of 80,568 shares of the Corporation at $26.90 per share		**2,167**
Estimated working capital settlement		**16**
Total purchase consideration	$	**10,186**

The fair values of the net assets acquired at the time of the transaction are summarized in the chart below.

Fair value of assets acquired:		
Accounts receivable	$	**381**
Capital assets		**7,024**
Deferred income tax asset		**11**
Intangible assets		**1,300**
		8,716
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		**29**
Fair value of identifiable net assets acquired		**8,687**
Goodwill		**1,499**
Total purchase consideration	$	**10,186**

The $1,300 of intangible assets acquired was assigned to customer relationships, which are subject to amortization consistent with the Corporation's amortization policy on this class of intangible assets. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies and the profitability of the acquired business.

7. INVENTORIES

The inventory of the Corporation's operating subsidiaries is classified into the following categories:

		December 31 2019		December 31 2018
Parts and other consumables	$	**46,720**	$	44,788
Aviation parts for resale		**132,150**		131,624
Raw materials		**36,590**		29,158
Work in process		**4,032**		5,913
Finished goods		**5,384**		4,667
Total inventory	$	**224,876**	$	216,150

During 2019, inventory from the Aerospace & Aviation segment with a value of $139,518 (2018 – $147,386) was recorded as an expense within the Aerospace & Aviation expenses and inventory from the Manufacturing segment with a value of $106,257 (2018 – $88,562) was recorded as an expense within Manufacturing expenses.

8. OTHER ASSETS

The other assets of the Corporation consist of the following:

		December 31 2019		December 31 2018
Long-term prepaid expenses and security deposits	$	**1,700**	$	1,597
Long-term receivables		**13,653**		13,155
Long-term holdback receivables		**5,687**		4,609
Equity method investments		**36,483**		30,472
Other investments - Fair value through OCI		**5,889**		3,914
Derivative financial instruments - Fair value through profit and loss (Note 23)		**1,221**		3,741
Loan to Wasaya		**13,000**		13,000
Loan to NGC		**2,568**		3,590
Total other assets	$	**80,201**	$	74,078

The Corporation is invested in four equity accounted investments in non-trading entities at December 31, 2019, two of which are Aero Engines LLC and Wasaya as discussed below. The Corporation's ownership percentages in the entities are 25%, 33%, 49% and 49%, and the carrying values at December 31, 2019 are $10,098 (2018 – nil), $9,533 (2018 – $8,477), $3,892 (2018 - $11,284) and $12,960 (2018 - $10,711), respectively. The reporting period end for the equity accounted investments is December 31. These entities have total assets of $141,149 (2018 - $93,420) and total liabilities of $63,381 (2018 - $51,804) at December 31, 2019. The entities had revenues of $173,083 (2018 - $114,625) and net income of $17,147 (2018 - $8,058) for the year ended December 31, 2019. These investments, for which fair market value is not available, have been included within the equity method investments line above.

The Corporation is invested in non-trading entities that are accounted for at fair value through OCI. At December 31, 2019, the carrying value of these entities is $5,889 (2018 - $3,914).

The Corporation as part of its construction contracts with customers have amounts that are held back and therefore not expected to be collected within twelve months. As at December 31, 2019, the long-term hold backs due from customers was $5,687 (2018 - $4,609) and are recorded within Other Assets.

Aero Engines LLC

On February 19, 2019, the Corporation announced that it had completed a joint venture with SkyWest, Inc. ("SkyWest") to acquire, lease and sell CF34 engines. During the year, the Corporation invested in a 25% share of a joint venture which purchased 14 engines and will account for its investment using the equity method. During the year, the joint venture announced that the engines, along with airframes that would be provided by Regional One, have been placed on a 10-year lease with a US operator.

Partnership with Wasaya Group

On April 19, 2018, the Corporation closed a partnership transaction with Wasaya Group. EIC invested $25,326 in Wasaya, of which $13,000 is a loan to Wasaya and $12,326 is an equity investment. The equity investment was funded through the issuance of shares of the Corporation to the vendors of Wasaya. The Corporation's equity investment in Wasaya is accounted for using the equity method.

9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

						December 31, 2019
		Cost		Accumulated Depreciation		Net Book Value
Land	$	8,292	$	-	$	8,292
Buildings		128,744		37,220		91,524
Aircraft frames		343,041		108,760		234,281
Aircraft engines		197,930		84,443		113,487
Aircraft propellers and rotors		47,358		18,212		29,146
Aircraft landing gear		37,472		11,407		26,065
Aircraft rotable parts		59,697		22,218		37,479
Equipment		146,119		88,913		57,206
Other		11,695		7,633		4,062
Leasehold improvements		16,708		7,833		8,875
		997,056		386,639		610,417
Assets for lease to third parties (aircraft and engines)		433,728		79,127		354,601
Total	$	1,430,784	$	465,766	$	965,018

														Year Ended December 31, 2019
Net Book Value		Opening		Acquisition (Note 6)		Additions/ Transfers		Disposals		Depreciation		Exchange Differences		Ending
Land	$	8,327	$	-	$	9	$	-	$	-	$	(44)	$	8,292
Buildings		95,310		-		2,769		(78)		(4,310)		(2,167)		91,524
Aircraft frames		198,919		-		61,350		(1,975)		(24,013)		-		234,281
Aircraft engines		101,463		-		38,736		(401)		(26,311)		-		113,487
Aircraft propellers and rotors		26,622		-		8,962		(309)		(6,129)		-		29,146
Aircraft landing gear		27,018		-		2,693		(152)		(3,494)		-		26,065
Aircraft rotable parts		26,846		-		23,017		(107)		(12,277)		-		37,479
Equipment		53,410		619		15,000		(339)		(10,653)		(831)		57,206
Other		3,937		100		1,499		-		(1,138)		(336)		4,062
Leasehold improvements		8,475		660		1,039		-		(1,137)		(162)		8,875
		550,327		1,379		155,074		(3,361)		(89,462)		(3,540)		610,417
Assets for lease to third parties (aircraft and engines)		327,364		-		92,638		(11,263)		(39,866)		(14,272)		354,601
Total	$	877,691	$	1,379	$	247,712	$	(14,624)	$	(129,328)	$	(17,812)	$	965,018

During the year, the Corporation had net transfers of $10,207 from capital assets to inventory (December 31, 2018 - $1,163 from capital assets to inventory). The Corporation transfers capital assets out of the lease portfolio into inventory for part out and resale when it is determined beneficial to do so as part of the normal life cycle of older aircraft. In addition, the Corporation may also transfer assets from inventory to capital assets to increase the future economic benefit of its operating aircraft. The net of these transfers is included within the Additions/Transfers column.

As detailed in Note 3, the adoption of IFRS 16 resulted in the reclassification of certain amounts from Capital Assets to Right of Use Assets. These adjustments have been netted into the Additions/Transfers column above.

			December 31, 2018
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 8,327	$ -	$ 8,327
Buildings	126,392	31,082	95,310
Aircraft frames	311,135	112,216	198,919
Aircraft engines	185,137	83,674	101,463
Aircraft propellers and rotors	44,689	18,067	26,622
Aircraft landing gear	36,971	9,953	27,018
Aircraft rotable parts	41,410	14,564	26,846
Equipment	134,865	81,455	53,410
Other	10,473	6,536	3,937
Leasehold improvements	15,209	6,734	8,475
	914,608	364,281	550,327
Assets for lease to third parties (aircraft and engines)	383,735	56,371	327,364
Total	$ 1,298,343	$ 420,652	$ 877,691

							Year Ended December 31, 2018
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 8,254	$ -	$ -	$ -	$ -	$ 73	$ 8,327
Buildings	90,974	4,958	3,743	(160)	(4,308)	103	95,310
Aircraft frames	181,937	10,296	34,481	(509)	(27,286)	-	198,919
Aircraft engines	97,901	-	33,599	(1,336)	(28,701)	-	101,463
Aircraft propellers and rotors	25,060	-	6,872	(58)	(5,252)	-	26,622
Aircraft landing gear	23,869	-	5,884	-	(2,735)	-	27,018
Aircraft rotable parts	27,938	-	3,533	(111)	(4,514)	-	26,846
Equipment	36,646	1,425	23,930	(327)	(8,764)	500	53,410
Other	2,522	236	2,353	-	(1,338)	164	3,937
Leasehold improvements	5,265	451	3,430	-	(754)	83	8,475
	500,366	17,366	117,825	(2,501)	(83,652)	923	550,327
Assets for lease to third parties (aircraft and engines)	296,210	-	70,880	(30,695)	(34,939)	25,908	327,364
Total	$ 796,576	$ 17,366	$ 188,705	$ (33,196)	$ (118,591)	$ 26,831	$ 877,691

10. LEASES

On January 1, 2019, the Corporation adopted IFRS 16 – Leases. On adoption of 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's right of use assets consist of the following:

Net Book Value	January 1, 2019 Opening	Additions	Disposals	Depreciation	Exchange Differences	December 31, 2019 Ending
Land	$ 21,470	$ 1,810	$ (25)	$ (1,273)	$ -	$ 21,982
Building	65,325	7,501	(279)	(10,950)	(1,248)	60,349
Aircraft	25,878	1,551	-	(7,652)	-	19,777
Equipment	1,412	470	-	(381)	-	1,501
Other	5,504	1,827	-	(2,245)	(18)	5,068
Total	$ 119,589	$ 13,159	$ (304)	$ (22,501)	$ (1,266)	$ 108,677

The Corporation's right of use lease liabilities consist of the following:

Right of Use Lease Liability	December 31, 2019
Opening balance on transition, January 1, 2019	$ 122,906
Additions to right of use lease liabilities	13,159
Disposals of right of use assets and derecognition of lease liabilities	(307)
Principal payments on right of use lease liabilities	(20,572)
Exchange differences	(1,331)
Closing balance, December 31, 2019	$ 113,855
Current portion	$ 23,280

During the year, the Corporation expensed $7,065 in leases that did not meet the thresholds for recognition under IFRS 16. These leases were either low value, less than twelve months or contained variable payments that fell outside of the scope of the standard.

The Corporation assessed the extension periods embedded within each lease for inclusion in the right of use lease liabilities on a lease by lease basis. When it determined it was reasonably certain to exercise the extension option within the lease, the Corporation has included those extension periods in the initial recognition of the right of use asset and right of use lease liability. Significant leases where assumptions have been made are long-term airport leases and long-term building leases.

Undiscounted Right of Use Lease Liability Payments	December 31, 2019
Less than 1 year	$ 27,333
Between 1 year and 5 years	59,057
More than 5 years	44,479
	$ 130,869

11. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2019 and 2018:

		December 31, 2019	
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 88,709	$ -	$ 88,709
Finite Life Assets			
Customer contracts and relationships	91,499	48,779	42,720
Certifications	8,951	524	8,427
Information technology systems	13,724	3,983	9,741
Backlog	30,253	23,399	6,854
Other	11,623	3,416	8,207
Total	$ 244,759	$ 80,101	$ 164,658

						Year Ended December 31, 2019	
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 81,634	$ 7,905	$ -	$ -	$ -	$ (830)	$ 88,709
Finite Life Assets							
Customer contracts and relationships	34,088	17,640	-	-	(8,999)	(9)	42,720
Certifications	8,454	-	-	-	(27)	-	8,427
Information technology systems	7,174	-	3,348	-	(624)	(157)	9,741
Backlog	8,968	5,698	-	-	(7,812)		6,854
Other	4,253	4,200	488	-	(734)	-	8,207
Total	$ 144,571	$ 35,443	$ 3,836	$ -	$ (18,196)	$ (996)	$ 164,658

As detailed in Note 3, the adoption of IFRS 16 resulted in the reclassification of certain amounts from Intangible Assets to Right of Use Assets. These adjustments have been netted into the Additions/Transfers column above.

	Cost	Accumulated Amortization	December 31, 2018 Net Book Value
Indefinite Life Assets			
Brand name	$ 81,634	$ -	$ 81,634
Finite Life Assets			
Customer contracts and relationships	73,868	39,780	34,088
Certifications	8,951	497	8,454
Information technology systems	10,533	3,359	7,174
Backlog	24,555	15,587	8,968
Other	6,935	2,682	4,253
Total	$ 206,476	$ 61,905	$ 144,571

						Year Ended December 31, 2018	
Net Book Value	Opening	Acquisition (Note 6)	Additions	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 72,623	$ 7,600	$ -	$ -	$ -	$ 1,411	$ 81,634
Finite Life Assets							
Customer contracts and relationships	27,555	14,800	-	-	(8,389)	122	34,088
Certifications	8,486	-	-	-	(32)	-	8,454
Information technology systems	4,514	-	3,851	-	(1,191)	-	7,174
Backlog	18,075	-	-	-	(9,107)	-	8,968
Other	4,453	-	677	-	(877)	-	4,253
Total	$ 135,706	$ 22,400	$ 4,528	$ -	$ (19,596)	$ 1,533	$ 144,571

The Corporation has brand name indefinite life assets for the operations of Bearskin, Calm Air, Custom, Water Blast, Water Blast North Dakota, WesTower, Regional One, Provincial, Ben Machine, CarteNav, Quest, Moncton Flight College, LV Control, and AWI. These entities all have a brand name that represents the quality of goods or services and safety standards that those entities provide to their customers.

Goodwill	**2019**	2018
Balance, beginning of year	**$ 320,678**	$ 288,281
Goodwill from business acquisitions	**42,281**	26,184
Measurement period adjustment - settlement of working capital	**-**	1,140
Translation of goodwill of foreign operations (Stainless, Regional One, Water Blast Dakota, Team J.A.S, and Advanced Window)	**(3,195)**	5,073
Balance, end of year	**$ 359,764**	$ 320,678

As a result of the foreign currency translation policy for the consolidation of Stainless, Water Blast North Dakota, Regional One, Team J.A.S., and AWI as described in Note 3, the goodwill recorded in Stainless (US $14,751), in Water Blast North Dakota (US $476), in Regional One (US $30,105), Team J.A.S (US $929), and Advanced Window (US $8,029) are valued at the period-end exchange rate. As a result, the goodwill fluctuates as the Canadian dollar reporting currency changes in comparison to the US dollar.

The Corporation completed its annual impairment testing for goodwill and indefinite life intangible assets as at December 31, 2019, (Note 5). As at December 31, 2019, there was no impairment of goodwill or indefinite life intangible assets based on management's assessment.

12. LONG-TERM DEBT

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

		December 31 2019		December 31 2018
Revolving term facility:				
Canadian dollar amounts drawn	**$**	**211,900**	$	229,100
United States dollar amounts drawn (US$393,555 and US$365,100 respectively)		**511,149**		498,069
Total credit facility debt outstanding, principal value		**723,049**		727,169
less: unamortized transaction costs		**(3,190)**		(2,019)
less: unamortized discount on outstanding Banker's Acceptances		**(300)**		(520)
Net credit facility debt		**719,559**		724,630
Finance leases		**-**		2,881
Total net credit facility debt and finance leases		**719,559**		727,511
less: current portion of finance leases		**-**		(1,186)
Long-term debt and finance leases	**$**	**719,559**	$	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 December 31, 2019.

The Corporation amended its credit facility to obtain more favourable pricing and extended its term in February 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 was extended to May 7, 2023.

On November 5, 2019, the Corporation entered into a new credit facility to increase its size to approximately $1,300,000, obtain more favourable pricing, obtain more favourable covenants, and extend its term. The revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. The Corporation's maximum leverage ratio under the new facility has been increased to 4.0 times and the accordion feature increased to $300,000 from $100,000. The maturity of the facility has been extended to November 5, 2023.

Interest expense recorded by the Corporation during the year ended December 31, 2019, for the long-term debt was $31,303 (2018 long-term debt and finance leases – $27,861).

<u>Credit Facility</u>

The following is the continuity of long-term debt for the year ended December 31, 2019:

										Year Ended December 31, 2019
		Opening		**Withdrawals**		**Repayments**		**Exchange Differences**		**Ending**
Credit facility amounts drawn										
Canadian dollar amounts	$	229,100	$	133,900	$	(151,100)	$	-	$	211,900
United States dollar amounts		498,069		70,165		(34,535)		(22,550)		511,149
	$	727,169							$	723,049

	Opening	Withdrawals	Repayments	Exchange Differences	Ending
					Year Ended December 31, 2018
Credit facility amounts drawn					
Canadian dollar amounts	$ 109,700	$ 243,400	$ (124,000)	$ -	$ 229,100
United States dollar amounts	440,618	57,447	(28,491)	28,495	498,069
	$ 550,318				$ 727,169

Finance Leases

On January 1, 2019, the Corporation adopted IFRS 16 – Leases. The classification of leases as finance leases does not exist under IFRS 16 for lessees. Lease disclosures are included in Note 10. The information below is included for comparative purposes.

As at December 31, 2018, the Corporation leased vehicles from a third party under finance leases expiring at various times through to fiscal 2020. The assets and liabilities under finance leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Interest rates on finance leases vary from 4% to 7%.

The following is the continuity of the finance leases outstanding for the comparative 2018 period:

	Opening	Assumed / Entered Into	Repayments / Disposals	Ending
				2018
Finance leases	$ 2,113	$ 1,990	$ (1,222)	$ 2,881

The cost and accumulated depreciation of the finance leased equipment consists of the following as December 31, 2018:

	December 31 2018
Vehicles under finance leases	$ 6,731
less: accumulated depreciation	(3,953)
	$ 2,778

13. 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) On April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were due March 31, 2021.

Summary of the debt component of the convertible debentures:

	2019 Balance, Beginning of Year	**Debentures Issued**	**Accretion Charges**	**Debentures Converted**	**Redeemed / Matured**	**2019 Balance, End of Year**
Unsecured - 2014	**$ 27,143**	**$ -**	**$ 156**	**$ (24,169)**	**$ (3,130)**	**$ -**
Unsecured - 2016	**65,657**	**-**	**657**	**-**	**-**	**66,314**
Unsecured - 2017	**95,659**	**-**	**984**	**-**	**-**	**96,643**
Unsecured - 2018	**75,251**	**-**	**671**	**-**	**-**	**75,922**
Unsecured - 2019	**-**	**82,658**	**314**	**-**	**-**	**82,972**
						321,851
less: unamortized transaction costs						**(11,253)**
Convertible Debentures - Debt Component, end of year						**$ 310,598**

	2018 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2018 Balance, End of Year
Unsecured - 2012	$ 56,843	$ -	$ -	$ (90)	$ (56,753)	$ -
Unsecured - 2013	63,311	-	1,669	(2)	(64,978)	-
Unsecured - 2014	26,833	-	330	(20)	-	27,143
Unsecured - 2016	65,041	-	616	-	-	65,657
Unsecured - 2017	94,762	-	897	-	-	95,659
Unsecured - 2018	-	74,932	319	-	-	75,251
						263,710
less: unamortized transaction costs						(9,887)
Convertible Debentures - Debt Component, end of year						$ 253,823

During the year ended December 31, 2019, convertible debentures totaling a face value of $24,730 were converted by the holders at various times into 780,112 shares of the Corporation (2018 – $112 face value into 3,123 shares). Interest expense recorded during the 2019 year for the convertible debentures was $22,350 (2018 - $21,276).

On March 26, 2019, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued $86,250 principal amount of debentures. The debentures bear interest at 5.75% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity date of the debentures is March 31, 2026.

On April 26, 2019, the Corporation redeemed its 7 year 6.0% convertible debentures which were to mature on March 31, 2021. On the redemption date, the remaining outstanding debentures in the principal amount of $3,130 were redeemed by the Corporation.

March 2014 Unsecured Convertible Debenture Offering

Each debenture is convertible, at the debenture-holders' 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 $31.70.

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 Corporation also has the ability to convert these unsecured debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. After March 31, 2017, but prior to March 31, 2019, 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, 2019, 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.

The March 2014 Unsecured convertible debentures have nil (2018 - $27,860) of principal outstanding as at December 31, 2019, and were redeemed April 26, 2019, as described above.

June 2016 Unsecured Convertible Debenture Offering

Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $44.75.

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

The June 2016 Unsecured convertible debentures have $68,975 (2018 - $68,975) of principal outstanding as at December 31, 2019, and mature in June 2023.

December 2017 Unsecured Convertible Debenture Offering

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 $51.50.

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 December 31, 2020. After December 31, 2020, but prior to December 31, 2021, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after December 31, 2021, but prior to the maturity date, the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

The December 2017 Unsecured convertible debentures have $100,000 (2018 - $100,000) of principal outstanding as at December 31, 2019, and mature in December 2022.

June 2018 Unsecured Convertible Debenture Offering

Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $49.00.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the shares for the 20 trading days ending five days prior to the maturity date. The debentures are not redeemable until after June 30, 2021. After June 30, 2021, but prior to June 30, 2023, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after June 30, 2023, but prior to the maturity date, the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

The June 2018 convertible unsecured debentures have $80,500 (2018 - $80,500) of principal outstanding as at December 31, 2019, and mature in June 2025.

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.

The March 2019 convertible unsecured debentures have $86,250 (2018 - nil) of principal outstanding as at December 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:

	December 31 2019	December 31 2018
Unsecured Debentures - 2014	**$ -**	$ 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 year	**$ 13,214**	$ 11,954

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

14. SHARE CAPITAL

Changes in the shares issued and outstanding during the year ended December 31, 2019, are as follows:

	Number of Shares		2019 Amount
Share capital, beginning of year	**31,316,006**	**$**	**588,498**
Issued upon conversion of convertible debentures	**780,112**		**25,087**
Issued under dividend reinvestment plan	**212,625**		**7,417**
Shares cancelled under NCIB	**(58,600)**		**(1,123)**
Issued under employee share purchase plan	**49,265**		**1,913**
Issued under deferred share plan	**18,220**		**477**
Issued under First Nations community partnership agreements	**9,039**		**321**
Issued to L.V. Control Mfg. Ltd. vendors on closing (Note 6)	**134,000**		**5,400**
Issued to Advanced Window. Inc. vendors on closing (Note 6)	**103,570**		**3,960**
Prospectus offering, October 2019	**2,139,000**		**77,596**
Share capital, end of year	**34,703,237**	**$**	**709,546**

Changes in the shares issued and outstanding during the year ended December 31, 2018, are as follows:

	Number of shares		2018 Amount
Share capital, beginning of year	31,317,890	$	576,471
Issued upon conversion of convertible debentures	3,123		120
Issued under dividend reinvestment plan	217,939		6,737
Issued under First Nations community partnership agreement	10,039		322
Issued under deferred share plan	8,534		171
Shares cancelled under NCIB	(939,577)		(17,468)
Issued under employee share purchase plan	55,480		1,654
Issued to Moncton Flight College vendors on closing (Note 6)	176,102		5,998
Issued to Wasaya vendors on closing (Note 8)	385,908		12,326
Issued to Wings Over Kississing vendors on closing (Note 6)	80,568		2,167
Share capital, end of year	31,316,006	$	588,498

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 can be made through the facilities of the TSX during the period 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. The NCIB was renewed subsequent to the end of the year (Note 27).

During the year ended December 31, 2019, the Corporation purchased a total of 58,600 shares. The Corporation purchased the shares at an average cost of $37.41 per share for an aggregate consideration of $2,192, excluding tax of less than $1 (2018 – 939,577 shares were repurchased at an average cost of $32.42 per share for aggregate consideration of $30,457, excluding tax of $10). All the shares purchased in the current and prior periods were cancelled. The excess of the cost over the average book value of $1,069 was charged to retained earnings (2018 – $12,979).

During the year, the Corporation issued shares to the vendors of LV Control and AWI. On October 4, 2019, the Corporation issued 134,000 shares with a value of $5,400 as part of the acquisition of LV Control (Note 6). On October 17, 2019, the Corporation issued 103,570 shares with a value of $3,960 as part of the acquisition of AWI (Note 6).

On October 29, 2019, the Corporation issued 2,139,000 shares at $37.65 per share from treasury as part of the equity offering announced in 2019, resulting in aggregate consideration of $80,533. The net proceeds of the offering were $76,511.

15. 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.

Cumulative dividends during the 2019 year and the comparative 2018 year are as follows:

Year Ended December 31		2019		2018
Cumulative dividends, beginning of year	$	424,178	$	355,718
Dividends during the year		72,742		68,460
Cumulative dividends, end of year	$	496,920	$	424,178

The amounts and record dates of the dividends during the 2019 year and the comparative 2018 year 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
April	April 30, 2019		0.1825		5,877	April 30, 2018		0.1825		5,807
May	May 31, 2019		0.1825		5,882	May 31, 2018		0.1825		5,791
June	June 28, 2019		0.1825		5,887	June 29, 2018		0.1825		5,759
July	July 31, 2019		0.1825		5,890	July 31, 2018		0.1825		5,754
August	August 30, 2019		0.19		6,127	August 31, 2018		0.1825		5,735
September	September 30, 2019		0.19		6,128	September 28, 2018		0.1825		5,726
October	October 31, 2019		0.19		6,583	October 31, 2018		0.1825		5,730
November	November 29, 2019		0.19		6,587	November 30, 2018		0.1825		5,710
December	December 31, 2019		0.19		6,594	December 31, 2018		0.1825		5,715
Total		$	2.2275	$	72,742		$	2.175	$	68,460

After December 31, 2019, and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.19 per share for January and February 2020.

16. 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 airline services to communities in Manitoba, Ontario, Nunavut, and eastern Canada and also sells aircraft, engines and 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 results of LV Control and AWI are included in the Manufacturing segment results subsequent to the date of acquisition (Note 6).

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 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 EBITDA, certain statement of financial position amounts and capital asset additions. It includes expenses incurred at the head office of the Corporation.

				Year Ended December 31, 2019
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 974,739	$ 366,635	$ -	$ 1,341,374
Expenses	675,549	310,900	26,112	1,012,561
EBITDA	299,190	55,735	(26,112)	328,813
Depreciation of capital assets				129,328
Amortization of intangible assets				18,196
Finance costs - interest				54,020
Depreciation of right of use assets				22,501
Interest expense on right of use lease liabilities				4,500
Acquisition costs				5,046
Other (Note 5)				(10,624)
Earnings before income taxes				105,846
Current income tax expense				11,790
Deferred income tax expense				10,420
Net Earnings				$ 83,636

				Year Ended December 31, 2018
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 883,962	$ 319,430	$ -	$ 1,203,392
Expenses	636,052	267,219	22,356	925,627
EBITDA	247,910	52,211	(22,356)	277,765
Depreciation of capital assets				118,591
Amortization of intangible assets				19,596
Finance costs - interest				51,706
Acquisition costs				3,686
Other				(4,616)
Earnings before income taxes				88,802
Current income tax expense				14,318
Deferred income tax expense				3,715
Net Earnings				$ 70,769

	For the year ended December 31, 2019			
	Aerospace & Aviation	**Manufacturing**	**Head Office[(1)]**	**Consolidated**
Total assets	**$ 1,693,854**	**$ 465,825**	**$ 106,878**	**$ 2,266,557**
Net capital asset additions	**222,102**	**11,908**	**701**	**234,711**
Indefinite lived intangible assets	**53,891**	**34,818**	**-**	**88,709**
Goodwill	**218,968**	**140,796**	**-**	**359,764**

	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
Indefinite lived intangible assets	54,635	26,999	-	81,634
Goodwill	220,998	99,680	-	320,678

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.

Revenue Streams	**December 31 2019**	December 31 2018
Aerospace & Aviation Segment		
Sale of goods - point in time	**$ 237,749**	$ 216,057
Sales of services - point in time	**730,885**	661,844
Sale of goods and services - over time	**6,105**	6,061
Manufacturing Segment		
Sale of goods - point in time	**82,356**	74,083
Sale of goods and services - over time	**284,279**	245,347
Total revenue	**$ 1,341,374**	$ 1,203,392

The following is the geographic breakdown of revenues for the year ended December 31, 2019, and the 2018 comparative year, based on the location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Year Ended December 31	**2019**	2018
Canada	**$ 803,261**	**$** 760,936
United States	**294,378**	214,785
Europe	**68,898**	82,460
Other	**174,837**	145,211
Total revenue for the year	**$ 1,341,374**	**$** 1,203,392

	As at December 31, 2019		As at December 31, 2018	
	Capital Assets	**Goodwill**	Capital Assets	Goodwill
Canada	**$ 573,053**	**$ 289,253**	$ 536,670	$ 257,569
United States	**84,203**	**70,511**	38,778	63,109
Europe	**294,612**	**-**	291,461	-
Other	**13,150**	**-**	10,782	-
	$ 965,018	**$ 359,764**	$ 877,691	$ 320,678

Contract Assets	**December 31 2019**	December 31 2018
Accounts receivable, including long-term portion	**$ 301,196**	$ 250,674
Amounts due from customers on construction contracts	**26,698**	13,943
Total	**$ 327,894**	**$** 264,617
Current	**$ 308,554**	**$** 246,853
Non-current	**$ 19,340**	$ 17,764

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Corporation receives payments from customers in line with a series of performance related milestones. The Corporation will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

Contract Liabilities	**December 31 2019**	December 31 2018
Customer loyalty programs - Airlines	**$ 1,247**	$ 991
Deferred revenue	**30,529**	29,239
Amounts due to customers on construction contracts	**14,847**	12,151
Total	**$ 46,623**	**$** 42,381
Current	**$ 46,623**	**$** 38,775
Non-current	**$ -**	$ 3,606

Contract liabilities relating to construction contracts are balances due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognized. There were no significant changes in the contract liability balances during the reporting period.

17. CONSTRUCTION CONTRACTS

The operations of Stainless, WesTower, Quest, and AWI within the Manufacturing segment and Provincial within the Aerospace & Aviation segment have long-term construction contracts where revenues are recognized over time. Under the terms of the contract, the Corporation has an enforceable right for payment for work performed. Revenue is recognized over time using an input or output based method. The input or output methods represent an appropriate measure of progress towards complete satisfaction of the performance obligation. During the year ended December 31, 2019, the Corporation recognized revenue on these types of long-term contracts totaling $290,384 (2018 – $251,408).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2019, and the 2018 comparative year:

As at December 31		2019		2018
Costs incurred on uncompleted contracts	$	119,627	$	137,730
Estimated earnings		21,246		27,108
		140,873		164,838
less: billings to date		(129,022)		(163,046)
Total	$	11,851	$	1,792
Amounts due from customers on construction contracts	$	26,698	$	13,943
Amounts due to customers on construction contracts		(14,847)		(12,151)
Total	$	11,851	$	1,792

18. 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 year.

Diluted Net Earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume 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 year ended December 31, 2019, and comparative in 2018 year are as follows:

Year Ended December 31		2019		2018
Net Earnings	$	83,636	$	70,769
Effect of dilutive securities				
Convertible debenture interest		11,143		5,061
Diluted Net Earnings	$	94,779	$	75,830
Basic weighted average number of shares		32,437,022		31,457,420
Effect of dilutive securities				
Deferred shares		870,972		824,798
Convertible debentures		4,785,736		2,467,311
Diluted basis weighted average number of shares		38,093,730		34,749,529
Net Earnings per share:				
Basic	$	2.58	$	2.25
Diluted	$	2.49	$	2.18

19. EXPENSES BY NATURE

The following disaggregates expenses by nature for direct operating expenses, cost of goods sold, and general and administrative expenses (all excluding depreciation and amortization), which are presented in the statement of income.

		2019		2018
Salaries, wages & benefits	$	332,256	$	302,064
Aircraft operating and sale expenses		384,622		341,580
Materials		165,176		149,175
General and administrative		54,082		55,563
Building rent and maintenance		12,883		20,648
Communication and information technology		12,514		7,585
Advertising		4,058		3,823
Sub-contracting services		24,384		10,593
Other		22,586		34,596
	$	1,012,561	$	925,627

20. EMPLOYEE BENEFITS

Deferred Share Plan

The number of deferred shares granted under the Deferred Share Plan was as follows:

	2019	2018
Deferred shares outstanding, beginning of year	**824,798**	656,198
Granted during the year	**20,532**	126,775
Granted through dividends declared during the year	**51,211**	52,811
Redeemed during the year	**(18,220)**	(8,534)
Forfeited during the year	**(7,349)**	(2,452)
Deferred shares outstanding, end of year	**870,972**	824,798
Vested portion of deferred shares outstanding, end of year	**792,791**	605,556

The fair value of the deferred shares granted during the 2019 year was $669 at the time of the grant (weighted average grant price of $32.12 per share) and was based on the market price of the Corporation's shares at that time (2018 – $4,229, weighted average grant price of $33.36 per share). During the 2019 year, the Corporation recorded a compensation expense of $2,806 for the Deferred Share Plan within head office expenses (2018 – $3,829).

Restricted Share Plan

During the year ended December 31, 2019, the Corporation granted 105,588 (2018 – nil) restricted shares to certain personnel. The fair value of the restricted share units 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 year ended December 31, 2019, the Corporation recorded compensation expense of $1,106 for the Corporation's Restricted Share Plan within the general and administrative expenses of head office (2018 - nil), 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 can 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 vesting or additional shares are purchased for the employee at the vesting date.

During 2019, employees acquired 49,265 shares from Treasury at a weighted average price of $38.83 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 $649 based on the share price and monthly dividend rate at that time.

During 2018, employees acquired 55,480 shares from Treasury at a weighted average price of $29.81 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 $604 based on the share price and monthly dividend rate at that time.

The ESPP plan is adjusted for changes in the Corporation's share price at the period-end, any changes in the Corporation's dividend rate and any estimated forfeitures. During 2019, the total expense recorded for the ESPP in head office expenses was $996 (2018 – $559). At December 31, 2019, the Corporation had $625 (2018 - $512) recorded within Accounts Payable and Accrued Expenses, representing the portion of additional shares that have vested at that date.

21. CONTINGENCIES AND COMMITMENTS

The Corporation and its subsidiaries rent premises and equipment under operating lease agreements. The minimum lease payments under these contractual obligations are as follows:

Commitments		December 31, 2019		December 31, 2018
Less than 1 year	$	3,400	$	27,159
Between 1 year and 5 years		4,623		75,253
More than 5 years		4,080		48,871
	$	12,103	$	151,283

Included in the table above are commitments to related parties in association with leased property used in the operations which are described further in Note 22.

On January 1, 2019, the Corporation adopted IFRS 16 – Leases. Because of adoption, payments related to leases within the scope of IFRS 16 are no longer reflected as operating expenses in the Consolidated Statement of Income. Rather, interest expense related to the liability and depreciation related to the right of use asset are reflected as non-operating expenses as described in Note 3. As a result, the operating lease costs expensed by the Corporation decreased significantly. During the year the Corporation's operations expensed $7,065 (2018 - $32,936) of operating lease costs.

The Corporation has letters of credit and surety bonds outstanding with varying maturities that are contingent on certain operational products and services being provided by the Corporation's subsidiaries. As of December 31, 2019, the total value of these letters of credit and surety bonds was $47,660 (2018 - $33,667).

22. RELATED PARTY TRANSACTIONS

The following transactions were carried out by the Corporation with related parties.

Property Leases

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. In addition, EIC leased office space for its head office from a company controlled by a director of the Corporation. These leases are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2019 under these leases was $3,938 (2018 – $3,910) and the lease term maturities range from 2020 to 2026. The payment is made monthly and therefore no related balances exist on the Corporation's statement of financial position.

Key Management Compensation

The Corporation identifies its key management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Corporation's board (whether executive or otherwise). The key management personnel includes the executive management team and the Board of Directors.

Compensation awarded to key management for the 2019 year and the comparative 2018 year is as follows:

Year ended December 31,		2019		2018
Salaries and short-term benefits	$	4,967	$	5,457
Share-based payments		4,107		3,718
	$	9,074	$	9,175

Co-investments with CRJ Capital Corp.

CRJ Capital Corp., a corporation controlled by the CEO of Regional One, can, subject to the approval of the Corporation, co-invest with the Corporation, on a non-controlling basis, in certain aircraft assets. As a co-investor in these isolated aircraft assets, CRJ Capital Corp. receives profits as money is collected on the sale of the aircraft assets. In connection with this agreement, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During the current period, CRJ Capital Corp. invested US $4,014 (2018 - US $6,479), generating returns paid or payable to CRJ Capital Corp. of US $316 (2018 - US $681). As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at December 31, 2019, was US $13,502 (December 31, 2018 - US $9,969). At December 31, 2019, US $202 is recorded as accounts payable due to CRJ Capital Corp. (December 31, 2018 - less than US $100 recorded in accounts receivable).

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation’s activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

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 $393,555 or $511,149 (2018 - US $365,100 or $498,069) outstanding on its credit facility. The outstanding funds in USD result 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 $59,155 (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 $146,600 (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 year, 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 LIBOR 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 December 31, 2019, was a loss of $6,085 (2018 – a gain of $3,741). At December 31, 2019, the notional value of the swaps outstanding is US $187,800 (2018 - US $186,000). Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, $6,085 was reclassified from other comprehensive income in 2019 (2018 - $3,741). No hedge ineffectiveness was recorded during 2019 or 2018.

A $0.01 weakening in the value of the Canadian dollar in relation to the US dollar applied to the Corporation’s US financial instruments outstanding at December 31, 2019, would have a nil (2018 - nil) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $5,111 (2018 - $4,980).

Interest Rate Risk

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 12) will fluctuate due to fluctuations in interest rates. The Corporation manages this risk and seeks financing terms in individual arrangements that are most advantageous, including an assessment of what portion of the Corporation’s overall debt level is comprised of fixed rate instruments compared to variable rate instruments.

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 December 31, 2019:

- US $393,100 (2018 – US $365,100) was outstanding under US LIBOR, and
- US $455 (2018 – nil) was outstanding under US Prime, and
- $211,900 (2018 – $229,100) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2019, net of cash and cash equivalents, a 1% increase in interest rates for the Corporation would decrease pre-tax net earnings by approximately $5,367 ($3,923 after-tax) (2018 - $6,550 ($4,783 after tax)).

The interest rates of the convertible debentures (Note 13) have fixed interest rates.

During the year, the Corporation entered into an interest rate swap with certain members of its lending syndicate whereby the Corporation has fixed interest rates on $190,000 of its Canadian credit facility debt for a period of four years. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future payment of interest on Bankers' Acceptance debt that would impact profit or loss and therefore qualifies as a cash flow hedge. The interest rate swap is classified within other long-term assets and the mark to market gain of $8 is recorded as a separate line within other comprehensive income.

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 into 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. The derivative financial instrument hedges 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 qualifies as a cash flow hedge. The investment is classified as within other long-term assets and the gain of $1,213 is recorded as a separate line within other comprehensive income.

Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, $358 was reclassified from other comprehensive income in 2019. No hedge ineffectiveness was recorded during 2019.

Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The maximum credit exposure to credit risk at the reporting date is the carrying value of cash and cash equivalents, accounts receivable, deposits, other investments and the lender's obligations under the swap. Unless otherwise specified, the Corporation does not hold any collateral from counterparties related to such financial assets.

The Corporation is exposed to credit risk arising from deposits of cash and cash equivalents with financial institutions. The Corporation maintains its cash and cash equivalents with highly rated financial institutions within Canada and the US.

In addition, the Corporation is exposed to credit risk from its customers. While the operations primarily serve markets across North America and to a lesser extent around the world, the Corporation has a large number of customers and the customer receivables are monitored at each business entity level.

As at December 31, 2019, $53,732 (2018 - $30,010) of the receivables were outstanding for greater than 90 days. Approximately $3,660 (2018 – $4,333) of this relates to the Manufacturing segment and $50,072 (2018 – $25,677) relates to the Aerospace & Aviation segment. Management at each of the Corporation's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Corporation's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

The Corporation has credit risk exposure on the amounts advanced under any promissory note or loan arrangement. This includes the items within Other Assets on the Corporation's consolidated statement of financial position, in particular, the lessor arrangements of Regional One where long-term receivables are recognized with aviation companies in finance lease

arrangements. The security the Corporation has from these arrangements is considered adequate to cover the carrying value of these items.

As part of the partnership in Air Borealis, the Corporation loaned funds to one of its partners, NGC. The initial loan of $5,100 was subsequently repaid in part and the carrying value was $2,568 at December 31, 2019 (2018 – $3,590) and the loan is secured against the cash flows the borrower is entitled to from the partnership until the loan is repaid.

As part of the investment in Wasaya, the Corporation loaned $13,000 to Wasaya. The term of the loan is three years, with principal repayments beginning in April 2020 and the balance due on maturity. The loan is secured against the underlying assets of Wasaya.

Liquidity Risk

Liquidity risk is the risk that the Corporation is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Corporation's growth is financed through a combination of the cash flows from operations, borrowing under existing credit facilities, and the issuance of either or a combination of debentures and equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows. Due to the nature of the business, the Corporation aims to maintain flexibility in funding by maintaining committed and available credit facilities (Note 12).

The Corporation's financial liabilities and related capital amounts have contractual maturities which are summarized below into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the following table are the contractual undiscounted cash flows:

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Accounts payable and accrued expenses	$ 210,496	$ 210,496	$ -	$ -
Long-term debt (principal value)	723,049	-	723,049	-
Convertible debentures (par value)	335,725	-	168,975	166,750
Contractual interest[(1)]	174,580	41,472	124,756	8,352
Total	**$ 1,443,850**	**$ 251,968**	**$ 1,016,780**	**$ 175,102**

Note 1) The contractual interest reflects the assumption that amounts outstanding and floating interest rates at December 31, 2019, will remain at current levels until maturity.

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 December 31, 2019**	**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	**$ 1,213**	**$ -**	**$ 1,213**	**$ -**
Other long-term assets - Interest Rate Swap - Financial liability at fair value through OCI	**8**	**-**	**8**	**-**
Other assets - Fair value through OCI (Note 8)	**5,889**	**-**	**-**	**5,889**
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	**(12,411)**	**-**	**-**	**(12,411)**
Other long-term liabilities - Cross-currency basis swap - Financial liability at fair value through profit and loss	**(6,085)**	**-**	**(6,085)**	**-**
Fair Value Disclosures				
Other assets - Amortized cost	**36,608**	**-**	**36,608**	**-**
Long-term debt - Amortized cost	**(719,559)**	**-**	**-**	**(723,049)**
Convertible debt - Amortized cost	**(310,598)**	**(350,918)**	**-**	**-**

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2018	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 - 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, Quest, Moncton Flight College, Wings Over Kississing, LV Control, and AWI, including any changes for settlements, changes in fair value and changes due to foreign currency fluctuations:

Consideration Liability Summary		**December 31**		December 31
For the years ended		**2019**		2018
Opening	$	**31,173**	$	17,410
Accretion		**1,068**		2,569
Settled during the period		**(15,000)**		(108)
Change in estimate (Note 5)		**(10,624)**		(4,616)
Acquisition of Moncton Flight College		**-**		15,902
Acquisition of Wings Over Kississing		**-**		16
Acquisition of LV Control (Note 6)		**5,523**		-
Acquisition of Advanced Window (Note 6)		**271**		-
Ending	$	**12,411**	$	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 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 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 $12,411 above are the earn out liabilies for Moncton Flight College and LV Control, and an estimated working capital settlement for Wings Over Kississing, LV Control, and AWI. During 2019, the Corporation settled the earn out liability of $15,000 associated with the acquisition of Quest.

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 December 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 3.45%. 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 December 31, 2019, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $350,918 (December 31, 2018 - $269,332) with a carrying value of $310,598 (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.

24. CHANGES IN WORKING CAPITAL ITEMS

The changes in non-cash operating working capital items are as follows:

Year Ended December 31	2019	2018
Accounts receivable, including long-term portion	$ (35,958)	$ (23,939)
Amounts due from customers on construction contracts	(12,219)	(4,484)
Inventory	(13,756)	(25,765)
Prepaid expenses and deposits, including long-term portion	2,002	(3,461)
Accounts payable and accrued expenses, including long-term portion	18,110	8,065
Income taxes receivable/payable	(2,144)	371
Deferred revenue, including long-term portion	(1,155)	(3,525)
Amounts due to customers on construction contracts	62	(2,860)
Net change in working capital items	$ (45,058)	$ (55,598)

25. CAPITAL MANAGEMENT

The Corporation manages its capital to utilize prudent levels of debt. The Corporation's goal is to maintain its level of senior debt within a range of 1.5 – 2.5 times funded senior debt to adjusted Operating profit before Depreciation, Amortization, Finance Costs and Other, normalized for the full year contribution of recent acquisitions.

The Corporation's objective in managing capital is to:

- ensure flexibility in the capital structure to fund the operations, distributions to shareholders, capital investments and to support the external growth strategy;
- maintain adequate liquidity at all times; and
- maintain a diversified capital structure.

The Corporation actively manages and monitors the capital structure and makes adjustments based on the objectives described above in response to changes in economic conditions and the risk characteristics of the underlying assets.

The following is considered by the Corporation as capital and may not be comparable to measures presented by other public companies:

	December 31 2019	December 31 2018
Total senior debt outstanding (principal value)	$ 723,049	$ 727,169
Convertible debentures outstanding (par value)	335,725	277,335
Common shares	709,546	588,498
Total capital	$ 1,768,320	$ 1,593,002

There are certain requirements of the Corporation's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs, and other non-cash items ("EBITDA") ratio. Management considers these requirements in the decisions made in managing the level and make-up of the Corporation's capital structure. The Corporation has been in compliance with all of the financial covenants during the 2019 year.

Changes in the capital of the Corporation during the year ended December 31, 2019, are mainly attributed to the following events that occurred during the year. The Corporation issued a new series of debentures (Unsecured 2019 series) in March 2019 with a par value of $86,250. The Corporation completed the early redemption of its March 2014 convertible debentures with a par value of $3,130 at the time of redemption. The Corporation used its credit facility to fund the acquisitions of LV Control and AWI. Finally, the Corporation closed a bought deal financing of common shares in October 2019 (Note 14).

26. INCOME TAX

Reconciliation of Effective Tax Rate

The tax on the Corporation's profit before tax differs from the amount that would arise by applying the statutory income tax rate to pre-tax earnings of the consolidated entities as follows:

		2019		2018
Earnings before provision for income taxes	$	**105,846**	$	88,802
Combined Canadian federal and provincial tax rates		**27.0%**		27.0%
Income tax expense at statutory rates		**28,578**		23,977
Increase (decrease) in taxes resulting from:				
Permanent differences		**4,116**		3,349
Realized capital gains		**10**		36
Accounting income not subject to tax		**(2,869)**		(1,246)
Impact of foreign jurisdiction differences		**(7,519)**		(8,370)
Derecognition (benefit) of deferred tax assets		**125**		790
Amounts in respect of prior periods		**(269)**		(506)
Other		**38**		3
Provision for income taxes	$	**22,210**	$	18,033

Unrecognized Deferred Tax Liabilities

At December 31, 2019, no deferred tax liability for temporary differences related to investments in subsidiaries was recognized because the Corporation controls the timing and reversal of the differences and is satisfied that such differences will not reverse in the foreseeable future. The temporary differences associated with the Corporation’s foreign subsidiaries are approximately $162,331 (2018 - $108,051).

Movement in Deferred Tax Balances during the Year

The movement in the net deferred income tax balances during the 2019 year and the 2018 comparative year are as follows:

	December 31, 2018	Adoption of IFRS 16	Business Acquisitions	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	**December 31, 2019**
Deferred income tax assets							
Accruals - deductible when paid	$ 1,793	$ -	$ -	$ (1,099)	$ (53)	$ -	**$ 641**
Financing costs	-	-	-	-	-	474	**474**
ROU lease liabilities	-	33,171	-	(1,758)	(347)	-	**31,066**
Capital and non-capital loss carryforwards	4,654	-	-	5,434	(36)	-	**10,052**
Other	7	-	-	184	-	-	**191**
Total deferred income tax asset	$ 6,454	$ 33,171	$ -	$ 2,761	$ (436)	$ 474	$ **42,424**
Deferred income tax liability							
Capital assets	$ (50,914)	$ -	$ (9)	$ (17,513)	$ 412	$ -	$ **(68,024)**
ROU assets	-	(32,279)	-	2,268	322	-	**(29,689)**
Intangible assets	(31,821)	112	(6,950)	(220)	506	1	**(38,372)**
Financing costs	(453)	-	-	(327)	-	780	**-**
Convertible debentures	(3,678)	-	-	751	-	(819)	**(3,746)**
Non-deductible reserves	(4,711)	-	(223)	1,804	8	-	**(3,122)**
Amounts recognized in OCI	-	-	-	-	(231)	-	**(231)**
Investments	(2,154)	-	-	410	22	-	**(1,722)**
Total deferred income tax liability	(93,731)	(32,167)	(7,182)	(12,827)	1,039	(38)	**(144,906)**
Net	$ (87,277)	$ 1,004	$ (7,182)	$ (10,066)	$ 603	$ 436	$ **(102,482)**

Income taxes credited (charged) through the Statement of Income includes investment tax credits of $354 which were classified as reductions of the related expenditures incurred (2018 – nil).

	December 31, 2017	Business Acquisitions	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	Credited / Charged through discontinued operations	December 31, 2018
Deferred income tax assets							
Accruals - deductible when paid	$ 1,038	$ -	$ 650	$ 105	$ -	$ -	$ 1,793
Capital and non-capital loss carryforwards	3,893	-	761	-	-	-	4,654
Other	11	27	(31)	-	-	-	7
Total deferred income tax asset	$ 4,942	$ 27	$ 1,380	$ 105	$ -	$ -	$ 6,454
Deferred income tax liability							
Capital assets	$ (43,906)	$ (859)	$ (5,905)	$ (244)	$ -	$ -	$ (50,914)
Intangible assets	(28,853)	(4,636)	2,455	(787)	-	-	(31,821)
Financing costs	(222)	57	(371)	-	83	-	(453)
Convertible debentures	(3,209)	-	1,035	-	(1,504)	-	(3,678)
Non-deductible reserves	(2,690)	-	(2,046)	(74)	99	-	(4,711)
Amounts recognized in OCI	(1,015)	-	-	1,015	-	-	-
Investments	(1,850)	-	(263)	(41)	-	-	(2,154)
Total deferred income tax liability	(81,745)	(5,438)	(5,095)	(131)	(1,322)	-	(93,731)
Net	$ (76,803)	$ (5,411)	$ (3,715)	$ (26)	$ (1,322)	$ -	$ (87,277)

Deferred income tax assets and liabilities are offset on the balance sheet when they relate to income taxes levied by the same taxation authority.

	December 31 2019	December 31 2018
Deferred tax liabilities	**$ (102,482)**	$ (87,277)
	$ (102,482)	$ (87,277)

27. SUBSEQUENT EVENTS

Normal Course Issuers Bid ("NCIB")

On February 19, 2020, subsequent to December 31, 2019, the Corporation renewed its NCIB. Purchases under the NCIB can commence on February 22, 2020 and will end on February 21, 2021. Under the renewed NCIB, the Corporation can purchase a maximum of 1,736,542 shares and daily purchases will be limited to 27,411 shares, other than block purchase exemptions.