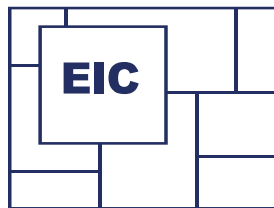


Power of Diversity

2021 Annual Report



**Exchange
Income
Corporation**

Stability in Uncertain Times





EIC's consistent performance throughout 2021, during the global pandemic, demonstrates the strength of our well-established business model.

Our positioning as providers of essential services ensure stable sources of revenue for the company. Our diversity insulates the company from downcycles in the global economy and delivers reliable returns for our investors.

This year more than ever, we are proud of how we have delivered for our customers, that we have continued to build our business, and that we have again returned value for the shareholders who have trusted us as the stewards of your investment in EIC.

“ Quite simply, diversification works, and consistent implementation of a proven plan leads to strong execution and success even in the most difficult environments. ”

MIKE PYLE
CEO

Responsible Partners in the Communities We Serve





EIC has refused to let the pandemic stop our long-standing commitment to active engagement with the communities who count on us most. This year, we were able to significantly expand our program bringing families from northern and remote communities to professional sporting activities in Winnipeg by partnering directly with the Winnipeg Blue Bombers, the CFL, and the Assembly of Manitoba Chiefs in support of Every Child Matters.

While leveraging the unique capacity of our airline family to give over 1000 community members from northern destinations, served by EIC, the opportunity to attend the game between the Bombers and the Elks, we were also pleased to make a critical contribution to an event that helped to solidify the importance of Truth & Reconciliation and emphasized the value of Indigenous lives and culture in the national discourse.

“ The Every Child Matters initiative is about more than words and acknowledgement of the challenges Indigenous children face. It is about taking action to improve the situation. EIC has proved their commitment to our youth time and again. ”

ARNOLD OUSKIN
Former Grand Chief of KTC &
Current Director of Wasaya Airways





We have applied that same standard of participation to our training and development initiatives, ensuring that EIC companies will continue to reflect where we're building our businesses. Our MFC Training subsidiary, working closely with our Indigenous partners, will for the second consecutive year operate a satellite flight school in Happy-Valley Goose Bay, Newfoundland and Labrador while also extending that remote program for the first time to Thompson, Manitoba.

We are excited to be growing this initiative because we know the difference this kind of opportunity can make in a person's life. We have seen it firsthand through the journey of Tik Mason.





EIC has been a part of Tik's journey since his receipt of the Bill Wehrle Memorial Scholarship in 2017 and now through the completion of his first flight as a licensed pilot. We have been proud to support Tik and we are excited to see where his career takes him, and how many youth from Tik's community he inspires to pursue careers in aviation.



Powering Acquisitions with In-House Expertise





Adding to the EIC family of companies through the pandemic has meant doing things differently. To ensure we continued properly completing our diligence and applying the rigorous standards of responsibility we have established in previous deployments of capital, EIC made the proactive choice to look inward for acquisitions by asking our own highly skilled internal management teams to identify vendors whose companies had the potential to contribute to our growth for the long term.

We're very happy with the results.

“ Carson Air is the main provider of fixed wing air ambulance service to the Government of B.C. They are clearly a Canadian leader with an exceptional management team. ”

ADAM TERWIN
Chief Corporate Development Officer



Telcon & Ryko will complement the existing WesTower wireless offering regardless of any & all logistical challenges



“ WesTower has anxiously been awaiting the rollout of 5G technology. We wanted to make sure we were maximizing our share of the opportunity. To that end, through the acquisition of Telcon & Ryko, we have added underground capabilities in both eastern & western Canada to our above ground expertise. ”

NATHAN SCHAUERTE
CEO, WesTower





“ The Crew Training International transaction added a sophisticated organizational structure with appropriate controls to ensure foreign ownership would not impare U.S. Department of Defense contracts & has now opened the door to the biggest market in the world for EIC defence services. ”

MIKE PYLE
CEO





“ We sourced additional capacity through the acquisition of Macfab with similar capabilities but a different customer base. ”

MICHAEL IACOVELLI
CEO, Ben Machine Products





**Driving Growth
by Investing
in Exceptional
Performance**



Over the course of the pandemic, EIC's belief in our management teams continued to deliver exceptional results. We have seen Government clients confidently extend key strategic services with us, including PAL Aerospace's contract award for the continued provision of dedicated air reconnaissance capacity for the Dutch Caribbean Coastguard as well as how our reputation generates more opportunities demonstrated by the company's expansion into the European market.

Our in-house industry experts continue to successfully navigate the pandemic, including Regional One's leadership in aviation's pandemic recovery driven by demand for parts, engines, and aircraft.

We are facilitating inclusive regional economic development, deploying airline capacity in scheduled and charter service to support Canada's booming resource industry. And we keep pushing to combine expertise from across our business lines like the development of Trauma Flight which combines the rotary wing experience of Custom Helicopter with the proven air ambulance knowledge of Keewatin Air.

“ At EIC we have always believed in taking the long-term perspective in our thinking and in 2021 we laid the groundwork for future growth & profitability. ”

CARMELE PETER
President

“ By effectively managing our operations through the pandemic for the long term, by looking & investing forward, we have positioned EIC to continue to accomplishing great things for the future. ”

MIKE PYLE
CEO





“ Utilizing Keewatin’s proven knowledge of medical transport derived from decades of being the lead service provider in Nunavut, together with Custom’s rotary experience, we have built a new product offering which we believe will augment our current fixed wing business. ”

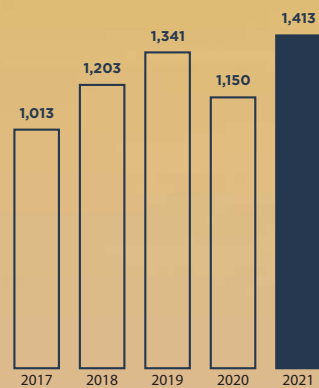
DAVE WHITE
EVP, Aviation

Disciplined Management & Strong Results

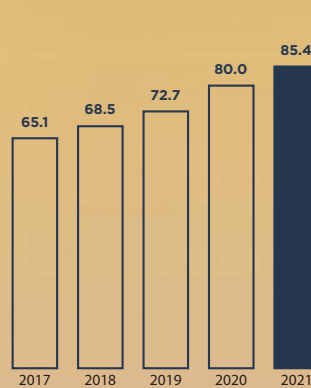


Throughout the pandemic EIC has kept a rigorous focus on the health of our balance sheet and ensuring our ability to make accretive acquisitions while meeting our dividend commitments to investors. This discipline in how we approach the management of our business and how we decide to deploy our capital has always been, and will remain, a hallmark of EIC's approach.

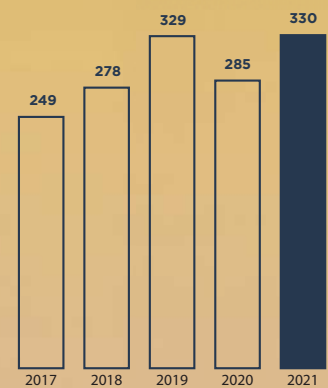
Our commitment in that regard is directly reflected in the strength of our results. Building a diversified business without unduly risking capital or jeopardizing our future through over-exposure to specific market fluctuations, EIC has consistently grown historically, weathered the uncertainty as a result of the pandemic in 2020, and recovered strongly in 2021.



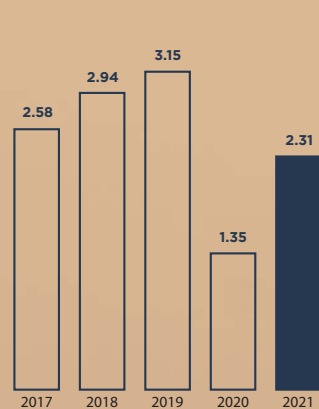
Revenue
(\$ MILLIONS)



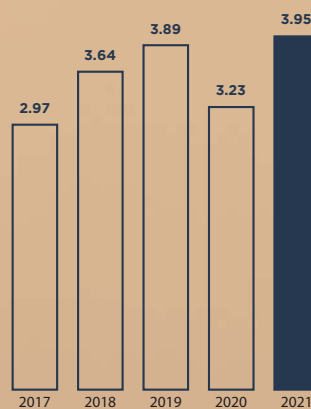
Dividends Declared
(\$ MILLIONS)



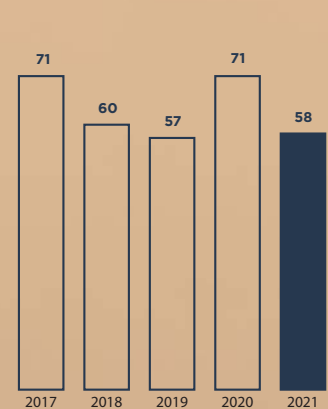
EBITDA
(\$ MILLIONS)



Adjusted Net Earnings Per Share
(\$ PER SHARE)



Free Cash Flow Less Maintenance Capex Per Share
(\$ PER SHARE)



Free Cash Flow Less Maintenance Capex Payout Ratio
(PERCENT)

Chairman's Message



Hon. GARY FILMON

P.C., O.C., O.M. Chairman, Board of Directors

As I write my final message as Chair to the shareholders of Exchange Income Corporation, my mind is flooded with memories and emotions. It seems like it was only yesterday, rather than almost twenty years ago that ten of us met to listen to Duncan Jessiman's vision of establishing a company that would purchase profitable and well-managed small and medium sized family owned or closely held companies in Canada that lacked a viable strategy to monetize the value they had created. It was our intent, after thorough due diligence, to acquire these companies and continue to utilize their management talent and productive workforce to provide a continued, sustainable source of income. With the addition of our financial expertise and access to capital we believed we could create an enterprise that would not only grow but would attract investors by distributing above average dividend returns on an ongoing basis.

This dream, which began with an investment of less than a quarter million dollars in a Junior Capital pool has become Exchange Income

Corporation, a publicly traded company on the Toronto Stock Exchange with a market capitalization in excess of \$1.6 billion. EIC's success is a remarkable achievement by any standard and it has happened because of the combined efforts of many people. It could not have happened without the decisions made by the owners of more than twenty small and medium sized companies throughout North America who saw the value of joining EIC and made their decision to sell their companies to us. It could not have happened without the dedication and consistent hard work of the talented executives who have joined us because they believed in our vision. It could not have happened without the decisions of many financial institutions who raised and loaned money to us to provide for our expansions and growth. It would not have happened without the leadership of our dynamic CEO, Mike Pyle, whose financial acumen and creative mind have led EIC since its inception. Most of all it would not have happened without the thousands of individual investors who, along with the financial institutions, saw the value we were creating and the opportunities for continued growth in the future. Of course, because all these things took place, it did happen.

Over the years, I have been contacted by countless individual investors who have shared stories of what their investment in Exchange Income Corporation has meant to them. A retired school teacher in British Columbia emails me periodically to tell me how happy she is to receive her monthly dividend cheque and what an important part of her retirement income it is (she bought her shares originally at \$8.50). Many others who attend our Annual General Meeting tell us that Exchange Income Corporation is the best investment in their

portfolio. Given that our average annual return since inception has been over 20%, there is no question they are right.

If consistency is a hallmark of any activity in life, then we have earned that tribute. Through almost two decades, which included a serious recession and a pandemic, we are very proud of the fact that we have never paused or reduced our dividend. In fact over these years, we have increased our dividend 14 times. It's a remarkable achievement.

The secrets to our success are simple. We identify companies that meet our criteria – profitable, with a defensible niche market, capable and experienced management, and a productive workforce. We do a very thorough due diligence to ensure we understand all aspects of the company's operations. Finally and most importantly, we acquire them at a price that is fair, but ensures that we can continue to operate them successfully. Many of the original owners believe strongly in the EIC model. Some are among our largest shareholders. By adding our management expertise and access to capital, virtually all the acquisitions have grown and expanded – some as much as five times their original size.

As great as the story is looking backward, it is even better as we look ahead. Because of our growth and success, we now are able to identify many more prospects for acquisition, including enterprises that are much larger than our past transactions. More importantly, our well established companies are providing excellent opportunities for profitable, organic growth every year. I am very confident in the prospects for our future.

The most important elements in EIC's future are the people who will continue to run the company. Mike Pyle, our CEO, has recruited an Executive Management team that is as strong, dedicated and capable as any you will find. Our Board, who I believe are as talented as any in the country, will continue to provide excellent governance under the leadership of our new chair. It is the intention of the Board of Directors to nominate Don Streuber as chair after our AGM and board elections occur. Don was one of our original ten investors and has been on the board since its inception. His knowledge and capability will ensure the company's growth and development continue.

I will leave the details of the EIC's review of the past year and outlook for the year ahead to Mike Pyle's CEO message. I will miss my interactions with many of you, but will continue to follow closely the remarkable story of EIC.

In closing, I extend my sincere thanks to all the people who have contributed to the enjoyment of my time at EIC. The stakeholders, the staff, the investors, the Executive, and Board have built the company into the amazing enterprise that it has become. I leave with an overflowing store of memories of friendship and achievement.

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

CEO's Message



MIKE PYLE

MBA, ICD.D. Chief Executive Officer

It seems that abnormal and irregular have become the new normal. I think it is safe to say when the COVID-19 pandemic hit in early 2020, few of us realized two years later we would not only still be dealing with the pandemic, but also the side effects of the initiatives taken by government to combat it. Inflation is running at generational highs and supply chain challenges are evident in all aspects of our daily lives. Stability has disappeared and we are now used to living in an unstable economic environment. I am pleased to say the performance of EIC is the exception to this new normal. Our businesses are unequivocally dealing with the same challenges as everyone else, but the diversity of our operations, the entrepreneurial spirit of our dedicated management teams, and our strong balance sheet have enabled EIC to deliver on our core commitment to our shareholders, to provide a reliable dividend to our shareholders.

The stability of our model is evident across our 2021 operations. Our financial results improved dramatically over 2020 and most indicators

have returned to or surpassed all-time highs established in 2019. Despite travel restrictions, which resulted in due diligence being more challenging, we were able to complete an EIC all time high of five acquisitions during 2021. Our subsidiaries, while managing the current challenges, also focused on long-term growth, adding new capabilities, customers, and long-term contracts. We completed three public market securities offerings and extended the maturity of our syndicated bank credit facility which will ensure our leverage remains well within our long-established goal posts and in fact declined relative to 2020. These actions also ensure we have sufficient liquidity to strike quickly when opportunities are identified. Finally, we focused on our commitment to improving our ESG footprint, especially in the area of investing in Canada's Northern First Nation Communities. I will return to each of these areas in more detail later in this report, but first I would like to review our financial performance.

We experienced both improvements and setbacks that coincided with the waves of the pandemic in 2021, but each successive recovery was higher and the setbacks smaller as we went through the year. Our financial results exceeded both internal and external expectations during the year. While we are currently dealing with the Omicron wave of the pandemic, as we have demonstrated through the last two years, we will navigate our way through it as well.

Revenue reached an all-time high of \$1.41 billion, an increase of 23% over 2020 and 5% over the previous high in 2019.

Adjusted EBITDA also reached an all-time high of \$330 million, an increase of 16% over 2020 and less than 1% higher the previous high in 2019.

Our dividend payout ratio of 58%, when calculated on a Free Cash Flow less Maintenance Capital Expenditures basis is significantly improved from 2020, when the ratio was 71% and slightly higher than 2019 when it was an all-time best of 57%. When calculated on an Adjusted Net Earnings basis, the dividend payout ratio strengthened to 99% from 169% in 2020 but was still well short of the 71% achieved in 2019.

While our management teams dealt with the challenges of operating in a pandemic environment, they also remained focused on the long-term, sourcing and executing on growth opportunities and setting the company in a position to expand when their operations normalized.

This included winning new long-term contracts, expanding geographic coverage, and adding additional capacity to fulfill rising customer demand. It also included strategic acquisitions, but I will return to that topic later in this communication.

PAL Airlines undertook several initiatives through 2021. With other airlines reducing coverage in the Maritimes they added new market pairings, to ensure the communities were serviced, and to provide profitable growth as passenger loads normalized. They entered into interline agreements with the major carriers to allow passengers to easily connect to flights out of the region. As the mining sector strengthened, increased demand for charter services led to a change in the make up of our fleet. We upgauged our passenger fleet by replacing three Dash 8 300 aircraft with three larger Dash 8 400 aircraft, thereby enabling more passenger movements with fewer flight hours.

PAL renewed its Maritime Surveillance contract in Curacao for an additional 10 years, while preparing the aircraft required for the new contract providing services for the Government of the Netherlands, which begins in the second half of 2022. This segment has proven to be remarkably resilient and provides long term profitable work. The two contract wins are evidence of PAL's strong industry position and bode well for future growth as the aircraft come online. A new hangar is under construction in Winnipeg and will be completed in 2022, facilitating the expanding work on the Fixed Wing Search and Rescue Contract for the Government of Canada.

Regional One has remained agile throughout the pandemic. Across most airline operators there was a material amount of deferred maintenance on parked fleets during 2020, as they were in liquidity preservation mode with a significant focus on cost controls. The rebound occurred faster than expected in North America, which lead to excessive demand for MRO shop visits for aircraft and engine repairs and overhauls. With its opportunistic purchases at favourable prices and focus on the regional jet market, Regional One was well positioned to capture the stronger demand for parts and the need for whole aircraft and engines. These gains have significantly assisted in offsetting the leasing business, which has been slower to recover.

Perimeter added two Dash 8 300 aircraft from PAL to take advantage of increased demand for charter work, particularly in the mining sector in Northwestern Ontario. Calm also added capacity with the purchase of an ATR-72 aircraft for the freight business which remains remarkably strong in Nunavut. Calm will take delivery of an additional aircraft later this spring.

CEO's Message continued...

Our rotary wing operation also added capacity as it extended its footprint in the Maritimes working with Air Borealis, increased its EMS capability, and captured increased resource sector work. We also leveraged our rotary wing abilities with Keewatin's industry leading medevac personnel to launch Trauma Flight, extending Keewatin's medevac capability to both fixed and rotary wing.

Opportunities were also seized in the Manufacturing segment. Investments in key personnel and equipment were added at several of the entities to strengthen operations and assist in capturing increased customer demand. This included increasing output at Ben Machine and OMI, as well as acquiring specialty equipment for WesTower to enhance its wireline construction capabilities as fiber installation increases in support of the 5G rollout. The segment was also bolstered by three new acquisitions which I discuss in greater detail below.

EIC's diversified business model is based upon strong independent management teams in our subsidiaries. The strategies and day to day operations of our companies are handled by the management at the individual companies. Our head office team provides oversight, facilitates synergies between operating companies, and the implementation of best practices, together with providing the capital to implement the business model. With this model the evaluation of the management teams, not just the CEO, but rather the entire executive group, is a fundamental part of our due diligence when we consider an acquisition. We don't do turn arounds and as such the existing management team is a core asset of the companies we look to acquire.

The onset of the pandemic made travel virtually impossible, which in turn made it very difficult to do the necessary diligence to determine if the management would be a good fit for EIC. This evaluation cannot be done on the phone or through a Teams call.

We realized we needed to adjust our acquisition process. We decided to shift our focus to opportunities identified by our subsidiary management where there was already an established relationship and through them, we could complete a deep dive into the fit with EIC. This shift proved to be very effective, and we completed five transactions during 2021, an all-time high for EIC.

These acquisitions were smaller than average, however, they were not only accretive on a standalone basis, but also provide cost and revenue synergies with our existing entities. Three acquisitions were in our Manufacturing segment and two were in our Aerospace & Aviation segment.

The rollout of 5G networks across Canada is expected to increase demand for WesTower's services. Our customers at the telecommunication companies are increasingly looking for both tower work and underground wiring for the new network to be done by the same supplier. WesTower is Canada's leader in above-groundwork and to enhance our capabilities and capacity for underground work we acquired Telcon in November and Ryko in December. WesTower management was very familiar with both Telcon and Ryko, who, in addition to having strong technical capabilities, brought proven management and employee teams. These acquisitions will assist WesTower in taking full advantage of the opportunities presented by the 5G technology upgrade.

Ben Machine has performed exceptionally well since its acquisition in 2015. They have grown consistently, and even with regular investment in additional equipment have had little excess capacity. The acquisition of Macfab in August not only provided new customers and additional capacity, but a proven team.

We have seen how remarkably resilient our medevac business has been during the pandemic and are looking to expand. We have a very high market share in most of the geographic areas where we operate but need to expand our coverage to grow the business. When Carson became available, we were ecstatic, as it was well known across the industry for its management team led by Kevin Hillier, and because it was the largest provider of service in British Columbia. Not only did Carson provide a strong base of operations in BC, but it gives us the ability to expand into the other western provinces as well as Yukon and the Northwest Territories.

CTI is a training company that provides service to the USA military with a focus on the Navy and the Airforce. They provide training predominantly but not exclusively in a classroom environment. They also have expertise in unmanned aircraft or drones, which EIC did not previously have. The company has a track record of over 30 years and has a proven and dedicated management team led by its founder Alan Mullen. CTI is EIC's first entry into the large American market for military training and provides growth opportunities both in and outside of the USA. We are particularly excited about bringing the strengths of PAL and CTI together to create new revenue opportunities for both companies. PAL is a world leader in maritime surveillance and ISR capabilities but has not had any serious exposure to the American market, and through the relationships and market knowledge of CTI we intend over time to bring PAL into this market in a meaningful way. PAL has deep roots in other markets, such as Canada and the Middle East, and should be able to assist CTI to increase its operations in these regions.

A fundamental element of our business model has always been to maintain a strong liquid balance sheet to enable us to move quickly when the right opportunities were uncovered.

Our track record of performance over the last 18 years has helped build relationships in the financial markets which enabled us to take three balance sheet initiatives during 2021 despite the ongoing pandemic. Firstly, we saw the strong pipeline of acquisition opportunities and wanted to have the equity capital available to move on these opportunities without increasing our leverage. While we had plenty of liquidity in our long-term bank facility, we wanted to take a balanced approach to funding. To that end we completed an \$88 million share offering in April, ensuring the equity required by our model. We had two convertible debenture series which were due at the end of 2022 and during 2023. We decided that with the uncertainty of the pandemic and its impact on the capital markets to eliminate our refinancing risk and completed two convertible debenture offerings in July and December raising an aggregate of \$259 million. Both offerings had the brokers overallotment issue fully utilized. Finally, we extended the maturity of our syndicated bank credit facility through 2025. The sum total of these transactions has strengthened our balance sheet by increasing our equity, enhancing our liquidity, and after the redemption on February 11, 2022, of the Convertible Debentures that were to mature in December 2022, removed all debt maturities prior to 2025.

We are in perhaps the strongest balance sheet position in our history.

Corporate social responsibility and sustainability have evolved in the business world. It used to focus solely on profits and productivity but has since grown to encompass employee quality of

CEO's Message continued...

life, contribution to communities, and protection of the environment. EIC is, again, the exception to this evolution – it has always been EIC's choice and priority to put people first, to build health, safety and quality programs that are proactive, and to take on extra costs to protect the environment.

Much like we continued to manage our operations and balance sheet in the short-term and focus on the long-term during the pandemic, we applied that same discipline to addressing material ESG topics. In the short-term, we were privileged to leverage our partnerships with the Winnipeg Blue Bomber Football Club and the Assembly of Manitoba Chiefs, as well as our significant infrastructure in the North, to bring 1,000 members of various Indigenous communities together to a CFL game to recognize the importance behind the new national holiday on September 30, National Day for Truth & Reconciliation. Our efforts to support our communities were not limited to the memorable football game on October 8. We were proud to celebrate Atik Mason, the inaugural recipient of the Bill Wehrle Scholarship, when he completed his first flight to his home community in St. Theresa Point as a First Officer with Perimeter Aviation. We were honored to receive the Manitoba 2021 Award of Distinction – Employer of the Year from Apprenticeship Manitoba for our subsidiary's excellence in training and education and participation in the AME program.

Our focus on the long-term has driven us to make significant efforts throughout 2021 to understand what environmental and social topics are important to our stakeholders so that we can report to them accordingly going forward.

We are pleased to be in a position to share some of the initial data in conjunction with our annual report in May. That data will highlight

the efforts we have made to foster a diverse, equitable, and safe workplace for all our employees as well as describe actions we are taking to minimize our environmental footprint. Our subsidiaries have always prioritized making the right choice for the long-term over the easy choice for the short-term and that belief will guide us as we continue to advance our ESG program development to ensure we are reporting on the topics our stakeholders want to know about and the positive impact we are having as an organization.

Before I end my remarks, I need to discuss one more very important topic. Our Board Chair since inception, Mr. Gary Filmon, has announced his retirement and will not stand for re-election to our Board in 2022. I would like to attempt to put into words how blessed I feel to have had him lead our Board since we formed a capital pool company in 2002 with the idea of building EIC. Gary has an amazing track record as a businessman and in government where he spent a decade as the Premier of Manitoba. With this background, it should come as no surprise that Gary was a very effective Chair with the capability to provide sound practical advice as EIC grew from a one employee company to the successful enterprise that it is today.

Gary provided something much greater however than simply sage advice, he provided leadership. He helped build a culture where doing the right thing is the only way to proceed, even if it is the most difficult path. We have built a company with a market capitalization of over \$1.6 billion in less than 20 years by putting culture and ethics first. Under Gary's guidance our culture has been woven into the DNA of our company. Gary, on behalf of our Board, our management team, our shareholders, our stakeholders, and myself, I want to say thank you for what you have done for EIC. The company would not look the way it does today without your hand at the wheel, and all of us will do whatever is necessary to ensure this does

not change in the future. Congratulations on two decades of leading EIC and thank you from the bottom of my heart.

I hope we are coming to the end of this challenging pandemic, and that in the near future we can return to a new sense of normal, whatever that means now. Omicron has certainly made our first quarter of 2022 more difficult in our aviation operations as First Nations were hit hard by the high transmissibility in their remote communities. Inflation, labour shortages, and supply chain issues created challenges for other parts of our company, but this has simply been par for the course during the pandemic. We are seeing operations improve as the quarter proceeds and are very confident about the future with the investments we made during the last two years. The exact pace of the recovery is unknown, but the outcome is not in doubt.

The pandemic has fire tested the business models of all companies. Many companies prosper in good times, but wither when things become more difficult. I am very proud that EIC has shown our business model of diversification, disciplined growth both organically and through acquisition, a strong liquid balance sheet, and a culture committed to doing the right thing for our employees, our customers, and all of our stakeholders have made us an island of stability in a world of turmoil. Our success is about much more than our financial results and paying our dividend as we have committed to our shareholders. It is about keeping our employees and customers safe. It is about maintaining essential services to our customers who rely on us, even if those services are not financially viable. It is about investing in The Every Child Matters campaign with a plan to improve the opportunities for First Nations Children, particularly those in remote communities. It is about planning for and investing in our future.

I want to thank our Board for their guidance during this challenging period. I want to thank our management and employees for going that

extra step to ensure EIC is successful. Without you nothing would be accomplished. Finally, I want to thank our customers, our shareholders, and all of our stakeholders for your support over the last year.

Mike Pyle
Chief Executive Officer

February 23, 2022

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Management Discussion & Analysis

PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 2021 ("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, 2021. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are necessarily based upon a number of expectations or assumptions that, while considered reasonable by management at the time the statements are made, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Readers are cautioned to not place undue reliance on forward-looking statements which only speak as to the date they are made. Although management believes that the expectations and assumptions underlying such forward-looking statements are reasonable, there can be no assurance that such expectations or assumptions will prove to be correct. A number of factors could cause actual future results, performance, achievements, and developments of the Corporation and/or its subsidiaries to differ materially from anticipated results, performance, achievements, and developments expressed or implied by such forward-looking statements. Such factors include, but are not limited to: COVID-19 related risks; economic and geopolitical conditions; competition; government funding for First Nations health care; access to capital; market trends and innovation; general uninsured loss; climate; acts of terrorism; pandemic; level and timing of defence spending; government funded defence and security programs; significant contracts and customers; operational performance and growth; laws, regulations and standards; acquisition risk; concentration and diversification risk; maintenance costs; access to parts and relationships with key suppliers; casualty losses; environmental liability risks; dependence on information systems and technology; international operations risks; fluctuations in sales prices of aviation related assets; fluctuations in purchase prices of aviation related assets; warranty risk; performance guarantees; global offset risk; intellectual property risk; availability of future financing; income tax matters; commodity risk; foreign exchange; interest rates; credit facility and the trust indentures; dividends; unpredictability and volatility of prices of securities; dilution risk; credit risk; reliance on key personnel; employees and labour relations; and conflicts of interest. A further discussion of these risks is included in *Section 12 – Risk Factors*.

The information contained or incorporated by reference in this report identifies additional factors that could affect the operating results and performance of the Corporation and its subsidiaries. Assumptions about the performance of the

businesses of the Corporation and its subsidiaries are considered in setting the business plan for the Corporation and its subsidiaries and in setting financial targets. Should one or more of the risks materialize or the assumptions prove incorrect, actual results, performance, or achievements of the Corporation and its subsidiaries may vary materially from those described in forward-looking statements.

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

EXCHANGE INCOME CORPORATION

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

- | | | |
|---|--|---|
| <p>(i) to provide shareholders with stable and growing dividends;</p> | <p>(ii) to maximize shareholder value through ongoing active monitoring of and investment in its operating subsidiaries; and</p> | <p>(iii) to continue to acquire additional businesses or interests therein to expand and diversify the Corporation's investments.</p> |
|---|--|---|

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, cargo, charter service, and emergency medical services to communities located in Manitoba, Nunavut, Ontario, British Columbia, and Alberta. These services are provided by: [Calm Air](#), [Perimeter](#), [Bearskin](#) (as a division of Perimeter), [Keewatin](#), [Carson](#), [Custom Helicopters](#), the 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](#), the equity investment in [Air Borealis](#), [PAL Aerospace](#), and [MFC Training](#)) provides scheduled airline, charter service, and emergency medical services in Newfoundland and Labrador, Quebec, New Brunswick, Nova Scotia, and Ontario 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 MFC Training, Provincial offers a full range of pilot flight training services, from private pilot licensing to commercial pilot programs. [Crew Training International](#) ("CTI"), which is consolidated as part of Provincial, delivers training solutions for its customers across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft for the US Department of Defense. 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 and installer 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, wireless and wireline construction and maintenance services, and the provision of technical services. [Ben Machine](#) is a manufacturer of precision parts and components primarily used in the aerospace, defence, healthcare, and security sectors. [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 periods indicated are as follows:

Financial Performance	2021	per share basic	per share fully diluted	2020	per share basic	per share fully diluted
For the year ended December 31						
Revenue	\$ 1,413,146			\$ 1,149,629		
Adjusted EBITDA ⁽¹⁾	329,880			284,535		
Net Earnings	68,588	\$ 1.84	\$ 1.80	28,055	\$ 0.80	\$ 0.78
Adjusted Net Earnings ⁽¹⁾	86,012	2.31	2.26	47,176	1.35	1.31
Adjusted Net Earnings payout ratio ⁽¹⁾		99%	101%		169%	174%
Free Cash Flow ⁽¹⁾	243,317	6.53	5.78	198,400	5.66	5.03
Free Cash Flow less Maintenance Capital Expenditures ⁽¹⁾	147,154	3.95	3.68	113,331	3.23	2.94
Free Cash Flow less Maintenance Capital Expenditures payout ratio ⁽¹⁾		58%	62%		71%	78%
Dividends declared	85,387	2.28		80,012	2.28	
FINANCIAL POSITION	December 31, 2021			December 31, 2020		
Working capital	\$ 225,108			\$ 323,625		
Capital assets	1,070,573			950,037		
Total assets	2,588,667			2,294,184		
Long-term debt	707,611			794,194		
Equity	800,275			685,946		
SHARE INFORMATION	December 31, 2021			December 31, 2020		
Common shares outstanding	38,740,389			35,471,758		
	December 31, 2021			December 31, 2020		
Weighted average shares outstanding during the period – basic	37,265,034			35,048,953		

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

SIGNIFICANT EVENTS

SARS-CoV-2 (“COVID-19”)

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has resulted in governments around the world at various times throughout the pandemic imposing severe travel restrictions and social distancing measures to limit the spread of the virus. Compared to the pre-pandemic operating environment, travel restrictions have materially impacted the subsidiaries within the Aerospace & Aviation segment, and both supply chain disruptions and required employee absenteeism have negatively impacted the efficiency of the subsidiaries in the Manufacturing segment. Additional information on the impacts of COVID-19 can be found in *Section 2 – Annual Results of Operations*, *Section 3 – Fourth Quarter Results*, and *Section 6 – Outlook* of the MD&A.

Normal Course Issuer Bid (“NCIB”)

On February 22, 2021, the Corporation renewed its NCIB for common shares and received approval for a new NCIB for certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on February 24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of 3,253,765 shares and daily purchases will be limited to 27,845 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.

Under the new NCIB for certain series of convertible debentures, purchases can be made during the period commencing on February 24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of \$6,897,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures, \$10,000,000 principal amount of 5 year 5.25% convertible unsecured subordinated debentures, \$8,050,000 principal amount of 7 year 5.35% convertible unsecured subordinated debentures, and \$8,625,000 principal amount of 7 year 5.75% convertible unsecured subordinated debentures, with daily purchases of principal amount, other than block purchase exceptions, limited to \$10,207, \$11,001, \$19,392, and \$19,338, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

Government Financial Aid

The Corporation availed itself of the Canada Emergency Wage Subsidy (“CEWS”) in 2021. The amounts received under the program have decreased compared to 2020. In addition, certain of the Corporation’s airlines received support from Federal, Provincial, and Territorial governments to ensure critical routes into remote communities are able to continue operation. Consistent with the CEWS, these amounts have declined throughout the 2021 year. Total support from all levels of government has decreased by 37% for the year ended December 31, 2021 compared to 2020. With the material impacts of the Omicron variant on the Corporation’s operations late in the fourth quarter, and into the first quarter of 2022, the Corporation has made claims for government funding for which it is eligible.

Bought Deal Financing of Common Shares

On April 26, 2021, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 2,236,000 shares of the Corporation at \$39.40 per share, for gross proceeds of approximately \$88 million. The net proceeds of the offering was used to repay debt under the Corporation’s credit facility during the second quarter and created further availability under the credit facility until being deployed during the third quarter, where a large portion was used to fund the acquisitions of Carson Air and Macfab Manufacturing.

Acquisition of Carson Air

On July 5, 2021, the Corporation acquired Carson Air (“Carson”) for \$58 million. The purchase price was funded through the issuance of \$3 million of the Corporation’s common shares to the vendor and cash in the amount of \$55 million that was available from the Corporation’s credit facility. Carson was established in 1990 and has a long history of being the primary provider of fixed wing air ambulance services in British Columbia. In addition to air ambulance services, which is Carson Air’s primary business, it provides dedicated cargo services in British Columbia and Alberta and operates a flight school, Southern Interior Flight Centre.

Bought Deal Financing of Convertible Debentures

On July 30, 2021, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued \$144 million principal amount of debentures including the exercise of the full \$19 million over-allotment option that was granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder’s option into common shares of the Corporation at a conversion price of \$52.70 per share. The maturity date of the debentures is July 31, 2028.

Credit Facility Extension

On August 6, 2021, the Corporation extended the maturity of its credit facility to August 6, 2025. The remaining terms included within the facility were virtually unchanged from the Corporation's previous credit facility.

Acquisition of Macfab Manufacturing

On August 11, 2021, the Corporation acquired Macfab Manufacturing Inc. ("Macfab") for \$11 million. The purchase price was funded through the issuance of \$1 million of the Corporation's common shares to the vendor and cash in the amount of \$10 million that was available from the Corporation's credit facility. Macfab was founded in 1987 and is a contract manufacturer of precision custom components and sub-assemblies for medical, life sciences, aviation security, avionics, and space instruments. Serving customers across Canada, the US, and the UK, Macfab provides prototype and production volumes, and offers a complete suite of precision machining, finishing, cleaning, and assembly solutions.

Early Redemption of Convertible Debentures

On September 2, 2021, the Corporation redeemed its 7 year 5.25% convertible debentures which were due on June 30, 2023. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its July 2021 5.25% convertible debenture offering. Prior to the redemption date, \$1 million principal amount of debentures were converted into 24,446 common shares at a price of \$44.75 per share. On September 2, 2021, the remaining outstanding debentures in the principal amount of \$68 million were redeemed by the Corporation.

Acquisition of Telcon Datvox Inc.

On November 9, 2021, the Corporation acquired Telcon Datvox Inc. ("Telcon") for \$9 million. The purchase price, subject to normal post closing adjustments, was funded through the issuance of \$2 million of the Corporation's common shares to the vendor and cash in the amount of \$7 million that was available from the Corporation's credit facility. Telcon was founded in 1982 and provides wireline installation and maintenance services, including both underground and aerial, as well as related services such as indoor network cabling. Located outside of St. Catharines, Ontario, Telcon's services are focused in the southern Ontario region. The acquisition, combined with WesTower's leading presence in the wireless tower industry, will further our ability to provide a fully integrated service to the telecommunication companies across Canada.

Acquisition of Ryko Telecommunications Inc.

On December 1, 2021, the Corporation acquired Ryko Telecommunications Inc. ("Ryko") for \$15 million. The purchase price, subject to normal post closing adjustments, was funded through the issuance of \$2 million of the Corporation's common shares to the vendor and cash in the amount of \$13 million that was available from the Corporation's credit facility. Ryko was founded in 2009 and specializes in all facets of the installation of aerial and underground fibre optic and copper cable, and the maintenance and construction of cable systems. With offices in Regina and Warman, Saskatchewan, Ryko services Western Canada. The acquisition, combined with WesTower's leading presence in the wireless tower industry, will further our ability to provide a fully integrated service to the telecommunication companies across Canada.

Bought Deal Financing of Convertible Debentures

On December 6, 2021, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued \$115 million principal amount of debentures including the exercise of the full \$15 million overallotment option that was granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of \$60.00 per share. The maturity date of the debentures is January 15, 2029. Subsequent to December 31, 2021, a portion of net proceeds from the offering have been utilized to redeem the convertible debentures due December 31, 2022, as described below.

Acquisition of Crew Training International

On December 16, 2021, the Corporation acquired Crew Training International (“CTI”) for \$57 million. The purchase price, subject to normal post closing adjustments, was funded through the issuance of \$9 million of the Corporation’s common shares to the vendor and cash in the amount of \$48 million that was available from the Corporation’s credit facility. Headquartered in Memphis, Tennessee, CTI has 30 years of experience developing and delivering training solutions for the US government and commercial applications. CTI delivers training solutions for governments across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft.

ISR Contract Award

On December 21, 2021, the Corporation announced that PAL Aerospace had received notice of the contract award decision to provide a dedicated air reconnaissance capacity for the Dutch Caribbean Coastguard. On February 22, 2022, the contract was executed which will see PAL Aerospace upgrade and operate two fully missionized DHC-8 maritime patrol aircraft, provide crew training on all systems and support the operation of the aircraft for a minimum ten-year period, with options to extend.

SUBSEQUENT EVENTS

Early Redemption of Convertible Debentures

On February 11, 2022, the Corporation redeemed its 5 year, 5.25% convertible debentures which were due on December 31, 2022. The redemption of the debentures was completed with cash on hand from the Corporation’s issuance of its December 2021 5.25% convertible debenture offering. Prior to the redemption date, less than \$1 million principal amount of debentures were converted into 155 common shares at a price of \$51.50 per share. On February 11, 2022, the remaining outstanding debentures in the principal amount of \$100 million were redeemed by the Corporation.

2. ANNUAL RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the year ended December 31, 2021, and the comparative 2020 year.

	Year Ended December 31, 2021			
	Aerospace & Aviation	Manufacturing	Head Office ⁽²⁾	Consolidated
Revenue	\$ 917,368	\$ 495,778	\$ –	\$ 1,413,146
Expenses ⁽¹⁾	629,365	422,782	31,119	1,083,266
Adjusted EBITDA	288,003	72,996	(31,119)	329,880
Depreciation of capital assets				144,946
Amortization of intangible assets				16,897
Finance costs – interest				48,955
Depreciation of right of use assets				24,542
Interest expense on right of use liabilities				3,243
Acquisition costs				3,034
Other				(6,000)
Earnings before taxes				94,263
Current income tax expense				17,741
Deferred income tax expense				7,934
Net Earnings				\$ 68,588
Net Earnings per share (basic)				\$ 1.84
Adjusted Net Earnings				\$ 86,012
Adjusted Net Earnings per share (basic)				\$ 2.31

	Year Ended December 31, 2020			
	Aerospace & Aviation	Manufacturing	Head Office ⁽²⁾	Consolidated
Revenue	\$ 687,321	\$ 462,308	\$ –	\$ 1,149,629
Expenses ⁽¹⁾	469,244	374,327	21,523	865,094
Adjusted EBITDA	218,077	87,981	(21,523)	284,535
Depreciation of capital assets				139,898
Amortization of intangible assets				17,573
Finance costs – interest				47,000
Depreciation of right of use assets				25,374
Interest expense on right of use lease liabilities				3,934
Acquisition costs				1,816
Impairment loss				6,117
Other				(177)
Earnings before taxes				43,000
Current income tax expense				17,007
Deferred income tax recovery				(2,062)
Net Earnings				\$ 28,055
Net Earnings per share (basic)				\$ 0.80
Adjusted Net Earnings				\$ 47,176
Adjusted Net Earnings per share (basic)				\$ 1.35

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.

On May 27, 2021, the Canadian Securities Administrators issued National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure along with the companion policy for that instrument that came into effect for financial years ending after October 15, 2021. As a result of the requirements under this instrument, the Corporation will present “Adjusted EBITDA” which is determined in the exact same manner as “EBITDA” was presented in its prior MD&A reports. As such, all amounts presented as “Adjusted EBITDA” are directly comparable to amounts presented as “EBITDA” in prior MD&A reports. See *Section 13 – Non-IFRS Measures and Glossary* for additional information.

REVENUE AND ADJUSTED EBITDA *(Section 13 – Non-IFRS Financial Measures and Glossary)*

On a consolidated basis, the Corporation generated revenue of \$1.4 billion, an increase of \$264 million, or 23% over the comparative year. The Aerospace & Aviation segment revenue increased by \$230 million, and the Manufacturing segment revenue increased by \$34 million.

Adjusted EBITDA of \$330 million was generated by the Corporation during the year, an increase of \$45 million or 16% over the comparative year. The increase in Adjusted EBITDA is attributed to the lessening impact of COVID-19 compared to the prior year and acquisitions made throughout 2021. The consolidated increase was achieved despite overall government funding in the 2021 year decreasing by \$27 million compared to the prior year. When government subsidies are excluded from both years, Adjusted EBITDA increased by 34%.

During the year, the Corporation's head office costs increased by \$10 million or 45% over the prior year due to increased personnel related costs and increased costs associated with information technology. Personnel costs were unusually low in 2020 as voluntary salary reductions and significantly reduced performance-based compensation due to the pandemic resulted in comparatively higher costs in 2021.

The Corporation's results continued to be impacted by the COVID-19 pandemic during the year, although to a lesser extent than in the prior year. The first quarter of 2021 was slower than the first quarter of 2020 as the prior period was only impacted by the pandemic for a couple of weeks. The remainder of the year in 2021 saw improvements over the prior period as the impact of the pandemic lessened compared to 2020. The impact of the pandemic in 2021 came in different waves, each one presenting unique challenges. Travel restrictions, required quarantine periods, and a backlog of elective and diagnostic medical procedures in southern Canada, reduced the demand for some of the Aerospace & Aviation segment's products and services at various points throughout the year compared to the pre-pandemic operating environment. In addition to reductions in efficiency due to COVID-19 in our Manufacturing segment, the segment experienced margin pressure compared to the prior year as the cost of raw materials and transportation increased during the second half of 2021. In both the Aerospace & Aviation segment and the Manufacturing segment, increased costs associated with keeping our employees and customers safe negatively impacted margins in the current and prior years.

The Corporation availed itself of the CEWS offered by the Government of Canada and recorded \$18 million under this program during the year. The Corporation continued to use the proceeds from the CEWS to offset salary costs that would have otherwise been reduced without the CEWS program, and to help offset increased health and safety costs across both segments and costs associated with inefficiencies in the Manufacturing segment. The Corporation's airline operations also received support for essential air services to remote northern communities from the Manitoba and Ontario Provincial governments and the Nunavut Territorial government during 2021. With the material impacts of the Omicron variant on the Corporation's operations late in the fourth quarter, and into the first quarter of 2022, the Corporation has made claims for government funding for which it is eligible. Total funding received from all levels of government in 2021, including amounts received under the CEWS program, is down 37% compared to the 2020 year.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by \$230 million or 33% to \$917 million.

Revenue in the Legacy Airlines and Provincial increased by \$155 million or 28% over the prior year. The increase reflects the combination of improved demand for air travel in the second through fourth quarters of 2021 compared to the prior year, where the pandemic had a material impact on operations. Partially offsetting this was the normal pre-pandemic results for most of the first quarter in the prior year, whereas operations in the first quarter of 2021 experienced material negative COVID-19 impacts throughout the quarter. Passenger levels continued to strengthen in the second and third quarters of 2021 and levelled off in the fourth quarter of 2021, while still surpassing performance in the fourth quarter of 2020. The comparative increases in the second, third and fourth quarters of 2021 more than offset the negative impacts in the first quarter. The Corporation continued to see strong demand in its cargo, medevac, and rotary wing operations including increased EMS, fire suppression activity, and mining activity, which contributed to strong year over year growth. Our on-demand ISR platform contributed positively to our results as the Corporation continues to benefit from previous investments in that area. Finally, government financial assistance supporting the continuation of essential service into remote northern communities served to help to offset areas where service has not been economical throughout the pandemic.

Regional One's revenues for the current year increased by \$75 million or 54%. As seen in the table below, this was driven by an increase in sales and service revenue over the prior year.

Regional One Revenue	Year Ended December 31,	2021	2020
Sales and service revenue	\$	181,860	\$ 106,001
Lease revenue		32,255	32,924
	\$	214,115	\$ 138,925

Sales and service revenue increased by 72% over the prior year. The prior year includes approximately two and a half months of normal operations, including part sales, which historically are the most predictable portion of Regional One's sales and service revenue and typically make up the largest proportion of this revenue stream. The reduced revenue experienced in the first quarter of 2021 was more than offset by improvements in the remainder of the 2021 year compared to 2020. The sales of whole aircraft and engines were materially impacted during the prior year due to COVID-19, as many sales that were expected to occur after the onset of the pandemic were cancelled or postponed. Regional One saw a material recovery in these larger sales during the third and fourth quarters of 2021, which, combined with increased part sales, is driving the increase in sales and service revenue over the prior year. The sale of large assets varies on a period to period basis, but are generally higher dollar value transactions. Regional One's business has been materially impacted by COVID-19 as its business is dependent on the volume of passengers at traditional regional air carriers. As travel has slowly started to pick up around the world, most notably in the United States, Regional One has experienced growth compared to prior quarters impacted by the pandemic.

Lease revenue decreased by less than \$1 million or 2% in comparison to the previous year. Lease revenues in 2020 included approximately two and a half months of pre-pandemic utilization by lessees, resulting in decreases in lease revenue in 2021 compared to that period. Lease revenues for the remainder of 2021 increased over the same period in the prior year, with the fourth quarter 2021 lease revenues more than double those generated in the fourth quarter of 2020. The leasing portfolio experienced lower utilization of aircraft by customers starting in March of 2020, and many of the regions where our lessees operate continue to experience varying degrees of travel restrictions and quarantine requirements, all of which continued to depress lease revenue compared to the pre-pandemic operating environment. The Corporation has no lease revenue recorded for deferred lease payments during the year.

In the Aerospace & Aviation segment, Adjusted EBITDA increased \$70 million or 32% to \$288 million.

Adjusted EBITDA in the Legacy Airlines and Provincial increased by \$54 million or 31% over the prior year. The Legacy Airlines and Provincial experienced an increase in demand during the second through fourth quarters, driving both revenue and Adjusted EBITDA increases compared to the prior year. Adjusted EBITDA shortfalls experienced in the first quarter were more than offset by improvements realized during the final three quarters of 2021, as demand was much stronger compared to the prior year. The acquisition of Carson Air in July 2021 also contributed to this improvement. Cost reduction measures through scheduled frequency reductions, labour rationalization, and various other strategies that took some time to implement in 2020 were meaningfully realized in 2021 and continue to benefit our operations. The Corporation provides essential services to the communities it serves as air transportation is the only way that people and goods can get to or from many of these remote regions. From this perspective, it was imperative to maintain regular, albeit reduced, scheduled flights to these communities during the pandemic. The Corporation worked collaboratively with the Federal Government, the Government of Nunavut, and the Provincial governments of Manitoba and Ontario to help support the scheduled passenger operation to ensure continued regular essential services to their remote communities. The Corporation was also able to access funds under the CEWS program which helped offset higher health and safety costs, and to offset salary costs that would have otherwise been reduced without the CEWS program. These factors collectively helped to mitigate the impact of pandemic induced reductions in demand compared to the pre-pandemic operating environment. The total support received from all levels of government decreased by 29% compared to 2020 for the Legacy Airlines and Provincial. When government subsidies are excluded from both years, Adjusted EBITDA increased by 55%.

Regional One's Adjusted EBITDA increased by \$16 million or 38% over the prior year. The Adjusted EBITDA generated from a significant increase in aircraft and engine sales and an increase in part sales more than offset a slight reduction in Adjusted EBITDA contributed from leasing. The margin on the sale of larger assets sales is typically lower than other revenue streams, including leasing, and therefore the 38% increase in Adjusted EBITDA is lower than the 54% increase in revenue.

Manufacturing Segment

The Manufacturing segment revenue increased by \$34 million or 7% to \$496 million and Adjusted EBITDA decreased by \$15 million or 17% from the prior year to \$73 million. Excluding the impact of reduced CEWS received during both years, Adjusted EBITDA decreased by 5% from 2020.

All of the Corporation's subsidiaries within the Manufacturing segment were deemed essential businesses during the COVID-19 pandemic and continued to operate. Social distancing and required COVID-19 related employee absenteeism have reduced the efficiency and throughput in the short-term despite robust demand. Increased employee screening and increased frequency of cleaning and sanitization of the facilities are all realities the manufacturing subsidiaries are facing as a result of COVID-19. The segment has seen a decline in these impacts in the latter part of 2021.

During the third and fourth quarters, the Manufacturing segment was impacted by increased raw materials and transportation costs, as well as labour shortages, which all contributed to decreased margins. The entities within the segment are leveraging their collective expertise and supply chains to help access materials and labour required in their operations, but this is becoming more of a challenge as supply chains around the world struggle to adjust to increased demand.

For the first two quarters of 2021, Adjusted EBITDA at Quest was higher than the prior period reflecting the acquisition of WIS in the third quarter of 2020 with no comparative in the prior period. During the third and fourth quarters, as discussed above, the COVID-19 pandemic had a more significant negative impact on Quest's operations, resulting in reduced Adjusted EBITDA. At the onset of the pandemic, projects were delayed, which created openings in Quest's production schedule that could not be filled on short notice due to the longer-term procurement cycle of the construction projects in which Quest's windows are used. Quest's projects are usually booked by the customers more than a year in advance, and while these projects were not cancelled, they impacted short term results. The revenue shortfalls from these delayed projects were mostly replaced with lower margin work in its installation businesses. Finally, during the third and fourth quarters, increased raw materials and transportation costs negatively impacted Quest's Adjusted EBITDA.

The balance of the segment collectively experienced an increase in Adjusted EBITDA excluding the impact of the CEWS program in both the current and prior years, as support received in the current period declined 85% compared to the prior year. In addition, the tuck-in acquisitions acquired during the year positively impacted Adjusted EBITDA compared to the prior year. Demand continues to be strong, and while the benefit of CEWS is lower than the prior year, it helped to offset higher safety costs and inefficiencies associated with COVID-19.

NET EARNINGS

	Year Ended December 31,	2021	2020
Net Earnings		\$ 68,588	\$ 28,055
Net Earnings per share		\$ 1.84	\$ 0.80

Net Earnings was \$69 million, an increase of \$41 million or 144% over the prior year. The Corporation generated higher Adjusted EBITDA compared to the prior year as discussed above, which contributed to the increase in Net Earnings over the prior year. The increase in Net Earnings was partially offset by two items. Firstly, an increase of \$5 million in depreciation on capital assets reduced Net Earnings. The increase relates primarily to an increase in capital assets purchased by Regional One, depreciation on Growth Capital Expenditures at the Corporation's other subsidiaries, and the addition of capital assets through acquisitions. Secondly, interest on long-term debt increased due to \$3 million of non-cash accelerated interest accretion from the early redemption of the Corporation's debentures maturing in June 2023. Positively impacting Net Earnings in the current year was a gain of \$6 million recorded as a result of the revaluation of contingent consideration. This 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*). Negatively impacting Net Earnings in the prior year was an impairment loss at the Corporation's Alberta Operations of \$6 million due to the impact COVID-19 had on the oil and gas industry.

Income tax expense increased by \$11 million primarily due to increased pre-tax earnings. The Corporation's effective tax rate decreased from 35% to 27% as fewer losses were incurred in lower tax rate jurisdictions in the current year than in the prior year. In addition, the remeasurement of contingent consideration, which is not subject to tax, was significantly higher in the current year than the prior year and therefore decreased the effective rate of tax in comparison.

Net Earnings per share increased by 130% over the prior year to \$1.84 due to higher Net Earnings generated in the period. The increase in Net Earnings was partially offset by the 6% increase in the weighted average shares outstanding compared to the prior year. 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,	2021	2020
Net Earnings	\$	68,588	\$ 28,055
Acquisition costs (net of tax of \$122 and \$268)		2,912	1,548
Amortization of intangible assets (net of tax of \$4,562 and \$4,745)		12,335	12,828
Interest accretion on acquisition contingent consideration (net of tax of nil and nil)		286	272
Accelerated interest accretion on redeemed debentures (net of tax of \$700)		1,891	–
Impairment loss (net of tax of \$1,644)		–	4,473
Adjusted Net Earnings	\$	86,012	\$ 47,176
per share – Basic	\$	2.31	\$ 1.35
per share – Diluted	\$	2.26	\$ 1.31

Adjusted Net Earnings increased by \$39 million over the prior year. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of \$12 million in intangible asset amortization, \$3 million in acquisition costs, and less than \$1 million in interest accretion on contingent consideration (all net of tax). Adjusted Net Earnings also includes the add-back of non-cash accelerated interest accretion on the early redemption of convertible debentures of \$2 million and other items such as impairment losses (all net of tax).

Adjusted Net Earnings per share increased by 71% over the prior year to \$2.31 due to higher Adjusted Net Earnings generated in the period. The increase in Adjusted Net Earnings was partially offset by the 6% increase in the weighted average shares outstanding compared to the prior year. 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)

	Year Ended December 31,	2021	2020
Free Cash Flow			
Cash flows from operations	\$	285,047	\$ 259,974
Change in non-cash working capital		(20,755)	(38,455)
Acquisition costs (net of tax of \$122 and \$268)		2,912	1,548
Principal payments on right of use lease liabilities		(23,887)	(24,667)
	\$	243,317	\$ 198,400
per share – Basic	\$	6.53	\$ 5.66
per share – Fully Diluted	\$	5.78	\$ 5.03

The Free Cash Flow generated by the Corporation during the year was \$243 million, an increase of \$45 million, or 23% over the comparative year. The main reason for this increase is the \$45 million increase in Adjusted EBITDA. Free Cash Flow is discussed further in *Section 13 – Non-IFRS Financial Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow per share increased by 15% to \$6.53. The increase in Free Cash Flow was partially offset by the 6% increase in the weighted average shares outstanding compared to the prior year. 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 detailed 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, 2021, and the comparative three-month period in 2020.

	Three Months Ended December 31, 2021			
	Aerospace & Aviation	Manufacturing	Head Office ⁽²⁾	Consolidated
Revenue	\$ 261,439	\$ 128,888	\$ –	\$ 390,327
Expenses ⁽¹⁾	183,500	109,538	7,868	300,906
Adjusted EBITDA	77,939	19,350	(7,868)	89,421
Depreciation of capital assets				40,466
Amortization of intangible assets				4,788
Finance costs – interest				11,571
Depreciation of right of use assets				6,340
Interest expense on right of use lease liabilities				755
Acquisition costs				1,526
Other				(6,000)
Earnings before income taxes				29,975
Current income tax expense				1,319
Deferred income tax expense				5,600
Net Earnings				\$ 23,056
Net Earnings per share (basic)				\$ 0.61
Adjusted Net Earnings				\$ 28,027
Adjusted Net Earnings per share (basic)				\$ 0.74

	Three Months Ended December 31, 2020			
	Aerospace & Aviation	Manufacturing	Head Office ⁽²⁾	Consolidated
Revenue	\$ 175,890	\$ 125,820	\$ –	\$ 301,710
Expenses ⁽¹⁾	114,679	100,909	4,151	219,739
Adjusted EBITDA	61,211	24,911	(4,151)	81,971
Depreciation of capital assets				35,860
Amortization of intangible assets				6,624
Finance costs – interest				11,145
Depreciation of right of use assets				6,396
Interest expense on right of use lease liabilities				924
Acquisition costs				734
Earnings before income taxes				20,288
Current income tax expense				5,056
Deferred income tax expense				1,753
Net Earnings				\$ 13,479
Net Earnings per share (basic)				\$ 0.38
Adjusted Net Earnings				\$ 18,847
Adjusted Net Earnings per share (basic)				\$ 0.53

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.

On May 27, 2021, the Canadian Securities Administrators issued National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure along with the companion policy for that instrument that came into effect for financial years ending after October 15, 2021. As a result of the requirements under this instrument, the Corporation will present “Adjusted EBITDA” which is determined in the exact same manner as “EBITDA” was presented in its prior MD&A reports. As such, all amounts presented as “Adjusted EBITDA” are directly comparable to amounts presented as “EBITDA” in prior MD&A reports. See *Section 13 – Non-IFRS Measures and Glossary* for additional information.

REVENUE AND ADJUSTED EBITDA *(Section 13 – Non-IFRS Financial Measures and Glossary)*

Revenue generated by the Corporation during the fourth quarter was \$390 million, an increase of \$89 million or 29% over the comparative period. The Aerospace & Aviation segment revenue increased by \$86 million and the Manufacturing segment revenue increased by \$3 million.

Adjusted EBITDA generated by the Corporation during the fourth quarter was \$89 million, an increase of \$7 million or 9% over the comparative three-month period. The increase was attributable to the Aerospace & Aviation segment, partially offset by a decrease in the Manufacturing segment and higher head office costs. The consolidated increase was achieved despite overall government funding in the fourth quarter of 2021 decreasing by \$13 million compared to the prior period. When government subsidies are excluded from both periods, Adjusted EBITDA increased by 30%.

During the period, the Corporation's head office costs increased by \$4 million over the prior period primarily due to increase personnel costs and increased costs associated with information technology. Personnel costs were unusually low in the prior period as voluntary salary reductions and significantly reduced performance-based compensation as a result of the pandemic resulted in comparatively higher costs in 2021.

Aerospace & Aviation Segment

In the Aerospace & Aviation segment, revenue increased by \$86 million or 49% to \$261 million.

Revenue in the Legacy Airlines and Provincial increased by \$50 million or 34% over the comparative three-month period. The reasons for the increase compared to the prior period are largely consistent with the drivers for the year to date increase discussed above, most significantly the lessening impact of the pandemic. In addition, the fourth quarter of 2021 benefitted from the acquisition of Carson Air in July 2021.

Regional One's revenue increased by \$36 million or 112% over the comparative three-month period. The lessening impacts of the pandemic drove increases in both revenue streams as seen in the table below.

Regional One Revenue	Three Months Ended December 31,	2021	2020
Sales and service revenue	\$	58,295	\$ 27,594
Lease revenue		9,656	4,431
	\$	67,951	\$ 32,025

Revenue at Regional One increased as both revenue streams increased over the prior period. During the fourth quarter, sales of aircraft, engines, and parts increased over the prior period. The sales of larger assets vary on a period to period basis and are generally higher dollar value transactions. Lease revenue also increased over the prior period, continuing a trend experienced throughout 2021 of increased utilization of the Corporation's lease portfolio.

In the Aerospace & Aviation segment, Adjusted EBITDA increased by \$17 million or 27% to \$78 million.

Adjusted EBITDA contributed by the Legacy Airlines and Provincial increased by \$5 million or 10%. The primary reasons for the increase compared to the prior period are largely consistent with the drivers for the year to date increase discussed above, most significantly the lessening impact of the pandemic and the addition of Carson in July 2021. Total support from all levels of government decreased by 98% in the fourth quarter of 2021 compared to the prior period for the Legacy Airlines and Provincial. When government subsidies are excluded from both periods, Adjusted EBITDA increased by 43%.

Regional One contributed Adjusted EBITDA of \$21 million for the quarter, an increase of \$12 million or 130% over the prior period. As discussed above, the lessening impact of COVID-19 on its leased asset utilization and a particularly strong quarter for aircraft and engine sales drove the increase.

Manufacturing Segment

The Manufacturing segment revenue increased by \$3 million or 2% over the prior period to \$129 million and Adjusted EBITDA decreased by \$6 million or 22% from the prior period to \$19 million. Excluding the impact of CEWS received in both periods, Adjusted EBITDA decreased by 21% from the prior period.

As detailed in the annual discussion above, the Manufacturing subsidiaries, and Quest in particular, continued to be impacted by supply chain disruptions that led to increased raw materials and transportation costs. In most cases, Quest is unable to pass on these escalating prices in the short term due to the fixed-price nature of their contracts. These disruptions, along with other impacts discussed in the annual discussion above, decreased margins in the fourth quarter. The reasons for the growth of the balance of the segment are consistent with the annual discussion above, including strong demand and the tuck-in acquisitions completed during 2021.

NET EARNINGS

	Three Months Ended December 31	2021	2020
Net Earnings		\$ 23,056	\$ 13,479
Net Earnings per share		\$ 0.61	\$ 0.38

Net Earnings for the three months ended December 31, 2021, was \$23 million, an increase of \$10 million or 71% over the comparative period. As discussed above, the \$7 million increase in Adjusted EBITDA during the period increased Net Earnings. In addition, intangible asset amortization decreased from the comparative period by \$2 million as the prior period included a higher level of amortization from the backlog intangible assets recorded in previous periods, which tend to amortize more quickly. The increase in Net Earnings was partially offset by an increase in depreciation expense of \$5 million over the comparative period as a result of investments made in Growth Capital Expenditures and capital assets at newly acquired subsidiaries. Positively impacting Net Earnings in the current period was a gain of \$6 million recorded as a result of the revaluation of contingent consideration. This 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 less than \$1 million in the fourth quarter of 2021 compared to the same period in 2020. The effective rate of tax is lower than in the prior year as a result of fewer losses in lower tax rate jurisdictions than in the prior period. In addition, the remeasurement of contingent consideration recorded in the current period, which is not subject to tax, decreased the effective rate of tax in comparison.

Net Earnings per share increased by 61% over the prior period to \$0.61. The increase in Net Earnings was partially offset by the 7% increase in the weighted average shares outstanding compared to the prior period. 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	2021	2020
Net Earnings		\$ 23,056	\$ 13,479
Acquisition costs (net of tax \$122 and nil)		1,404	466
Amortization of intangible assets (net of tax \$1,293 and \$1,789)		3,495	4,835
Interest accretion on acquisition contingent consideration (net of tax of nil and nil)		72	67
Adjusted Net Earnings		\$ 28,027	\$ 18,847
per share – Basic		\$ 0.74	\$ 0.53
per share – Diluted		\$ 0.71	\$ 0.52

Adjusted Net Earnings increased by \$9 million or 49% over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of \$3 million in intangible asset amortization, less than \$1 million in interest accretion on contingent consideration, and \$1 million in acquisition costs (all net of tax).

Adjusted Net Earnings per share increased by 40% over the prior period to \$0.74. The increase in Adjusted Net Earnings was partially offset by the 7% increase in the weighted average shares outstanding compared to the prior period. 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	2021	2020
Cash flows from operations		\$ 79,001	\$ 63,888
Change in non-cash working capital items		(2,515)	2,370
Acquisition costs (net of tax of \$122 and nil)		1,404	466
Principal payments on right of use lease liabilities		(6,309)	(7,227)
		\$ 71,581	\$ 59,497
per share – Basic		\$ 1.88	\$ 1.68
per share – Fully Diluted		\$ 1.62	\$ 1.48

The Free Cash Flow generated by the Corporation for the fourth quarter of 2021 was \$72 million, an increase of \$12 million or 20% over the comparative period. The primary reason for the increase is the 9% increase in Adjusted EBITDA and a decrease in current tax expense.

Because of the increase in Free Cash Flow discussed above, Free Cash Flow per share increased by 12% over the prior period to \$1.88. The increase in Free Cash Flow was partially offset by the 7% increase in the weighted average shares outstanding compared to the prior period. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

Changes in non-cash working capital balance is included in cash flow from operations per the Statement of Cash Flow and is 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 within *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

Carson Air Ltd.

On July 5, 2021, the Corporation acquired the shares of Carson. Carson was established in 1990 and has a long history of being the primary provider of fixed wing air ambulance services in British Columbia. In addition to air ambulance services, which is Carson's primary business, it provides dedicated cargo services in British Columbia and Alberta and operates a flight school, Southern Interior Flight Centre.

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

Consideration given:	
Cash	\$ 54,198
Issuance of 73,906 shares of the Corporation at \$39.40 per share	2,912
Final working capital settlement	1,091
Total purchase consideration	\$ 58,201

Macfab Manufacturing Inc.

On August 11, 2021, the Corporation acquired the shares of Macfab. Macfab was founded in 1987 and is a contract manufacturer of precision custom components and sub-assemblies for medical, life sciences, aviation security, avionics, and space instruments. Serving customers across Canada, the US, and the UK, Macfab provides prototype and production volumes, and offers a complete suite of precision machining, finishing, cleaning, and assembly solutions.

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

Consideration given:	
Cash	\$ 9,116
Issuance of 39,145 shares of the Corporation at \$41.10 per share	1,609
Final working capital settlement	598
Total purchase consideration	\$ 11,323

Telcon Datvox Inc.

On November 9, 2021, the Corporation acquired the shares of Telcon. Telcon was founded in 1982 and provides wireline installation and maintenance services, including both underground and aerial, as well as related services such as indoor network cabling. Located outside of St. Catharines, Ontario, Telcon services are focused in the southern Ontario region. The acquisition, combined with WesTower's leading presence in the wireless tower industry, will further our ability to provide a fully integrated service to the telecommunication companies across Canada.

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

Consideration given:	
Cash	\$ 7,375
Issuance of 46,063 shares of the Corporation at \$43.42 per share	2,000
Estimated working capital settlement	(48)
Total purchase consideration	\$ 9,327

Ryko Telecommunications Inc.

On December 1, 2021, the Corporation acquired the shares of Ryko. Ryko was founded in 2009 and specializes in all facets of the installation of aerial and underground fibre optic and copper cable, and the maintenance and construction of cable systems. With offices in Regina and Warman, Saskatchewan, Ryko services Western Canada. The acquisition, combined with WesTower's leading presence in the wireless tower industry, will further our ability to provide a fully integrated service to the telecommunication companies across Canada.

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

Consideration given:	
Cash	\$ 12,746
Issuance of 47,782 shares of the Corporation at \$43.95 per share	2,100
Estimated working capital settlement	419
Total purchase consideration	\$ 15,265

Crew Training International, Inc.

On December 16, 2021, the Corporation acquired the shares of CTI. Headquartered in Memphis, Tennessee, CTI has 30 years of experience developing and delivering training solutions for the US government and commercial applications. CTI delivers training solutions for governments across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft for the US Department of Defense.

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

Consideration given:	
Cash	\$ 47,449
Issuance of 224,865 shares of the Corporation at \$41.28 per share	9,283
Estimated working capital settlement	7,204
Total purchase consideration	\$ 63,936

CAPITAL EXPENDITURES

Capital Expenditures	Year Ended December 31, 2021			
	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	\$ 92,257	\$ 3,793	\$ 113	\$ 96,163
Growth Capital Expenditures	128,836	2,131	–	130,967
	\$ 221,093	\$ 5,924	\$ 113	\$ 227,130

Capital Expenditures	Year Ended December 31, 2020			
	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	\$ 81,101	\$ 2,326	\$ 1,642	\$ 85,069
Growth Capital Expenditures	44,404	3,519	–	47,923
	\$ 125,505	\$ 5,845	\$ 1,642	\$ 132,992

Maintenance Capital Expenditures for the year ended December 31, 2021, increased over the prior year. Maintenance Capital Expenditures are generally weighted more towards the first quarter as heavy overhauls and engine maintenance events are scheduled at a time when demand is lowest in the airline subsidiaries. During the prior year, Maintenance Capital Expenditures for the first two and a half months reflected a pre-pandemic reality, whereas in the current year Maintenance Capital Expenditures reflect current levels of flying, which were slower for the first two and a half months of 2021 comparatively but increased thereafter in 2021 compared to 2020. As flight hours increased in the second, third, and fourth quarters of 2021, so did the Maintenance Capital Expenditures for our air operators. The second, third, and fourth quarters of 2021 saw a significant increase in Maintenance Capital Expenditures as the airlines were significantly busier than in the prior period, where COVID-19 had a more material impact on operations. The Corporation expects increased investment requirements into 2022 as operations move towards normalized pre-pandemic levels. Further discussion of future Maintenance Capital Expenditures is included in *Section 6 – Outlook*.

Aerospace & Aviation Segment

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the year ended December 31, 2021, were \$92 million, an increase of 23% over the prior year. As previously indicated, the Corporation expects that as flying hours increase, Maintenance Capital Expenditures will also increase, which is what occurred during the second, third, and fourth quarters of 2021. During the year ended December 31, 2021, the Legacy Airlines and Provincial invested \$65 million in

Growth Capital Expenditures. Substantially all the investments made relate to aircraft modifications in preparation for the Netherlands Coast Guard ISR contract for Provincial, investment in additional capacity in the Legacy Airlines and Provincial to meet increasing customer demand, particularly for charter and cargo services, construction of a new hangar in Winnipeg for Provincial's FWSAR contract, and investments in expanding the capabilities within our rotary wing operations.

Regional One's Maintenance Capital Expenditures for the year ended December 31, 2021, were \$14 million, a decrease of \$3 million from the prior year. In the first quarter of the prior year, depreciation was used as a proxy for Maintenance Capital Expenditures (described further below), and depreciation in the first quarter of 2020 materially exceeded the Maintenance Capital Expenditures in the first quarter of 2021. Increased Maintenance Capital Expenditures in the balance of the 2021 year compared to 2020 offset most of the decrease in the first quarter of 2021. The COVID-19 pandemic has left Regional One's fleet of aircraft and engines underutilized, and as a result, the available green time on those aircraft is not being consumed at the same rate as in prior periods. Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. As the fleet is currently underutilized, the historical approach is not appropriate. The actual costs of maintaining the fleet were significantly lower than the depreciation expense recorded during the year. Starting in the second quarter of 2020, the actual expenditures on assets already owned have been used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

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

Regional One Lease Portfolio	December 31, 2021		December 31, 2020	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	64 ⁽¹⁾	81	58 ⁽¹⁾	51

Note (1) The aircraft total above includes 10 airframes (December 31, 2020 – 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, the Embraer ERJ aircraft, and the Dash-8 Q400 aircraft. Regional One is not a traditional leasing company. Regional One 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 not all the aircraft and engines in the portfolio will be on lease at any given time.

During the year ended December 31, 2021, Regional One invested \$64 million in Growth Capital Expenditures. Regional One took an opportunity to purchase some larger assets at attractive prices due to the impact COVID-19 has had on the aviation industry. These assets are currently being marketed for lease and will contribute to lease revenue in future periods when the impacts of the pandemic on the aviation industry wane.

In the first quarter of the prior period, Growth Capital Expenditures at Regional One represented the difference between net capital assets acquired (assets purchased less assets sold or transferred to inventory) and the amount of Maintenance Capital Expenditures, calculated using depreciation as a proxy. Starting in the second quarter of 2020, Growth Capital Expenditures represent the purchases of new assets, net of disposals and transfers to inventory. Because the timing between the removal of assets from the lease portfolio and the replacement of those assets can vary from quarter to quarter, it is possible that negative Growth Capital Expenditures may arise in a particular quarter. However, it is not expected that negative Growth Capital Expenditures would consistently occur over a longer period as it is the Corporation's intention to continue to maintain or grow the lease portfolio.

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, 2021, Maintenance Capital Expenditures of \$4 million were made by the Manufacturing segment, an increase of \$1 million over the prior period. Most of the increase relates to investments made within WesTower to acquire specialty equipment to enhance its wireline construction capabilities as fiber installation increases in support of the 5G rollout in 2022.

For the year ended December 31, 2021, Growth Capital Expenditures of \$2 million were made by the Manufacturing segment. The investments were made to increase capacity within the segment to support the growth in demand currently experienced by the segment subsidiaries.

INVESTMENT IN WORKING CAPITAL

During the period ended December 31, 2021, the Corporation generated \$21 million in cash flow from working capital. 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.

During the year, the Corporation has seen required investment in some areas of its working capital to support increased business volumes. Those investments were offset through the management of working capital in other areas. Since the onset of the pandemic, the Corporation has enhanced processes surrounding its working capital management. The Corporation will continue to manage its working capital to reflect its current level of operations.

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

Month	Record date	Per Share	2021 Dividends Amount	Record date	Per Share	2020 Dividends Amount
January	January 29, 2021	\$ 0.19	\$ 6,744	January 31, 2020	\$ 0.19	\$ 6,596
February	February 26, 2021	0.19	6,748	February 28, 2020	0.19	6,599
March	March 31, 2021	0.19	6,755	March 31, 2020	0.19	6,606
April	April 30, 2021	0.19	7,146	April 30, 2020	0.19	6,612
May	May 31, 2021	0.19	7,189	May 29, 2020	0.19	6,621
June	June 30, 2021	0.19	7,198	June 30, 2020	0.19	6,634
July	July 30, 2021	0.19	7,218	July 31, 2020	0.19	6,707
August	August 31, 2021	0.19	7,231	August 31, 2020	0.19	6,715
September	September 30, 2021	0.19	7,247	September 30, 2020	0.19	6,722
October	October 29, 2021	0.19	7,252	October 30, 2020	0.19	6,728
November	November 30, 2021	0.19	7,298	November 30, 2020	0.19	6,732
December	December 31, 2021	0.19	7,361	December 31, 2020	0.19	6,740
Total		\$ 2.28	\$ 85,387		\$ 2.28	\$ 80,012

Dividends declared for the twelve months ended December 31, 2021, increased over the comparative year. The increase was primarily driven by the issuance of shares under the Corporation's equity offering in the second quarter of 2021 and shares issued as part of the acquisitions of Carson, Macfab, Telcon, Ryko, and CTI. Further information on shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

The Corporation uses both an earnings-based payout ratio (Adjusted Net Earnings) and a cash flow-based payout ratio (Free Cash Flow less Maintenance Capital Expenditures) to assess its ability to pay dividends to shareholders. Both methods of calculating the payout ratio provide an indication of the Corporation's ability to generate enough funds from its operations to pay dividends. See *Section 13 – Non-IFRS Measures and Glossary* for more information on non-IFRS measures.

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

Free Cash Flow less Maintenance Capital Expenditures is a measure that ensures the resulting payout ratio reflects the replacement of capital assets that is necessary to maintain the Corporation's existing revenue streams. Cash outflows associated with acquisitions and capital expenditures that will result in growth are not included in this payout ratio because they will generate future returns in excess of current cash flows. The adoption of IFRS 16 on January 1, 2019, has no impact on this payout ratio, and therefore results in 2019 and beyond are directly comparable to prior years.

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.

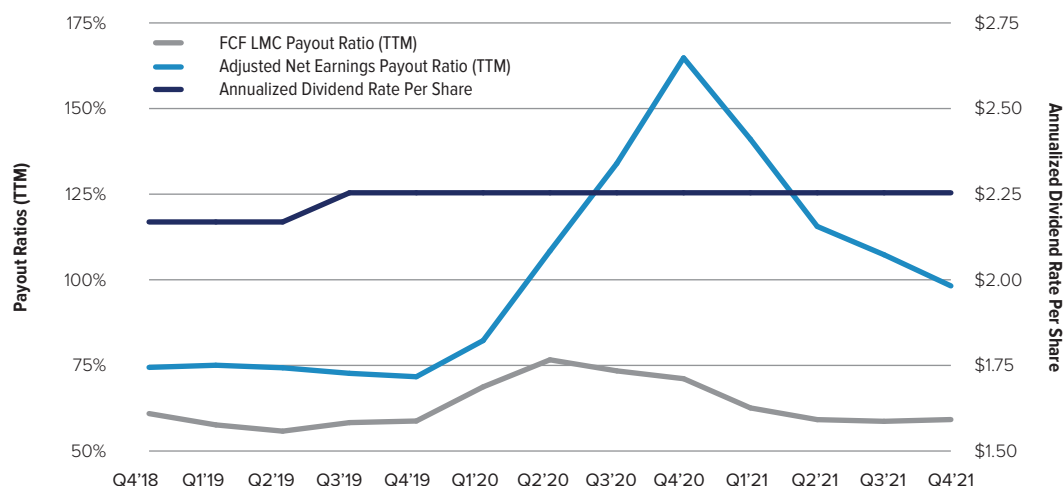
PAYOUT RATIOS *(Section 13 – Non-IFRS Measures and Glossary)*

Basic per Share Payout Ratios for the Corporation		2021		2020	
Periods Ended December 31		Three Months	Trailing Twelve Months	Three Months	Trailing Twelve Months
Adjusted Net Earnings		77%	99%	107%	169%
Free Cash Flow less Maintenance Capital Expenditures		50%	58%	49%	71%

The Corporation's payout ratios were impacted by COVID-19 to differing degrees, as management's efforts to manage capital expenditures are more immediately reflected in the Free Cash Flow less Maintenance Capital Expenditures payout ratio. The trailing twelve month Adjusted Net Earnings payout ratio improved over the prior year to 99% from 169% at December 31, 2020, but is still above pre-pandemic levels due to the impacts of COVID-19. Since December 31, 2020, the trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio improved from 71% to 58% at December 31, 2021, and was achieved through the diligent management of capital expenditures during the pandemic.

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.

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

The second anniversary of the World Health Organization officially declaring a pandemic is two weeks away. A lot has happened in those two years, and we are still experiencing the repercussions of the pandemic. The spikes in case numbers coupled with the onset of new variants continue to present challenges. The timing of when we will leave the pandemic is still uncertain. What is certain, however, is EIC will exit the pandemic much stronger than we entered it. Our business model, guided by the steady hand of great executives at our businesses and a conservative balance sheet, has enabled us to perform well throughout the pandemic. The balance sheet has also allowed us to continue our commitment of investing in our companies for the long-term while also acquiring strong businesses which fit the EIC mold.

On the last quarterly conference call, we said our operations will exit the year at a \$400 million Adjusted EBITDA run rate. The timing of that may be delayed a quarter due to the Omicron variant's impact, however our businesses are still primed to achieve this feat. That's a \$71 million increase from before the pandemic, representing a 22% increase in Adjusted EBITDA. This is a result of continued investment in our businesses and acquisitions. Moreover, this is accretive growth, as our capital base, represented by the book value of our long term debt, net of cash, convertible debentures and share capital, only increased from \$1.7 billion to \$2.0 billion or 15% from December 31, 2019 to December 31, 2021.

EIC has invested over \$220 million into six acquisitions over the last year and a half. Many of these businesses were in industries we knew well and helped to strategically grow our existing operations. Three of these acquisitions occurred in the fourth quarter of 2021. The first two, Telcon, acquired on November 9 for \$9 million, and Ryko, acquired on December 1 for \$15 million, both serve to strategically grow WestTower's leading wireless and wireline offerings across Canada. These two acquisitions will provide increased wireline capability, in both western and eastern Canada, enabling WestTower to enhance its fully integrated offering to its customers. The telco's investment into new technologies, including fiber optic and 5G, will continue to increase and WestTower is in a prime position to provide these service solutions nationally.

The third acquisition was CTI, which closed on December 16 for \$57 million. CTI extends EIC's reach to provide services to the US Department of Defense ("DoD"). Over the last 30 years, CTI has been developing and delivering training solutions

for the DoD, including the US Air Force, the US Navy, and the US Marine Corps. The sustainment of the US military is critical, and CTI plays a significant role in this with the provision of military training. Throughout the world, government outsourcing of military training has increased, driven by growing labor shortages, thus creating a long-term robust demand for CTI's service. We expect to be able to leverage CTI and PAL's complementary expertise to expand both CTI's operations beyond the US borders and PAL's ISR operations into the US over the upcoming years.

A key part of EIC's business model is continuing to invest in our existing companies. In particular, after we acquire a company, we often find there are readily available opportunities to invest in these companies to support further growth. Combining management's ideas with readily available capital to support these ideas is a key value driver for EIC. A prime example of how we unlock value is our July 5 acquisition, Carson. After purchasing Carson, management identified a need for an additional King Air 350 to support their key customer. This air ambulance aircraft will come online in the first quarter of 2022, growing Carson's medevac operations as a result. This is how we unlock value: existing management's ideas combined with EIC's capital.

Just as our acquisitions continued throughout the pandemic, so did the investment in our existing companies to make them stronger for the long-term. An example that highlights our approach to investment and the benefits of our niche operators is EIC's entry into the Dash 8 Q400 ("Q400") aircraft, which is now the largest aircraft we fly. At the start of the pandemic, we didn't operate any Q400s and now we operate 6 Q400s. We invested in these aircraft to meet our customers' needs and to respond to changing demands in the market as a result of the pandemic. The expansion into Q400s created opportunities across our diverse niche aviation operations. Regional One was able to procure these aircraft as part of a lot sale taking advantage of COVID-19 pricing. These Q400s, which are 80-seat aircraft, were then put into service by PAL in eastern Canada. This freed up Dash 8 300s, which are 50-seat aircraft, to be modified by PAL into a combi aircraft and moved into central Canada to be operated by Perimeter, who utilized these aircraft to meet increased cargo needs in their communities and to also secure a new multi-year charter contract. This contract utilizes two of these aircraft on a full-time basis and expands Perimeter's operations to eastern Ontario.

We also invested in additional and larger aircraft, including an ATR-72 500, for Calm Air to support increased cargo demand in central Canada and Nunavut. Cargo demand has increased as a direct result of the pandemic and we are confident part of this increased demand will persist once the pandemic ceases, resetting cargo demand at a higher level for the future.

Within our ISR operations, we have been executing on the Netherlands Coast Guard aircraft modifications, a new contract we won in 2020. These modifications are on schedule with the aircraft to start operations in the third quarter of 2022. In December 2021, PAL was awarded the contract for the Dutch Caribbean Coastguard Program which it has held since 2006. Pursuant to the contract, PAL is upgrading the existing two Dash 8 aircraft used to perform the work today. The contract is for a minimum ten-year period, with options to extend. PAL is also currently pursuing two other sizable ISR opportunities. The first opportunity, the Future Aircrew Training bid, is in the early stages. PAL is part of the SkyAlyne team and is preparing for the RFP which is expected to be released late in the first quarter with the bids due close to the end of 2022. PAL's provision of services will focus on the pilot/air combat systems operator and sensor operator training, as well as engineering services in support of the multi system aircrew trainer. The second, a more immediate opportunity, is the Malaysia Maritime Patrol Aircraft Program, where PAL is one of two parties who have officially been down selected to participate in price discussions with the award expected by the second quarter.

Regional One used the pandemic as an opportunity to expand and realign its product lines. Historically, the cornerstone of the Regional One portfolio was the CRJ platform and the associated CF34-8 engines. The pandemic provided sourcing opportunities with attractive pricing, enabling Regional One to add additional asset classes, including the Q400, ERJ190, and the CF34-10 engines. Regional One has shown patience through the pandemic, acquiring assets at attractive pricing as opportunities emerge. Regional One's strategy includes forming joint ventures with strategic partners when the opportunity warrants it. This model allows Regional One to pursue new product lines while sharing the capital requirements, as well as the risk and reward, with strategic partners. This is especially important as it relates to large portfolio lot purchases, which Regional One expects to be available in the upcoming years.

The performance of our operations in the fourth quarter was strong despite the onset of Omicron in December, which led to a decrease in certain operations. In particular, our passenger loads decreased due to Omicron and related travel restrictions, and our overall operations were impacted by absenteeism due to health protocols. This will continue into the first quarter, however, there are clear signs the impact will be shorter in duration than in previous waves. Combined with the absence of any government funding for the pandemic in the first quarter of 2022, this will result in a slower start to the first quarter of 2022 compared to 2021.

The operation that will continue to be the most impacted by the pandemic, including the recent increases in inflation and the supply shortages, will be Quest. The pandemic has resulted in project delays and slower bookings leading to some scheduling holes in 2022. In addition, inflation pressure and a limited ability to increase prices in the 2022 backlog will lower their expected 2022 results. This will weigh on the performance of our Manufacturing segment throughout 2022. In the last quarter of 2021, we saw positive signs from increased pipeline activity at Quest, which would serve to increase the backlog which has held steady throughout the pandemic but has not yet increased.

The increased performance of our Aerospace & Aviation segment will more than compensate for the lower performance at Quest and we expect to see substantial increases over the comparative quarters starting in the second quarter of 2022. A significant contributor to this increased performance will be year over year improvements at Regional One, as well as continued improvement in our aviation operations as the travel effects of the pandemic subside.

Regional One showed consistent quarterly improvement throughout 2021 and this will continue into 2022. Parts sales grew throughout the year and are now back to pre-pandemic levels. This growth will continue into 2022 and will surpass pre-pandemic levels. This is possible because Regional One, with the support of EIC's capital, continued to invest in the right assets during the pandemic. The pandemic provided Regional One with the opportunity to recalibrate their inventory portfolio, which is now larger than when the pandemic started. As air travel increased in 2021, there was a material amount of deferred maintenance, which led to strong demand for MRO shop visits. Regional One was, and remains, well positioned to capitalize on this demand, translating into stronger parts sales. Lease revenues also increased throughout 2021. This trajectory has paused with the onset of Omicron, but we expect it to start to increase again as the summer approaches and continue to increase throughout the year. As lease revenues plateaued at the end of 2021, Regional One was able to pivot to aircraft and engine sales. This resulted in a very strong fourth quarter for these sales and this will continue in the first quarter of 2022. Regional One's multipronged approach to monetizing their portfolio of aviation assets provides this flexibility to adapt to the market conditions.

Labour challenges are impacting all of our operations. The demand for people has led to increased competition for employees across all of our segments, resulting in labour shortages in both our manufacturing and aviation operations. This has been challenging but has not yet had a major impact on our ability to deliver for our customers. We continue to work on creative solutions in our Manufacturing segment such as bringing in foreign workers, accessing retired military, integrating programs with tech schools, implementing referral and retention strategies, as well as modifying shift structure where practical. Within aviation, the breadth of our operations has enabled EIC to create comprehensive tools for the whole group to utilize. A prime example is the Life in Flight Program, which started in 2019, and continued throughout the pandemic and into 2022. This program is unique to EIC and addresses the hurdles of becoming a pilot such as financing, commercial hours on wing, and employment certainty. The Life in Flight Program utilizes MFC Training, the largest flight school in Canada, combined with all our operating airlines to solve these issues. The Life in Flight Program has been a great success so far and we are looking to extend the lessons learned to other areas, such as maintenance where the shortage of skilled technical personnel has become more acute. In addition, we are considering other areas, such as medical personnel as EIC expands our leading air ambulance services across Canada. The size and diversity of our aviation operations enables EIC to create comprehensive global strategies to deal with these labour challenges.

EIC's ability to execute on its business model, including its growth initiatives, is dependent on capital. In 2021, EIC completed three separate bought deal offerings for a total of \$347 million and extended our Syndicated Bank Credit Facility on similar terms, conditions, and pricing until August of 2025. With these steps, our balance sheet is strong and liquid with very little refinancing risk, which allows us to execute on our growth model.

We will clearly be exiting the pandemic stronger on our way to a \$400 million Adjusted EBITDA run rate. The investments we made in our businesses and people have strengthened us beyond our financial performance. Investments into safety and limited layoffs in relation to industry comparisons, have strengthened our relationships with our employees, as does the bond of working together through these challenges. Likewise, our customers have seen us put them first, through our actions as an industry leader for safety protocols, offering innovative solutions, providing new services, and ensuring our communities always received essential service. These investments we have made throughout the pandemic position us to exit it much stronger than when it started two years ago.

Capital Expenditures

Maintenance Capital Expenditures are necessary to maintain the earning power of our subsidiaries. Maintenance Capital Expenditures have increased in line with the increased scope of our operations over the last number of years. As we experienced a decrease in our flight hours as a result of the pandemic, Maintenance Capital Expenditures naturally decreased in concert with the lower level of flying. The decreased flight hours resulted in much lower Maintenance Capital Expenditures at the height of the pandemic.

As flight hours have increased, Maintenance Capital Expenditures have also steadily increased. This trend is expected to continue as both passenger volumes and Maintenance Capital Expenditures return towards pre-pandemic levels together. As discussed in the 2020 annual report, Regional One's leased aircraft are not flying as much as a result of the pandemic. Therefore, the green time is not being consumed at the same rate on these aircraft. As a result, the actual capital expenditures on assets already owned are being used as the costs of maintaining the fleet starting in the second quarter of 2020. This will continue until such time as the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures.

With increased flying, a larger fleet of aircraft, and the increased activity for Regional One to service their lease portfolio to meet expected demand, we will experience a significant increase in Maintenance Capital Expenditures in 2022, with the expenditures being skewed towards the first half of the year.

Growth Capital Expenditures in 2022 will be focused on the new Netherlands ISR contract, the new hangar in Winnipeg for the FWSAR contract, and the upgrades for the recently renewed Dutch Caribbean Coastguard Program. There are also the aircraft added for growth, which were discussed above, some of which will be added at the beginning of 2022, including one ATR 72-500 for Calm, one Q400 for PAL, and one King Air 350 for Carson. In addition, we plan to add five A-Star helicopters for Custom to support their growth. The modifications for the Netherlands contract started in the fourth quarter of 2020 and are expected to be finished by the end of the second quarter of 2022. The site preparation for the new hangar started in the third quarter of this year. The upgrades for the Dutch Caribbean Coastguard Program will start in the second half of 2022 and extend into 2023.

We expect Regional One to continue to increase the size of their asset portfolio as their pipeline provides sourcing opportunities at attractive prices. The current environment is creating interesting opportunities for Regional One's leadership team with EIC's ability to support them with capital. Regional One's aptitude to be opportunistic is a vital aspect of their business model and our long-term investment strategy.

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 our subsidiaries throughout the year. Regional One is the most fluid example as their business opportunities can arise and be acted upon in short order.

7. LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position, Free Cash Flow, and capital resources remain strong. The Corporation completed several capital transactions during 2021, strengthening its balance sheet as the Corporation charts a path out of the COVID-19 pandemic. These transactions increased the Corporation's access to capital to make acquisitions, invest in its operating subsidiaries, and provides the ability to weather economic downturns. In addition, the structured timing of debt maturities provides additional financial flexibility.

During the second quarter, the Corporation completed a bought deal equity offering, generating gross proceeds of \$88 million. These proceeds were quickly deployed during the third quarter with the acquisitions of Carson and Macfab. During the third quarter, the Corporation completed a convertible debenture offering, generating gross proceeds of \$144 million. A portion of the proceeds from this convertible debenture offering was used to exercise its right to call its June 2016 debentures that were set to mature in June 2023. The balance of the proceeds from the convertible debenture offering were utilized to repay indebtedness under its credit facility. Also, during the third quarter, the Corporation extended its credit facility to August 6, 2025 on terms that were consistent with its previous facility. During the fourth quarter, the Corporation completed a second convertible debenture offering, generating gross proceeds of \$115 million. The net proceeds of this offering were temporarily used to repay indebtedness under its senior credit facility, and subsequent to December 31, 2021, have been deployed to redeem its convertible debenture series maturing December 31, 2022. After these transactions, including the redemption that has occurred subsequent to year end, the Corporation does not have any long-term debt due until June 30, 2025. This provides exceptional flexibility while giving the Corporation the capital to invest for future growth.

The Corporation has taken several steps to manage its liquidity through the pandemic and continued to successfully execute on plans put in place in 2020. The Corporation's diligent management of both capital expenditures and working capital has left the Corporation in an excellent position. During 2021, the Corporation has generated sufficient cash flow to cover its Maintenance Capital Expenditures, its dividend to shareholders, and a portion of its Growth Capital Expenditures, which will contribute to future growth in Free Cash Flow. The Corporation's management of working capital has resulted in cash generation of \$21 million during the year, even as revenues have increased from pandemic lows. As the recovery continues, there may be investment required to support the growth in revenues. These results continue to demonstrate the ability to manage cash flow during the pandemic to meet current demand and invest in the future growth of the Corporation. This is in stark contrast to other entities with exposure to the airline industry and speaks volumes to the effectiveness of EIC's diversified operations and balance sheet management during even the most trying business environments.

At December 31, 2021, the Corporation's key financial covenant for its credit facility is its senior leverage ratio, and its facility allows for a maximum of 4.0x. The Corporation's current leverage ratio is 1.96x and has improved since the onset of the pandemic. The Corporation's year end leverage ratio is impacted by the timing of its convertible debenture transactions and will increase in the first quarter of 2022 as the Corporation redeems its debentures maturing in December 2022. This, combined with increased capital expenditures in the first quarter of 2022, will result in the Corporation being closer to the top end of its historical norms (senior debt to Adjusted EBITDA has historically ranged from 1.5-2.5x), which is expected to normalize through 2022 as the impacts of COVID-19 on the Corporation's subsidiaries continues to lessen. Consistent with EIC's historical balance sheet management, the Corporation was proactive in managing its liquidity such that should an opportunity present itself, EIC has the capability and financial resources to execute.

At December 31, 2021, the Corporation has liquidity of approximately \$960 million through cash on hand, its credit facility, and the credit facility accordion feature, which when combined with strong Free Cash Flow, maintains the Corporation's very strong liquidity position.

As at December 31, 2021, the Corporation had a cash position of \$75 million (December 31, 2020 – \$70 million) and a net working capital position of \$225 million (December 31, 2020 – \$324 million) which represents a current ratio of 1.47 to 1 (December 31, 2020 – 2.10 to 1). The current ratio is calculated by dividing current assets by current liabilities, as presented on the Statement of Financial Position. The current ratio is impacted in 2021 by the presentation of the convertible debentures due December 31, 2022 as a current liability.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	December 31 2021	December 31 2020
Total senior debt outstanding (principal value)	\$ 710,681	\$ 797,444
Convertible debentures outstanding (par value)	525,500	335,725
Common shares	852,821	731,343
Total capital	\$ 2,089,002	\$ 1,864,512

Credit facility

The size of the Corporation's credit facility as at December 31, 2021, is approximately \$1.3 billion, with \$1.1 billion allocated to the Corporation's Canadian head office and US \$150 million allocated to EIIIF Management USA, Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of December 31, 2021, the Corporation had drawn \$190 million and US \$411 million (December 31, 2020 - \$190 million and US \$477 million). On August 6, 2021, the Corporation extended the maturity of its credit facility to August 6, 2025. The remaining terms included within the facility were consistent with the Corporation's previous credit facility.

The Corporation's long-term debt, net of cash, decreased by \$92 million since December 31, 2020. The Corporation used the net proceeds from its bought deal equity offering initially to repay its credit facility, until being deployed to acquire Carson, Macfab, and make organic growth investments. The net proceeds from the July 2021 bought deal convertible debenture offering was used to fund the redemption of the convertible debentures that originally matured in June 2023 and make a repayment on the Corporation's credit facility. The net proceeds from the December 2021 bought deal convertible debenture offering was used initially to repay its credit facility, until being deployed subsequent to year end to redeem the convertible debenture series due in December 2022. Partially offsetting the impact of these capital transactions, the Corporation deployed capital to complete the acquisitions of Telcon, Ryko, and CTI in the fourth quarter.

During the period, the Corporation used derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same term unless both parties agree to extend the swap for an additional month. By entering into the swap, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the US dollar borrowings as it will be exchanged for the same Canadian equivalent in one month. At December 31, 2021, US \$122 million (December 31, 2020 - US \$257 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at December 31, 2021, and changes in the amounts of convertible debentures outstanding during the year ended December 31, 2021:

Series – Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
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
Unsecured Debentures – July 2021	EIF.DB.L	July 31, 2028	5.25%	\$ 52.70
Unsecured Debentures – December 2021	EIF.DB.M	January 15, 2029	5.25%	\$ 60.00

Par value	Balance, beginning of year	Issued	Converted	Redeemed / Matured	Balance, end of year
Unsecured Debentures – June 2016	\$ 68,975	\$ –	\$ (1,094)	\$ (67,881)	\$ –
Unsecured Debentures – December 2017	100,000	–	–	–	100,000
Unsecured Debentures – June 2018	80,500	–	–	–	80,500
Unsecured Debentures – March 2019	86,250	–	–	–	86,250
Unsecured Debentures – July 2021	–	143,750	–	–	143,750
Unsecured Debentures – December 2021	–	115,000	–	–	115,000
Total	\$ 335,725	\$ 258,750	\$ (1,094)	\$ (67,881)	\$ 525,500

On July 30, 2021, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued \$144 million principal amount of debentures including the exercise of the full \$19 million overallotment option that was granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of \$52.70 per share. The maturity date of the debentures is July 31, 2028.

On September 2, 2021, the Corporation exercised its right to call the 7 year 5.25% convertible debentures which were due on June 30, 2023. The redemption of the debentures was completed with the net proceeds from the Corporation's issuance of its July 2021 5.25% convertible debenture offering. Prior to the redemption date of September 2, 2021, \$1 million principal amount of debentures were converted into 24,446 common shares at a price of \$44.75 per share. On September 2, 2021, the remaining outstanding debentures in the principal amount of \$68 million were redeemed by the Corporation.

On December 6, 2021, the Corporation closed a bought deal offering of convertible debentures. At the closing of the offering, the Corporation issued \$115 million principal amount of debentures including the exercise of the full \$15 million overallotment option that was granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of \$60.00 per share. The maturity date of the debentures is January 15, 2029.

Subsequent to the end of the year, the Corporation redeemed its 5 year 5.25% convertible debentures which are due on December 31, 2022. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its December 2021 5.25% convertible debenture offering. Prior to the redemption date of February 11, 2022, less than \$1 million principal amount of debentures were converted into 155 common shares at a price of \$51.50 per share. On February 11, 2022, the remaining outstanding debentures in the principal amount of \$100 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, 2021:

	Date issued	Number of shares
Shares outstanding, beginning of year		35,471,758
Issued upon conversion of convertible debentures	various	24,446
Issued under dividend reinvestment plan (DRIP)	various	323,602
Issued under employee share purchase plan	various	59,720
Issued under deferred share plan	various	189,062
Issued under First Nations community partnership agreements	various	4,039
Issued to Carson vendors on closing	July 5, 2021	73,906
Issued to Macfab vendors on closing	August 11, 2021	39,145
Issued to Telcon vendor on closing	November 9, 2021	46,063
Issued to Ryko vendors on closing	December 1, 2021	47,782
Issued to CTI vendor on closing	December 16, 2021	224,866
Prospectus offering, including over-allotment	various	2,236,000
Shares outstanding, end of year		38,740,389

On April 26, 2021, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 2,236,000 shares of the Corporation at \$39.40 per share, for gross proceeds of \$88 million.

The Corporation issued 323,602 shares under its dividend reinvestment plan during the period and received \$13 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued shares to the vendors of Carson, Macfab, Telcon, Ryko, and CTI as part of the consideration paid on completion of these acquisitions. In total, 431,762 shares were issued, representing purchase price consideration of \$18 million.

The Corporation issued 59,720 shares under its Employee Share Purchase Plan during the period and received \$2 million for those shares in accordance with the Employee Share Purchase Plan.

The weighted average shares outstanding during the three and twelve months ended December 31, 2021, increased by 7% and 6%, respectively, compared to the prior period. The increase is primarily attributable to shares issued under the Corporation's bought deal financing of common shares, shares issued under the dividend reinvestment plan, and shares issued as part of the recent acquisitions completed by the Corporation.

Normal Course Issuer Bid

On February 22, 2021, the Corporation renewed its NCIB for common shares and received approval for a new NCIB for certain series of convertible debentures of EIC. Under the renewed NCIB for common shares, purchases can be made during the period commencing on February 24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of 3,253,765 shares and daily purchases will be limited to 27,845 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.

Under the new NCIB for certain series of convertible debentures, purchases can be made during the period commencing on February 24, 2021, and ending on February 23, 2022. The Corporation can purchase a maximum of \$6,897,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures, \$10,000,000 principal amount of 5 year 5.25% convertible unsecured subordinated debentures, \$8,050,000 principal amount of 7 year 5.35% convertible unsecured subordinated debentures, and \$8,625,000 principal amount of 7 year 5.75% convertible unsecured subordinated debentures, with daily purchases of principal amount, other than block purchase exceptions, limited to \$10,207, \$11,001, \$19,392, and \$19,338, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

During the year ended December 31, 2021, the Corporation did not make any purchases under either NCIB and therefore still has the full amounts detailed above available for repurchase.

Schedule of Financial Commitments

The following are the financial commitments of the Corporation and its subsidiaries at December 31, 2021:

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	\$ 710,681	\$ –	\$ 710,681	\$ –
Convertible debentures (par value)	525,500	100,000	166,750	258,750
Lease payments excluded from right of use lease liability	9,141	3,522	3,696	1,923
Right of Use lease liability payments (undiscounted value)	104,484	22,875	48,319	33,290
	\$ 1,349,806	\$ 126,397	\$ 929,446	\$ 293,963

8. RELATED PARTY TRANSACTIONS

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

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. 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 2021 for related party leases was \$4.2 million (2020 – \$3.9 million) and the lease term maturities range from 2022 to 2031.

Certain of the Corporation's airline subsidiaries purchase jet fuel from an entity controlled by a related party who was a vendor of a business the Corporation acquired. This vendor is considered a related party because of their continued involvement in the management of the subsidiary. The purchases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. Total costs incurred in 2021 for these purchases was \$1 million (2020 – nil).

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 include the executive management team and the board of directors.

Compensation expensed for key management during the 2021 year, and the comparative 2020 year is detailed in the table below. Share based compensation vests over a period of up to three years and is expensed over that period. There was a calculation error in the prior year relating to the Corporation's deferred share plan, which is included in the share-based compensation expense line below, and therefore the prior year amounts have been restated. There was no impact on the consolidated earnings in the prior period, only the amounts presented in the table below.

	Year Ended December 31,	2021	2020
Salaries and short-term benefits	\$	6,534	\$ 3,372
Share-based compensation expense		4,501	2,992
	\$	11,035	\$ 6,364

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 distributions 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 and therefore there can be a delay between when income is recognized and when returns become paid or payable to CRJ Capital Corp.

During 2021, CRJ Capital Corp. invested US \$0.4 million (2020 – US \$1.8 million). CRJ Capital Corp.'s total investment generated returns paid or payable of US \$1.5 million (2020 – US \$2.1 million). As a result of the sale of certain assets, depreciation recorded on its leasing assets, and the return of initial investment to CRJ Capital Corp., the remaining assets attributable to CRJ Capital Corp. at December 31, 2021, was US \$6.7 million (December 31, 2020 – US \$8.4 million). The prior year remaining investment has been restated to reflect current year presentation, which uses the same accounting policies as other similar assets owned by the Corporation, including for lease sales, parts sales, and aircraft and engine sales. At December 31, 2021, US \$0.2 million is recorded as accounts payable due to CRJ Capital Corp. (December 31, 2020 – US \$0.5 million accounts payable to CRJ Capital Corp.).

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 are 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 ("IP"), and brand names. To determine the fair value of customer-based intangible assets (excluding brand names), 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 brand name and software IP 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. To determine the fair value of the certifications, the Corporation uses the cost approach. This valuation technique values the intangible assets based on the estimated costs a market participant would incur to obtain the certification.

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 LV Control was reduced to reflect earnings levels during the earn out period. This resulted in a recovery of \$6 million (2020 – nil) and is included within "Other" in the Statement of Income. During the prior year, the estimated liability for additional purchase consideration associated with Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of nil (2020 – less than \$1 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., AWI, and WIS 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, changes in underlying raw material cost estimates, and the accuracy of the original bid estimate. Accordingly, management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material costs and subcontracting costs, as applicable. 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 possible, based on 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, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. 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 or 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, 2021, would result in an increase of approximately \$10.5 million (2020 – \$7.2 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 a discount rate (pre-tax) of 15%.

The Corporation has concluded that there are no impairments of its indefinite lived intangible assets as a result of this assessment as at December 31, 2021 (2020 – impairment of \$6 million).

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 (2020 – 8.0x) and was 7.5x (2020 – 7.5x) for the Manufacturing segment. The Corporation will, at times, perform various scenario and sensitivity analysis when calculating the recoverable amounts of CGUs which may include alternative models and assumptions.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2021.

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 relieves cost out of 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.

10. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for years ended December 31, 2021, and 2020 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2021 consolidated financial statements.

11. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design and operating effectiveness of the Corporation's internal controls over financial reporting as at December 31, 2021, and has concluded that the internal controls over financial reporting are effective.

Carson Air was acquired on July 5, 2021, Macfab was acquired on August 11, 2021, Telcon was acquired on November 9, 2021, Ryko was acquired on December 1, 2021 and CTI was acquired on December 16, 2021. 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 each of these entities as management has not completed its review of internal controls over financial reporting for these newly acquired companies. This will be completed for year-end 2022. These entities had revenue of \$28 million included in the consolidated results of the Corporation for the period ended December 31, 2021. As at December 31, 2021, these entities had current assets of \$43 million, non-current assets of \$162 million, current liabilities of \$27 million, and non-current liabilities of \$22 million.

There have been no other material changes to the Corporation's internal controls during the 2021 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 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, 2021.

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.

COVID-19 RELATED RISKS

The ongoing COVID-19 pandemic declared by the World Health Organization on March 11, 2020, continues to disrupt economic, social, and political landscapes. Both the duration of this pandemic and the future extent of its impacts continue to remain uncertain with respect to broader global implications and on the Corporation's operations. Several restrictive measures have been taken, and continue to be modified, by governments and organizations around the world in an effort to mitigate the spread and slow the speed of transmission of the COVID-19 virus. These measures have had, and continue to have, a direct impact on the Corporation by disrupting or suspending certain of its operations. This resulted in reductions in cash flows from operations despite the mitigation measures taken by the Corporation.

As the pandemic continues and evolves, it impacts the industries the Corporation operates in varying degrees. The ongoing impact is uncertain as the COVID-19 virus continues to spread and mutate into new, potentially more severe, and/or more transmissible, strains. This uncertainty influences for example; discretionary spending, government restrictions, customer demand, supply chain, safety, and vaccination effectiveness and coverage. The Corporation continues to actively monitor this matter to ensure that the best COVID-19 risk mitigation strategies, methods, procedures, and practices are developed, updated, and shared with all Subsidiaries as quickly and efficiently as possible.

Since COVID-19 related risks are discussed below, the impact of COVID-19 will not be discussed in conjunction with the other identified risks that follow within this section. The potential negative impacts of the COVID-19 pandemic on the Corporation's business, results from operations, financial condition, and human capital include but are not limited to:

External

- Weakened economic conditions and outlooks, leading to lower economic stimulus, elevated unemployment levels, and reduced disposable income could lead to a shift in customer demand to retain certain products or services that the Corporation delivers.
- Implementation of restrictive measures to slow the spread of the COVID-19 outbreak as recommended by various federal, provincial, state, and local governmental authorities have had, and continue to have, a direct impact on the Corporation by disrupting or suspending certain of its operations.

Operational

- Inability to sustain operational performance levels beyond implemented cost reduction measures in connection with COVID-19 leading to the inability to meet financial obligations or pay dividends from its internal sources.
- New laws, regulations, and other government interventions in response to the COVID-19 pandemic, such as workplace safety-related measures requiring physical distancing or vaccination programs and regulations, has resulted in additional costs, unplanned operational implications, or could continue to have an adverse effect on demand for the Corporation's products and services.
- Disruptions in operations related to the inability of the Corporation's employees, subcontractors, or other stakeholders to work in a normal manner as a result of imposed COVID-19 restrictions, including quarantines or vaccination rules.
- Unanticipated changes to specific industry related financial multiples applied to companies as a result of COVID-19 related disruptions could result in less favorable opportunities, having a negative impact on the cost and ability to complete acquisitions. In addition, the current environment could make performing due diligence on potential target companies more difficult.
- Increased cybersecurity attacks through COVID-19 related malicious activities could lead to increased potential privacy breaches or ransomware incidents.
- Increased consideration for customers to seek relief from contractual obligations under the force majeure clause, leading to deferral and/or release of the obligation.
- COVID-19 has severely impacted the aviation industry due to constantly changing travel restrictions, testing requirements, and quarantine periods. The Corporation's ability to operate could be negatively impacted depending on the nature and duration of future restrictions.

- Governments around the world have implemented and/or regularly modify travel restrictions as deemed necessary which may impede inter-provincial and international operations, including the movement of personnel, the inflow of foreign student pilots, and the pursuit of opportunities in other jurisdictions, all of which could impact profitability.
- Disruptions to the Corporation's supply chain due to COVID-19 could impact the Corporation's ability to continue operating as normal and/or reduce profitability if alternatives are more costly, cause inefficiencies, become unavailable, or have materially increased delivery times.

Financial

- Negative impacts on global credit and capital markets could impact the Corporation's ability to refinance, raise funds for new equity or renew its debt financing arrangements on reasonable terms.
- Continued volatility in the public trading markets may have an unknown or abnormal impact on future securities pricing.
- Significant volatility in commodity pricing could result from increased costs or reduced supply related to COVID-19 economic conditions.
- Permanent asset write-downs could result from adjustments to cost structures.
- Tighter credit conditions could be imposed by the Corporation's stakeholders to manage cash flows.

Human Capital

- Loss of key leadership personnel at either the Corporation's head office level or Subsidiary level, whether it be through contracting the virus or observing emergency response measures, could impact the strategic direction of the business in the short-term.
- The shortage of labour due to the increasing number of individuals becoming infected with more transmissible COVID-19 variants such as Omicron, or having to observe quarantine requirements which prohibit them from performing their job functions on-site.
- The restrictive measures to slow the spread of the COVID-19 outbreak that have been implemented, or recommended, by various federal, provincial, state, and local governmental authorities could have a direct impact on employees' continued ability to work.
- Increased labour-related matters could result from having to maintain alignment in labour agreements and laws with COVID-19 protocols.

KEY RISKS

In addition to the COVID-19 risks discussed above, the most significant risks are categorized by their source and described as follows:

External	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Significant Contracts and Customers • Operational Performance and Growth • Laws, Regulations, and Standards • Acquisition Risk • Concentration and Diversification Risk • Maintenance Costs • Access to Parts and Relationships with Key Suppliers • Casualty Losses • Environmental Liability Risks • Dependence on Information Systems and Technology • International Operations Risks • Fluctuations in Sales Prices of Aviation Related Assets • Fluctuations in Purchase Prices of Aviation Related Assets • Warranty Risk • Performance Guarantees • Global Offset Risk • Intellectual Property Risk
Financial	<ul style="list-style-type: none"> • Availability of Future Financing • Income Tax Matters • Commodity Risk • Foreign Exchange • Interest Rates • Credit Facility and the Trust Indentures • Dividends • Unpredictability and Volatility of Securities Pricing • Dilution Risk • Credit Risk
Human Capital	<ul style="list-style-type: none"> • 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, AWI, and WIS 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, New Brunswick, and British Columbia 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 decreased need, and decreased revenues to Provincial, for its customization business.

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, Provincial, and Carson Air 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, Bearskin, Keewatin, Calm Air, Custom Helicopters, Provincial, or Carson Air decide to reduce or eliminate funding for medical-related transportation services, this would have a significant negative impact on the respective Subsidiary as applicable.

Access to Capital

One of the objectives of the Corporation is to continue to acquire additional companies or interests therein to expand and diversify the Corporation's investments. The ability to execute 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 or funding organic growth initiatives. 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 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, fungus, virus, bacteria, 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") or Southern Interior Flight Centre's ("SIFC") 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 the Corporation's 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 airline Subsidiaries 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, cause shortages of employees to staff the Corporation's facilities, interrupt supplies from third parties upon which the Corporation relies, and ultimately, its ability to continue full operations. 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. The Corporation can never predict the likelihood of a pandemic event occurring nor the impact it could have on operations. A pandemic could have a significant 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, Ben Machine, and CTI 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 decreases, 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. 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, the maintenance of certain specialized surveillance aircraft, including the Fixed Wing Search and Rescue ("FWSAR") Aircraft Replacement Program with the Government of Canada, and advanced pilot and sensor operator training solutions for the US Department of Defense. 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 performance levels. If additional capital and operating expenditures depend on increased cash flow or additional financing in the future, the 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 took effect in December 2020 for CAR 705 operators and scheduled in 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 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 continue to be examined and adjusted to mitigate the impacts of the new regulations. Additionally, the acquisitions of MFC and SIFC, 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.

Transport Canada further issued interim orders throughout 2020 and 2021, which extend into 2022, outlining updated industry requirements for ensuring both aviation and public safety. The interim orders included the completion of passenger health checks and temperature screening, the requirement to wear face masks, aircraft deplaning protocols, vaccination status screening of passengers, and confirmation of vaccination status for employees. EIC Aviation companies continue as industry leaders in ensuring the safety of the travelling public and monitoring for impacts of such changes on operations.

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 policy changes 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.

The Canadian federal government outlined a pan-Canadian framework that benchmarks pricing for carbon emissions in response to global climate change initiatives. The framework outlines that jurisdictions may implement either 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 that came into effect on April 1, 2019, continued to apply. This legislation 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.

Due to CTI having certain United States security clearances and the Corporation being organized in Canada, the Corporation maintains a Special Security Agreement (the “SSA”) with the United States Department of Defense. The implementation and maintenance of the terms of the SSA are required for CTI to maintain its security clearances. In the event that the Corporation fails to adequately implement and/or maintain the mitigation measures set forth in the SSA, this could have a material impact on CTI’s ability to deliver on current or future contracts, including the potential termination of the SSA, having an adverse impact on the Company’s financial results.

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, the inability to sell its products or services and carry on business in the case of Regional One and CTI, or the inability to continue manufacturing operations and the provision of related services in the case of the Corporation’s manufacturing Subsidiaries.

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, Provincial, and CTI 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, Provincial, or CTI 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 enacted in 2020, replacing the previous North American Free Trade Agreement, could result in 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.). This could negatively impact the operations and financial condition of our Subsidiaries.

The legalization of recreational cannabis and related products 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 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, a major shift in consumer demands, or technology change 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 leasing and sales industry related to aircraft assets 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, significant delays in delivery, or an inability to source such items on favourable terms, would jeopardize the ability of the Subsidiaries to provide their products or services, or within contractually agreed upon terms. Each, and any of these circumstances, could have an adverse effect on the Corporation's operations and financial condition.

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 actions, penalties, and/or claims against the Subsidiaries.

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 the aviation industry, 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 the 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 that 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 leasing and sales industry for aircraft related assets 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 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.

Performance Guarantees

Certain aviation Subsidiaries operate under contractual arrangements that require performance guarantees through maintaining an agreed upon level of service. Failure to achieve the specified levels of service could have an adverse effect on its business, results from operations, and financial condition.

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, or 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 in the Manufacturing segment 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 partially, 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 the results from any one of the Corporation's Subsidiaries' in Canada, 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.

The Corporation is further nominally exposed to other foreign currencies, such as Euros, under certain contracts maintained by Provincial Aerospace, which must be converted to Canadian dollars for reporting purposes. Fluctuations in foreign exchange rates related to denominations beyond the US dollar for which the Corporation's Subsidiaries operate in, could have an impact on financial results and cash flows.

Interest Rates

As at December 31, 2021, 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 \$5.7 million pre-tax (ignoring the impact of changes in foreign exchange rates) per annum for the credit facility based on the amounts outstanding as at December 31, 2021. 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 to manage this risk. The Corporation's outstanding debentures have fixed interest rates that are not affected by changes in rates until the maturity of the debentures when they may need to be refinanced if the holders have not converted the debentures into equity.

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, 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 Securities Pricing

The market price of the common shares and convertible debentures 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 and convertible debentures 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 and convertible debentures.

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, turnover, or illness related impacts at either its head office or Subsidiaries.

Employees and Labour Relations

The success of the Subsidiaries is dependent in large part upon their ability to attract and retain skilled 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 WestTower 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. The previously enacted Transport Canada regulations concerning Pilot Fatigue and Flight Duty Times will have a continued impact on the number of pilots, nurses, and maintenance personnel required for EIC Aviation Operators. The acquisition of MFC and SIFC 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

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

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

Adjusted 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. Adjusted EBITDA is a performance measure utilized by many investors to analyze the cash available for distribution from operations before allowance for debt service, capital expenditures, and income taxes. The most comparable IFRS measure, presented in the Corporation’s Statements of Income as an additional IFRS measure, is Operating profit before Depreciation, Amortization, Finance Costs, and Other.

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

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

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

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

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

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

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

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

Maintenance and Growth Capital Expenditures: Maintenance Capital Expenditures is defined as the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and, prior to the onset of COVID-19, 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. While there is no comparable IFRS measure for Maintenance Capital Expenditures or Growth Capital Expenditures, the total of Maintenance Capital Expenditures and Growth Capital Expenditures is equivalent to the total of capital asset and intangible asset purchases, net of disposals, on the Statement of Cash Flows.

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

Regional One's purchases of operating aircraft within its lease portfolio are capital expenditures and, prior to the onset of COVID-19, the process used to classify those expenditures as either growth or maintenance 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 was historically represented by depreciation. For the first quarter of 2020, 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 were classified as Growth Capital Expenditures. If there were no purchases of capital assets during the period by Regional One, Maintenance Capital Expenditures would still be equal to depreciation recorded on its leased assets and Growth Capital Expenditures would be negative, representing the depletion of potential future earnings and cash flows. The aggregate of Maintenance and Growth Capital Expenditures always equals the actual cash spent on capital assets during the period. This ensures that the payout ratio reflects the necessary replacement of Regional One's leased assets.

Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures at Regional One because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Starting in the second quarter of 2020, the actual expenditures on assets already owned will be used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

Purchases of inventory are not reflected in either Growth or Maintenance Capital Expenditures. Aircraft purchased for part out or resale 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 Adjusted EBITDA, Adjusted Net Earnings, Free Cash Flow, and Maintenance Capital Expenditures and Growth Capital Expenditures should not be viewed as an alternative to measures that are recognized under IFRS such as Net Earnings or cash from operating activities. The Corporation's method of calculating Adjusted EBITDA, Adjusted Net Earnings, Free Cash Flow, and Maintenance Capital Expenditures and Growth Capital Expenditures may differ from that of other entities and therefore may not be comparable to measures utilized by them.

14. SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table provides selected annual information for the Corporation for the years ended 2019 through to 2021.

	2021	2020	2019
Revenues	\$ 1,413,146	\$ 1,149,629	\$ 1,341,374
Expenses ⁽¹⁾	1,083,266	865,094	1,012,561
Adjusted EBITDA	\$ 329,880	\$ 284,535	\$ 328,813
Total non-operating expense	261,292	256,480	245,117
Net Earnings	\$ 68,588	\$ 28,055	\$ 83,696
Net Earnings per share			
Basic	\$ 1.84	\$ 0.80	\$ 2.58
Diluted	1.80	0.78	2.49
Adjusted Net Earnings	\$ 86,012	\$ 47,176	\$ 102,127
Basic	2.31	1.35	3.15
Diluted	2.26	1.31	2.97
Dividends declared	\$ 85,387	\$ 80,012	\$ 72,742
Per share	2.28	2.28	2.2275
Free Cash Flow	\$ 243,317	\$ 198,400	\$ 245,772
Per share basic	6.53	5.66	7.58
Per share fully diluted	5.78	5.03	6.55
Free Cash Flow less Maintenance Capital Expenditures	\$ 147,154	\$ 113,331	\$ 126,075
Per share basic	3.95	3.23	3.89
Per share fully diluted	3.68	2.94	3.48
Financial Position			
Working capital	\$ 225,108	\$ 323,625	\$ 307,912
Total assets	2,588,667	2,294,184	2,266,557
Total long-term liabilities ⁽²⁾	1,188,544	1,215,245	1,153,905
Total liabilities	1,788,392	1,608,238	1,536,714
Share Information			
Common shares outstanding as at December 31,	38,740,389	35,471,758	34,703,237
Weighted average common shares outstanding during the year - basic	37,265,034	35,048,953	32,437,022

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, 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:

	2021				2020					2019
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Revenue	\$ 390,327	\$ 400,003	\$ 322,070	\$ 300,746	\$ 301,710	\$ 297,286	\$ 243,657	\$ 306,976	\$ 363,287	
Adjusted EBITDA	89,421	95,276	81,061	64,122	81,971	83,235	62,075	57,254	88,748	
Net Earnings (Loss)	23,056	21,899	16,506	7,127	13,479	17,244	2,630	(5,298)	25,283	
Basic	0.61	0.58	0.44	0.20	0.38	0.49	0.08	(0.15)	0.74	
Diluted	0.59	0.56	0.43	0.20	0.37	0.48	0.07	(0.15)	0.71	
Adjusted Net Earnings	28,027	27,653	19,781	10,551	18,847	20,626	5,645	2,058	29,757	
Basic	0.74	0.73	0.53	0.30	0.53	0.59	0.16	0.06	0.88	
Diluted	0.71	0.71	0.52	0.29	0.52	0.57	0.16	0.06	0.81	
Free Cash Flow ("FCF")	71,581	72,811	57,283	41,642	59,497	57,886	42,268	38,749	68,631	
Basic	1.88	1.91	1.54	1.17	1.68	1.64	1.21	1.12	2.02	
Diluted	1.62	1.69	1.37	1.06	1.48	1.45	1.09	1.01	1.75	
FCF less Maintenance Capital Expenditures	42,895	48,164	36,517	19,578	41,270	44,350	25,412	2,299	36,935	
Basic	1.13	1.27	0.98	0.55	1.17	1.26	0.73	0.07	1.09	
Diluted	1.02	1.17	0.91	0.54	1.05	1.23	0.71	0.06	0.99	
Maintenance Capital Expenditures	28,686	24,647	20,766	22,064	18,227	13,536	16,856	36,450	31,696	
Growth Capital Expenditures	34,497	39,942	33,996	22,532	14,434	6,807	12,301	14,381	29,790	

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, 2021 and 2020, 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, 2021 and 2020;
- 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 significant accounting policies and other explanatory information.

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.

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



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Cost of sales recognition – Aviation parts for resale inventories

Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates and judgments and note 7 – Inventories to the consolidated financial statements.

The Corporation's aviation parts for resale inventories carrying value was \$146.9 million as at December 31, 2021. A portion of the \$98.4 million of inventories expensed and recorded within aerospace and aviation expenses – excluding depreciation and amortization, related to the Corporation's aviation parts for resale cost of sales for the year ended December 31, 2021. In the normal course of the Corporation's business, it may acquire entire aircraft or components of an aircraft for breakdown into saleable parts.

The cost of sales recognized is determined using the average cost to sales percentage method at expected selling prices. Management applied significant judgment in estimating the average cost to sales percentage, which included the determination of the expected selling price.

We considered this a key audit matter due to the significant judgment applied by management when developing the average cost to sales percentage estimate.

This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating evidence relating to the determination of the expected selling price. The audit effort involved the use of professionals with specialized skill and knowledge.

Our approach to addressing the matter included the following procedures, among others:

- Tested how management estimated the average cost to sales percentage based on expected selling prices for aviation parts for resale inventories, which included the following:
 - Evaluated the appropriateness of the average cost to sales percentage method at expected selling prices.
 - Tested the completeness, accuracy and relevance of the data used in the average cost to sales percentage method at expected selling prices.
 - Evaluated the reasonableness of the significant assumption made by management related to expected selling price for aviation parts for resale inventories on a sample basis by considering the historical profit margin recognized on the parts sales.
 - Developed an independent expectation for the expected selling price of the aviation parts for resale inventories on a sample basis with the assistance of professionals with specialized skill and knowledge in the field of valuation and compared the independent expectation to management's assumption to evaluate the reasonableness of management's assumption.



Key audit matter

How our audit addressed the key audit matter

Revenue recognition – Estimated costs to complete long-term construction contracts at AWI, WesTower and WIS for uncompleted contracts as at year-end

Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates and judgments and note 17 – Construction contracts to the consolidated financial statements.

The Corporation recognized revenue of \$402.1 million from long-term construction contracts for the year ended December 31, 2021 related to revenue recognized over time, including revenue from long-term construction contracts at Advanced Window Specialists, Inc. (AWI), Provincial Aerospace Ltd., Stainless Fabrication Inc., Quest Window Systems Inc., WesTower Communications Ltd. (WesTower) and Window Installation Specialists, Inc. (WIS). For AWI, WesTower and WIS, revenue is recognized over time using an input-based measure such as the ratio of actual costs incurred to date over estimated total costs and makes up a significant portion of total revenue of \$402.1 million from long-term construction contracts. Management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material costs and subcontracting costs, as applicable.

We considered this a key audit matter due to the significant judgment applied by management in determining the estimated costs to complete long-term construction contracts. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management.

Our approach to addressing the matter included the following procedures, among others:

- Tested how management determined the estimated costs to complete these long-term construction contracts at AWI, WesTower and WIS for a sample of uncompleted contracts as at year-end, which included the following:
 - Evaluated the appropriateness of management’s input-based method and tested the mathematical accuracy of the ratio of actual costs incurred to date over estimated total costs at completion.
 - Tested the underlying data used by management in the input-based method.
 - Evaluated the reasonableness of significant assumptions used by management with respect to estimated labour costs, material costs and subcontracting costs by:
 - Testing the estimated costs to complete by comparing the costs initially budgeted for the completed phases of the contracts to the actual costs incurred for those phases; and
 - Inquiring with management, including project managers, regarding the status of contracts and the estimates of costs to complete.
- For a sample of uncompleted long-term construction contracts at the beginning of the year, performed look-back procedures and compared the originally estimated costs to actual costs incurred on similar completed contracts.



Key audit matter	How our audit addressed the key audit matter
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Valuation of customer relationships intangible assets acquired in the Carson Air business combination

Refer to Note 5 – Critical accounting estimates and judgments and Note 6 – Acquisitions to the consolidated financial statements.

On July 5, 2021, the Corporation acquired all of the shares of Carson Air (Carson) for total consideration of \$58.2 million. The fair value of the identifiable assets acquired included \$21.8 million in intangible assets, of which \$17.4 million related to customer relationships. To determine the fair value of customer relationships, management used the excess earnings method. Management applied judgment in estimating the fair value of customer relationships acquired. Significant assumptions included projected revenues, cash flows, customer retention rates, discount rate and anticipated average income tax rate.

We considered this a key audit matter due to the judgment applied by management in estimating the fair value of customer relationships, including the development of significant assumptions related to projected revenues, customer retention rates and discount rate. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to significant assumptions used by management. The audit effort involved the use of professionals with specialized skills and knowledge in the field of valuation.

Our approach to addressing the matter included the following procedures, among others:

- Tested how management estimated the fair value of the customer relationships acquired, which included the following:
 - Read the purchase agreement.
 - Tested the underlying data used in the valuation calculations and tested the mathematical accuracy thereof.
 - Evaluated the reasonableness of the significant assumptions used by management related to projected revenues by considering the current and past performance of the acquired business and economic and industry forecasts.
- Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of management’s excess earnings method and certain significant assumptions, such as customer retention rates, and the discount rate.

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.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
February 23, 2022

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(audited, in thousands of Canadian dollars)

As at	December 31 2021	December 31 2020
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 75,408	\$ 69,862
Accounts receivable	301,767	263,885
Amounts due from customers on construction contracts (Note 17)	27,705	21,372
Inventory (Note 7)	255,451	235,870
Prepaid expenses and deposits	40,127	27,967
	700,458	618,956
OTHER ASSETS (Note 8)	66,658	75,347
CAPITAL ASSETS (Note 9)	1,070,573	950,037
RIGHT OF USE ASSETS (Note 10)	83,439	90,483
INTANGIBLE ASSETS (Note 11)	180,664	161,772
GOODWILL (Note 11)	486,875	397,589
	\$ 2,588,667	\$ 2,294,184
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	\$ 267,635	\$ 214,504
Income taxes payable	4,577	5,253
Deferred revenue	53,171	27,973
Amounts due to customers on construction contracts (Note 17)	30,556	24,997
Current portion of convertible debentures (Note 13)	98,808	—
Current portion of right of use lease liability (Note 10)	20,603	22,604
	475,350	295,331
DEFERRED REVENUE	1,857	—
OTHER LONG-TERM LIABILITIES	16,271	31,427
LONG-TERM DEBT (Note 12)	707,611	794,194
CONVERTIBLE DEBENTURES (Note 13)	393,408	315,830
LONG-TERM RIGHT OF USE LEASE LIABILITY (Note 10)	69,397	73,794
DEFERRED INCOME TAX LIABILITY (Note 26)	124,498	97,662
	1,788,392	1,608,238
EQUITY		
SHARE CAPITAL (Note 14)	852,821	731,343
CONVERTIBLE DEBENTURES – Equity Component (Note 13)	17,607	13,214
CONTRIBUTED SURPLUS	13,046	9,837
DEFERRED SHARE PLAN	16,010	16,893
RETAINED EARNINGS		
Cumulative Earnings	568,212	499,624
Cumulative Dividends (Note 15)	(662,319)	(576,932)
Cumulative impact of share cancellation under the NCIB	(26,122)	(26,122)
	779,255	667,857
ACCUMULATED OTHER COMPREHENSIVE INCOME	21,020	18,089
	800,275	685,946
	\$ 2,588,667	\$ 2,294,184

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

Approved on behalf of the directors by:



Duncan Jessiman, Director



Donald Streuber, Director

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

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

For the years ended December 31	2021	2020
REVENUE		
Aerospace & Aviation	\$ 917,368	\$ 687,321
Manufacturing	495,778	462,308
	1,413,146	1,149,629
EXPENSES		
Aerospace & Aviation expenses – excluding depreciation and amortization	520,410	372,250
Manufacturing expenses – excluding depreciation and amortization	371,896	320,703
General and administrative	190,960	172,141
	1,083,266	865,094
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	329,880	284,535
Depreciation of capital assets (Note 9)	144,946	139,898
Amortization of intangible assets (Note 11)	16,897	17,573
Finance costs – interest	48,955	47,000
Depreciation of right of use assets (Note 10)	24,542	25,374
Interest expense on right of use lease liabilities	3,243	3,934
Acquisition costs	3,034	1,816
Impairment loss	–	6,117
Other (Note 5)	(6,000)	(177)
EARNINGS BEFORE INCOME TAXES	94,263	43,000
INCOME TAX EXPENSE (RECOVERY) (Note 26)		
Current	17,741	17,007
Deferred	7,934	(2,062)
	25,675	14,945
NET EARNINGS	\$ 68,588	\$ 28,055
NET EARNINGS PER SHARE (Note 18)		
Basic	\$ 1.84	\$ 0.80
Diluted	\$ 1.80	\$ 0.78

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

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(audited, in thousands of Canadian dollars)

Attributable to common shareholders For the years ended December 31	2021	2020
NET EARNINGS	\$ 68,588	\$ 28,055
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to the Statement of Income		
Cumulative translation adjustment, net of tax expense (recovery) of \$7 and \$(8), respectively.	(2,360)	(11,595)
Net gain on hedge of net investment in foreign operations, net of tax expense of \$nil and \$nil, respectively.	292	2,972
Net gain (loss) on hedge of restricted share plan, net of tax expense (recovery) of \$103 and \$(273), respectively.	280	(740)
Net gain (loss) on interest rate swap, net of tax expense (recovery) of \$1,744 and \$(2,002), respectively.	4,719	(5,413)
	2,931	(14,776)
COMPREHENSIVE INCOME	\$ 71,519	\$ 13,279

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

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(audited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures – Equity Component	Contributed Surplus – Matured Debentures	Deferred Share Plan	Retained Earnings		Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	Total
					Cumulative Earnings	Cumulative Dividends			
Balance, January 1, 2020	\$ 709,546	\$ 13,214	\$ 9,837	\$ 15,854	\$ 471,569	\$ (496,920)	\$ (26,122)	\$ 32,865	\$ 729,843
Shares issued to acquisition vendors	9,402	–	–	–	–	–	–	–	9,402
Shares issued under dividend reinvestment plan (Note 14)	9,427	–	–	–	–	–	–	–	9,427
Shares issued under First Nations community partnership agreements	50	–	–	–	–	–	–	–	50
Deferred share plan vesting (Note 20)	–	–	–	1,645	–	–	–	–	1,645
Deferred share plan issuance (Note 14)	606	–	–	(606)	–	–	–	–	–
Shares issued under ESPP (Note 14)	2,312	–	–	–	–	–	–	–	2,312
Comprehensive income (loss)	–	–	–	–	28,055	–	–	(14,776)	13,279
Dividends declared	–	–	–	–	–	(80,012)	–	–	(80,012)
Balance, December 31, 2020	\$ 731,343	\$ 13,214	\$ 9,837	\$ 16,893	\$ 499,624	\$ (576,932)	\$ (26,122)	\$ 18,089	\$ 685,946
Balance, January 1, 2021	\$ 731,343	\$ 13,214	\$ 9,837	\$ 16,893	\$ 499,624	\$ (576,932)	\$ (26,122)	\$ 18,089	\$ 685,946
Shares issued to acquisition vendors (Note 6)	17,858	–	–	–	–	–	–	–	17,858
Prospectus offering, April 2021 (Note 14)	84,946	–	–	–	–	–	–	–	84,946
Convertible debentures (Note 13)									
Converted into shares	1,119	(52)	–	–	–	–	–	–	1,067
Issued	–	7,654	–	–	–	–	–	–	7,654
Matured/Redeemed	–	(3,209)	3,209	–	–	–	–	–	–
Shares issued under dividend reinvestment plan (Note 14)	12,850	–	–	–	–	–	–	–	12,850
Shares issued under First Nations community partnership agreements	129	–	–	–	–	–	–	–	129
Deferred share plan vesting (Note 20)	–	–	–	1,273	–	–	–	–	1,273
Deferred share plan issuance (Note 14)	2,156	–	–	(2,156)	–	–	–	–	–
Shares issued under ESPP (Note 14)	2,420	–	–	–	–	–	–	–	2,420
Comprehensive income	–	–	–	–	68,588	–	–	2,931	71,519
Dividends declared (Note 15)	–	–	–	–	–	(85,387)	–	–	(85,387)
Balance, December 31, 2021	\$ 852,821	\$ 17,607	\$ 13,046	\$ 16,010	\$ 568,212	\$ (662,319)	\$ (26,122)	\$ 21,020	\$ 800,275

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(audited, in thousands of Canadian Dollars)

For the years ended December 31	2021	2020
OPERATING ACTIVITIES		
Net earnings for the year	\$ 68,588	\$ 28,055
Items not affecting cash:		
Depreciation of capital assets (Note 9)	144,946	139,898
Amortization of intangible assets (Note 11)	16,897	17,573
Depreciation of right of use assets (Note 10)	24,542	25,374
Accretion of interest	10,009	6,898
Long-term debt discount	–	137
Impairment loss	–	6,117
Gain on disposal of capital assets	(3,897)	(1,939)
Deferred income tax expense (recovery)	7,934	(2,062)
Deferred share program share-based vesting (Note 20)	1,273	1,645
Other (Note 5)	(6,000)	(177)
	264,292	221,519
Changes in non-cash current and long-term working capital (Note 24)	20,755	38,455
	285,047	259,974
FINANCING ACTIVITIES		
Proceeds from long-term debt, net of issuance costs (Note 12)	250,301	177,908
Repayment of long-term debt (Note 12)	(340,378)	(100,118)
Proceeds from issuance of convertible debentures, net of issuance costs (Note 13)	247,484	–
Payment of matured debentures (Note 13)	(67,881)	–
Principal payments on right of use lease liabilities (Note 10)	(23,887)	(24,667)
Issuance of shares, net of issuance costs	99,169	11,739
Cash dividends (Note 15)	(85,387)	(80,012)
	79,421	(15,150)
INVESTING ACTIVITIES		
Purchase of capital assets	(274,421)	(141,650)
Proceeds from disposal of capital assets	52,293	13,263
Purchase of intangible assets	(5,002)	(4,605)
Return from (Investment in other assets)	4,898	(4,985)
Cash outflow for acquisitions, net of cash acquired (Note 6)	(128,114)	(51,046)
Payment of contingent acquisition consideration and working capital settlements (Note 23)	(7,596)	(7,255)
	(357,942)	(196,278)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,526	48,546
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	69,862	22,055
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(980)	(739)
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 75,408	\$ 69,862
Supplementary cash flow information		
Interest paid	\$ 35,525	\$ 41,317
Income taxes paid	\$ 22,697	\$ 9,711

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021, AND 2020



(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 the aerospace, aviation, and manufacturing sectors. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 101 – 990 Lorimer Boulevard, Winnipeg, Manitoba, Canada R3P 0Z9.

As at December 31, 2021, the principal operating subsidiaries of the Corporation are Calm Air International LP, Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Custom Helicopters Ltd., Regional One Inc., EIC Aircraft Leasing Limited, Provincial Aerospace Ltd., CANLink Aviation Inc. (“MFC Training”), Carson Air Ltd., Quest Window Systems Inc., WesTower Communications Ltd., Ben Machine Products Company Incorporated, Stainless Fabrication, Inc., LV Control Mfg. Ltd., Water Blast Manufacturing LP, and Overlanders Manufacturing LP. Regional One Inc., Quest USA Inc., Stainless Fabrication Inc., and Crew Training International, Inc., are wholly owned subsidiaries of EIFF 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.

SARS-CoV-2 (“COVID-19”)

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has resulted in governments around the world imposing severe travel restrictions and social distancing measures to limit the spread of the virus. At different times during the pandemic, travel restrictions have materially impacted the subsidiaries within the Aerospace & Aviation segment and the social distancing requirements and supply chain disruptions have negatively impacted the efficiency of the subsidiaries in the Manufacturing segment. Employee absenteeism as a result of the pandemic has impacted subsidiaries in both segments throughout the pandemic.

The Corporation is unable to predict with accuracy the duration of the virus, actions governments will take, and customer sentiment during and after the pandemic with any certainty. The recent development and deployment of vaccines have resulted in more travel around the world and governments around the world have lessened restrictions in 2021 and into 2022 compared to 2020, which could result in even increased travel going forward.

Compared to the pre-pandemic operating environment, in the Aerospace & Aviation segment, travel restrictions and required quarantine periods have had a material impact on passenger traffic, and demand for the Corporation’s aircraft and aftermarket parts at Regional One Inc. and EIC Aircraft Leasing Limited has lessened as the pandemic has spread throughout the world. In the Manufacturing segment, social distancing, additional actions to keep our employees safe and required COVID-19 employee absenteeism have reduced manufacturing efficiency and reduced throughput in the production facilities. The Corporation has also incurred additional costs associated with personal protective equipment, sanitization, and other health and safety costs across both segments as a result of COVID-19. These impacts, among others as a result of COVID-19, reduced Revenue, Cash Flows from Operations (before the impact of working capital), and Net Earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 23, 2022.

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 the sale of services. Revenue is recognized for the major business activities using the methods outlined below.

The Corporation may in the normal course of operations accept a nonmonetary item as consideration. The accounting for nonmonetary transactions should be based on the fair values of the assets (or services) involved, which is the same basis of that used in monetary transactions. Thus, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss shall be recognized on the exchange. The fair value of the asset received shall be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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. For basing fees that are earned on its surveillance contracts, the Corporation recognizes revenue over time as the period for which the fee relates passes. 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, medevac, 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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. Training Services

The Corporation records revenue from training services over time based on the provision of training, primarily flight training hours and classroom time, which varies based on the actual training 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 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. Revenue from the installation of window systems is recognized over time based on input measures such as the ratio of actual costs incurred to date over estimated 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”).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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) Government Grants

The Corporation recognizes government grants when there is reasonable assurance that the grant will be received and that the conditions of the grant will be met. Government grants are recorded within accounts receivable when the grant becomes receivable. The Corporation recognizes government grants in the consolidated Statement of Income in the same period as the expenses for which the grant is intended to compensate. The Corporation has elected to record the grants, where appropriate, as a reduction of the expenses for which those grants are intended to cover, including within Aerospace & Aviation expenses – excluding depreciation and amortization, Manufacturing expenses – excluding depreciation and amortization, and General and Administrative expenses on the Consolidated Statement of Income. Grants that are intended as a revenue guarantee are recorded within revenue in the period in which they are earned. Any grants that become receivable in a period that succeeds when the expenses are incurred are accrued in the period in which they become receivable.

During the twelve months ended December 31, 2021, the Corporation was eligible for the Canada Emergency Wage Subsidy ("CEWS"). During this period, the Corporation recorded \$18,212 (2020 \$64,012) related to the CEWS as a reduction to the expenses for which the grant is intended to cover. At December 31, 2021, the Corporation has \$2,020 (2020 \$3,998) accrued for amounts to be received under the CEWS program in Accounts Receivable.

f) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 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.

g) 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.

h) 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 OCI
- those measured at amortized cost

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

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 or 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 debt, 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.

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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

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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

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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.

i) 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, including consignment inventory held at certain entities in the Manufacturing segment.
- 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 subsequently impacted by the use of the average cost to sales percentage method at expected selling prices to record cost of sales. 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.

j) 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.

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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	2 – 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.

k) *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 the non-compete term
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 amortization 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 brand 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 unsupported the change in the useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.

l) *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.

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m) 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.

n) 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.

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o) 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 15 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.

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p) 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.

q) 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.

r) 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, are excluded from IFRS 16 and are recorded as an operating expense. Several of the Corporation's agreements include extension options and the Corporation reviews each option and includes 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 initial recognition, 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.

s) Share Capital

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

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t) 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.

u) 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.

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Subsequent changes to the fair value of the contingent consideration liability are 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 ("IP"), and brand names. To determine the fair value of customer-based intangible assets (excluding brand names), 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 brand name and software IP 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. To determine the fair value of the certifications, the Corporation uses the cost approach. This valuation technique values the intangible assets based on the estimated costs a market participant would incur to obtain the certification.

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 LV Control was reduced to reflect earnings levels during the earn out period. This resulted in a recovery of \$6,000 (2020 – nil) and is included within "Other" in the Statement of Income. During the prior year, the estimated liability for additional purchase consideration associated with Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of nil (2020 – \$177) 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., AWI, and WIS 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, changes in underlying raw material cost estimates, and the accuracy of the original bid estimate. Accordingly, management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material costs and subcontracting costs, as applicable. 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.

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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 possible, based on 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, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. 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 or 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, 2021, would result in an increase of approximately \$10,493 (2020 – \$7,190) 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.

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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 a discount rate (pre-tax) of 15%.

The Corporation has concluded that there are no impairments of its indefinite lived intangible assets as a result of this assessment as at December 31, 2021 (2020 – impairment of \$6,117).

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 (2020 – 8.0x) and was 7.5x (2020 – 7.5x) for the Manufacturing segment. The Corporation will, at times, perform various scenario and sensitivity analysis when calculating the recoverable amounts of CGUs which may include alternative models and assumptions.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2021.

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.

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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 relieves cost out of 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.

6. ACQUISITIONS

Carson Air Ltd. ("Carson")

On July 5, 2021, the Corporation acquired all the shares of Carson. Carson was established in 1990 and is a provider of fixed wing air ambulance services in British Columbia. In addition to air ambulance services, which is Carson's primary business, it provides dedicated cargo services in B.C. and Alberta and operates a flight school, Southern Interior Flight Centre.

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

Consideration given:	
Cash	\$ 54,198
Issuance of 73,906 shares of the Corporation at \$39.40 per share	2,912
Final working capital settlement	1,091
Total purchase consideration	\$ 58,201

The allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:	
Cash	\$ 1,969
Accounts receivable	709
Inventory	1,205
Prepaid expenses and deposits	379
Capital assets	29,147
Right of use assets	2,337
Intangible assets	21,800
	57,546
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	2,168
Income taxes payable	4,184
Deferred revenue	1,314
Deferred income tax liability	12,334
Right of use lease liabilities	2,337
Fair value of identifiable net assets acquired	35,209
Goodwill	22,992
Total purchase consideration	\$ 58,201

Of the \$21,800 acquired intangible assets, \$17,400 was assigned to customer relationships, \$3,400 was assigned to brand names, and \$1,000 was assigned to certifications. The customer relationship intangible asset is subject to amortization while the brand name is considered to have an indefinite life. The certifications do not depreciate with the passage of time and will be amortized when the certificates are no longer active. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies, and the profitability of the acquired business.

Macfab Manufacturing Inc. ("Macfab")

On August 11, 2021, the Corporation acquired all the shares of Macfab. Macfab was founded in 1987 and is a contract manufacturer of precision custom components and sub-assemblies for medical, life sciences, aviation security, avionics, and space instruments. Serving customers across Canada, US, and the UK, Macfab provides prototype and production volumes, and offers a complete suite of precision machining, finishing, cleaning, and assembly solutions.

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

Consideration given:	
Cash	\$ 9,116
Issuance of 39,145 shares of the Corporation at \$41.10 per share	1,609
Final working capital settlement	598
Total purchase consideration	\$ 11,323

Telcon Datvox Inc (“Telcon”)

On November 9, 2021, the Corporation acquired all the shares of Telcon. Telcon was founded in 1982 and provides wireline installation and maintenance services, including both underground and aerial, as well as related services such as indoor network cabling. Located outside of St. Catharines, Ontario, Telcon services are focused in the southern Ontario region.

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

Consideration given:	
Cash	\$ 7,375
Issuance of 46,063 shares of the Corporation at \$43.42 per share	2,000
Estimated working capital settlement	(48)
Total purchase consideration	\$ 9,327

Ryko Telecommunications Inc. (“Ryko”)

On December 1, 2021, the Corporation acquired all the shares of Ryko. Ryko was founded in 2009 and specializes in all facets of the installation of aerial and underground fibre optic and copper cable, and the maintenance and construction of cable systems. With offices in Regina and Warman, Saskatchewan, Ryko services Western Canada.

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

Consideration given:	
Cash	\$ 12,746
Issuance of 47,782 shares of the Corporation at \$43.95 per share	2,100
Estimated working capital settlement	419
Total purchase consideration	\$ 15,265

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The preliminary allocation of the purchase price for the purchases of Macfab, Telcon, and Ryko is reflected in the table that follows. The purchase price allocations are pending the finalization of working capital settlements and the related impacts on intangible assets and goodwill.

Fair value of assets acquired:	
Cash	\$ 488
Accounts receivable	6,124
Inventory	2,538
Prepaid expenses and deposits	275
Income taxes receivable	74
Capital assets	10,834
Right of use assets	1,712
Intangible assets	9,210
	31,255
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	2,125
Right of use lease liabilities	1,712
Deferred income tax liability	3,254
Fair value of identifiable net assets acquired	24,164
Goodwill	11,751
Total purchase consideration	\$ 35,915

Of the \$9,210 acquired intangible assets, \$6,800 was assigned to customer relationships, \$2,200 was assigned to brand names, and \$210 was assigned to backlog. The customer relationship and backlog intangible assets are subject to amortization while the brand names are 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 businesses.

Crew Training International, Inc. ("CTI")

On December 16, 2021, the Corporation acquired all the shares of CTI. Headquartered in Memphis, Tennessee, CTI has 30 years of experience developing and delivering training solutions for the US government and commercial applications. CTI delivers training solutions for governments across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft.

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

Consideration given:	
Cash	\$ 47,449
Issuance of 224,865 shares of the Corporation at \$41.28 per share	9,283
Estimated working capital settlement	7,204
Total purchase consideration	\$ 63,936

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The preliminary allocation of the purchase price is reflected in the table that follows. The purchase price allocation is pending the finalization of working capital settlements, including the related impacts on intangible assets and goodwill, and the identification of indefinable intangible assets.

Fair value of assets acquired:	
Cash	\$ 313
Accounts receivable	25,292
Prepaid expenses and deposits	495
Capital assets	379
Right of use assets	4,296
	30,775
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	11,009
Deferred revenue	781
Right of use lease liabilities	4,296
Fair value of identifiable net assets acquired	14,689
Goodwill	49,247
Total purchase consideration	\$ 63,936

The Corporation has not completed its purchase price allocation for CTI at December 31, 2021. During 2022, the Corporation will complete the purchase price allocation, including the inclusion of identifiable 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 2021	December 31 2020
Parts and other consumables	\$ 50,247	\$ 48,402
Aviation parts for resale	146,862	141,235
Raw materials	25,022	22,533
Work in process	8,320	3,783
Finished goods	25,000	19,917
Total inventory	\$ 255,451	\$ 235,870

During 2021, inventory from the Aerospace & Aviation segment with a value of \$98,438 (2020 – \$82,884) was recorded as an expense within the Aerospace & Aviation expenses – excluding depreciation and amortization, and inventory from the Manufacturing segment with a value of \$119,541 (2020 – \$117,750) was recorded as an expense within Manufacturing expenses – excluding depreciation and amortization.

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8. OTHER ASSETS

The other assets of the Corporation consist of the following:

	December 31 2021	December 31 2020
Long-term prepaid expenses and security deposits	\$ 2,193	\$ 1,929
Long-term receivables	3,953	5,458
Long-term holdback receivables	717	5,060
Equity method investments	47,798	41,019
Other investments – Fair value through OCI (Note 23)	11,029	7,975
Derivative financial instruments – Fair value through profit and loss (Note 23)	405	–
Loan to Wasaya	–	12,363
Loan to Nunatsiavut Group of Companies (“NGC”)	563	1,543
Total other assets	\$ 66,658	\$ 75,347

The Corporation is invested in four equity accounted investments in non-trading entities at December 31, 2021. The Corporation’s ownership percentages in the entities are 25%, 33%, 49% and 49%, and the carrying values at December 31, 2021 are \$10,447 (2020 – \$10,826), \$11,190 (2020 – \$10,301), \$3,915 (2020 – \$4,095) and \$22,246 (2020 – \$15,797), respectively. The reporting period end for the equity accounted investments is December 31. These entities have total assets of \$185,248 (2020 – \$140,113) and total liabilities of \$65,900 (2020 – \$51,645) at December 31, 2021. The entities had revenues of \$219,369 (2020 – \$171,021) and net income of \$24,270 (2020 – \$20,881) for the year ended December 31, 2021. 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, 2021, the carrying value of these entities is \$11,029 (2020 – \$7,975).

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, 2021, the long-term hold backs due from customers was \$717 (2020 – \$5,060) and are recorded within Other Assets.

The loan to Wasaya has a carrying value of nil (\$2020 – \$12,363) as the loan was repaid in full in the fourth quarter.

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9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

	Cost	Accumulated Depreciation	December 31, 2021 Net Book Value
Land	\$ 8,688	\$ –	\$ 8,688
Buildings	139,760	40,945	98,815
Aircraft frames	439,786	130,680	309,106
Aircraft engines	255,645	119,267	136,378
Aircraft propellers and rotors	55,375	25,577	29,798
Aircraft landing gear	46,269	15,816	30,453
Aircraft rotatable parts	98,443	46,989	51,454
Equipment	166,903	106,805	60,098
Other	25,335	17,308	8,027
Leasehold improvements	19,946	11,391	8,555
	1,256,150	514,778	741,372
Assets for lease to third parties (aircraft and engines)	465,180	135,979	329,201
Total	\$ 1,721,330	\$ 650,757	\$ 1,070,573

	Year Ended December 31, 2021						
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Depreciation	Exchange Differences	Ending
Land	\$ 8,241	\$ –	\$ 451	\$ –	\$ –	\$ (4)	\$ 8,688
Buildings	91,891	–	10,687	–	(3,753)	(10)	98,815
Aircraft frames	262,543	16,724	63,360	(2,582)	(30,939)	–	309,106
Aircraft engines	112,371	9,998	38,871	(694)	(24,168)	–	136,378
Aircraft propellers and rotors	29,955	559	8,751	(2,088)	(7,379)	–	29,798
Aircraft landing gear	27,894	861	7,489	(2,776)	(3,015)	–	30,453
Aircraft rotatable parts	49,053	741	17,734	(2,935)	(13,139)	–	51,454
Equipment	51,047	10,432	9,610	(161)	(10,737)	(93)	60,098
Other	7,620	285	2,566	(35)	(2,396)	(13)	8,027
Leasehold improvements	8,628	755	494	–	(1,305)	(17)	8,555
	649,243	40,355	160,013	(11,271)	(96,831)	(137)	741,372
Assets for lease to third parties (aircraft and engines)	300,794	–	117,365	(40,082)	(48,115)	(761)	329,201
Total	\$ 950,037	\$ 40,355	\$ 277,378	\$ (51,353)	\$ (144,946)	\$ (898)	\$ 1,070,573

During the year, the Corporation agreed to exchange assets with a third party. The exchange transaction was measured at fair value and resulted in a gain of \$2,957.

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During the year, the Corporation had net transfers of \$16,627 from capital assets to inventory (December 31, 2020 – \$22,601 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 (Note 5). The net of these transfers is included within the Additions/Transfer column.

	Cost	Accumulated Depreciation	December 31, 2020 Net Book Value
Land	\$ 8,241	\$ –	\$ 8,241
Buildings	130,827	38,936	91,891
Aircraft frames	381,890	119,347	262,543
Aircraft engines	216,247	103,876	112,371
Aircraft propellers and rotors	50,895	20,940	29,955
Aircraft landing gear	41,961	14,067	27,894
Aircraft rotatable parts	86,930	37,877	49,053
Equipment	143,903	92,856	51,047
Other	21,541	13,921	7,620
Leasehold improvements	16,867	8,239	8,628
	1,099,302	450,059	649,243
Assets for lease to third parties (aircraft and engines)	420,477	119,683	300,794
Total	\$ 1,519,779	\$ 569,742	\$ 950,037

Year Ended December 31, 2020							
Net Book Value	Opening	Acquisition (Note 6)	Additions/Transfers	Disposals	Depreciation	Exchange Differences	Ending
Land	\$ 8,258	\$ –	\$ –	\$ –	\$ –	\$ (17)	\$ 8,241
Buildings	93,567	–	2,531	(334)	(3,829)	(44)	91,891
Aircraft frames	226,307	–	60,487	(665)	(23,586)	–	262,543
Aircraft engines	114,574	–	27,111	(502)	(28,812)	–	112,371
Aircraft propellers and rotors	29,147	–	7,326	(133)	(6,385)	–	29,955
Aircraft landing gear	26,065	–	4,876	–	(3,047)	–	27,894
Aircraft rotatable parts	48,428	–	13,307	(119)	(12,563)	–	49,053
Equipment	53,073	8	9,900	(507)	(11,176)	(251)	51,047
Other	8,192	20	2,323	(17)	(2,862)	(36)	7,620
Leasehold improvements	8,874	–	1,088	–	(1,287)	(47)	8,628
	616,485	28	128,949	(2,277)	(93,547)	(395)	649,243
Assets for lease to third parties (aircraft and engines)	348,533	–	12,701	(9,047)	(46,351)	(5,042)	300,794
Total	\$ 965,018	\$ 28	\$ 141,650	\$ (11,324)	\$ (139,898)	\$ (5,437)	\$ 950,037

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During the prior year, the Corporation agreed to exchange assets with a third party. The exchange transaction was measured at fair value and no gain or loss was recorded as the fair value of the assets acquired, US\$16,082, approximated the book value of the assets given up.

During the year, the Corporation reclassified certain of the December 31, 2020 comparative figures above to correspond with the current year reporting classification. The total carrying value of capital assets has not changed, only the allocation within the categories above.

10. LEASES

The Corporation's right of use assets consist of the following:

Net Book Value	January 1, 2021					December 31, 2021	
	Opening	Acquisitions	Additions	Disposals	Depreciation	Exchange Differences	Ending
Land	\$ 20,690	\$ –	\$ 15	\$ (2)	\$ (1,321)	\$ –	\$ 19,382
Building	51,235	8,278	6,643	(527)	(12,254)	(187)	53,188
Aircraft	12,389	–	216	(693)	(7,922)	–	3,990
Equipment	1,251	67	556	–	(499)	–	1,375
Other	4,918	–	3,213	(81)	(2,546)	–	5,504
Total	\$ 90,483	\$ 8,345	\$ 10,643	\$ (1,303)	\$ (24,542)	\$ (187)	\$ 83,439

Net Book Value	January 1, 2020				December 31, 2020		
	Opening	Additions	Disposals	Depreciation	Exchange Differences	Ending	
Land	\$ 21,982	\$ 26	\$ –	\$ (1,318)	\$ –	\$ 20,690	
Building	60,349	2,973	(160)	(11,645)	(282)	51,235	
Aircraft	19,777	1,712	–	(9,100)	–	12,389	
Equipment	1,501	194	(34)	(402)	(8)	1,251	
Other	5,068	2,792	(24)	(2,909)	(9)	4,918	
Total	\$ 108,677	\$ 7,697	\$ (218)	\$ (25,374)	\$ (299)	\$ 90,483	

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

Right of Use Lease Liability	December 31, 2021	December 31, 2020
Opening balance, January 1, 2021	\$ 96,398	\$ 113,855
Additions to right of use lease liabilities, including through acquisitions	18,988	7,697
Disposals of right of use assets and derecognition of lease liabilities	(1,303)	(113)
Principal payments on right of use lease liabilities	(23,887)	(24,667)
Exchange differences	(196)	(374)
Closing balance, December 31, 2021	\$ 90,000	\$ 96,398
Current portion	\$ 20,603	\$ 22,604

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During the year, the Corporation expensed \$7,470 (December 31, 2020 - \$8,291) 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, 2021	December 31, 2020
Less than 1 year	\$ 22,875	\$ 25,646
Between 1 year and 5 years	48,319	45,614
More than 5 years	33,290	39,832
	\$ 104,484	\$ 111,092

11. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2021 and 2020:

	December 31, 2021		
	Cost	Accumulated Depreciation	Net Book Value
Indefinite Life Assets			
Brand name	\$ 91,395	\$ –	\$ 91,395
Finite Life Assets			
Customer contracts and relationships	108,414	50,157	58,257
Certifications	9,932	558	9,374
Information technology systems	28,396	10,906	17,490
Backlog	39,117	38,413	704
Other	8,792	5,348	3,444
Total	\$ 286,046	\$ 105,382	\$ 180,664

	Year Ended December 31, 2021							
Net Book Value	Opening	Acquisition (Note 6)	Additions/Transfers	Disposals	Impairment	Amortization	Exchange Differences	Ending
Indefinite Life Assets								
Brand name	\$ 85,888	\$ 5,600	\$ –	\$ –	\$ –	\$ –	\$ (93)	\$ 91,395
Finite Life Assets								
Customer contracts and relationships	39,543	24,200	1,191	–	–	(6,644)	(33)	58,257
Certifications	8,401	1,000	–	–	–	(27)	–	9,374
Information technology systems	17,495	–	2,708	–	–	(2,713)	–	17,490
Backlog	7,832	210	–	–	–	(7,241)	(97)	704
Other	2,613	–	1,103	–	–	(272)	–	3,444
Total	\$ 161,772	\$ 31,010	\$ 5,002	\$ –	\$ –	\$ (16,897)	\$ (223)	\$ 180,664

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				December 31, 2020			
				Cost	Accumulated Depreciation		Net Book Value
Indefinite Life Assets							
Brand name				\$ 85,888	\$ –		\$ 85,888
Finite Life Assets							
Customer contracts and relationships				83,065	43,522		39,543
Certifications				9,111	710		8,401
Information technology systems				25,833	8,338		17,495
Backlog				38,940	31,108		7,832
Other				7,512	4,899		2,613
Total				\$ 250,349	\$ 88,577		\$ 161,772

Year Ended December 31, 2020								
Net Book Value	Opening	Acquisition	Additions/ Transfers	Disposals	Impairment	Amortization	Exchange Differences	Ending
Indefinite Life Assets								
Brand name	\$ 88,651	\$ 3,761	\$ –	\$ –	\$ (6,014)	\$ –	\$ (510)	\$ 85,888
Finite Life Assets								
Customer contracts and relationships	37,554	3,895	–	–	–	(1,667)	(239)	39,543
Certifications	8,428	–	–	–	–	(27)	–	8,401
Information technology systems	15,796	–	3,883	–	(103)	(2,080)	(1)	17,495
Backlog	11,809	9,698	–	–	–	(13,285)	(390)	7,832
Other	2,420	–	722	(14)	–	(514)	(1)	2,613
Total	\$ 164,658	\$ 17,354	\$ 4,605	\$ (14)	\$ (6,117)	\$ (17,573)	\$ (1,141)	\$ 161,772

During the year, the Corporation reclassified certain of the December 31, 2020 comparative figures above to correspond with the current year reporting classification. The total carrying value of intangible assets has not changed, only the allocation within the categories above.

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

Goodwill	2021	2020
Balance, beginning of year	\$ 397,589	\$ 359,764
Goodwill from business acquisitions	83,990	41,200
Measurement period adjustment - settlement of working capital and other (Note 23)	6,505	172
Translation of goodwill of foreign operations	(1,209)	(3,547)
Balance, end of year	\$ 486,875	\$ 397,589

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As a result of the foreign currency translation policy for the consolidation of Stainless, Water Blast North Dakota, Regional One, Team J.A.S., AWI, WIS, and CTI 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), Advanced Window (US \$8,164), Window Installation Specialists (US \$35,858), and Crew Training International (US \$38,197) 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, 2021 (Note 5). As at December 31, 2021, 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 as at December 31, 2021, and December 31, 2020:

	December 31 2021	December 31 2020
Revolving term facility:		
Canadian dollar amounts drawn	\$ 190,000	\$ 190,000
United States dollar amounts drawn (US\$410,697 and US\$477,100 respectively)	520,681	607,444
Total credit facility debt outstanding, principal value	710,681	797,444
less: unamortized transaction costs	(2,907)	(3,087)
less: unamortized discount on outstanding Banker's Acceptances	(163)	(163)
Long-term debt	\$ 707,611	\$ 794,194

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, 2021.

On August 6, 2021, the Corporation completed the extension of the maturity of its credit facility to August 6, 2025. The remaining terms included within the facility were virtually unchanged from the Corporation's previous credit facility.

Interest expense recorded by the Corporation during the year ended December 31, 2021, for long-term debt was \$19,813 (2020 – \$23,352).

Credit Facility

The following is the continuity of long-term debt for the year ended December 31, 2021:

	Year Ended December 31, 2021				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	\$ 190,000	\$ 160,200	\$ (160,200)	\$ –	\$ 190,000
United States dollar amounts	607,444	176,935	(265,878)	2,180	520,681
	\$ 797,444				\$ 710,681

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	Year Ended December 31, 2020				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	\$ 211,900	\$ 86,900	\$ (108,800)	\$ –	\$ 190,000
United States dollar amounts	511,149	201,110	(100,118)	(4,697)	607,444
	\$ 723,049				\$ 797,444

In the tables above, withdrawals and repayments include the impact of entering into cross currency swaps with members of the Corporation's lending syndicate whereby an exchange of Canadian and US denominated debt occurs. There is no impact on cash flow and therefore the impact has been netted on the Statement of Cash Flow. More information on the cross currency swaps can be found in Note 23.

13. CONVERTIBLE DEBENTURES

Series – Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
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
Unsecured Debentures – July 2021	EIF.DB.L	July 31, 2028	5.25%	\$ 52.70
Unsecured Debentures – December 2021	EIF.DB.M	January 15, 2029	5.25%	\$ 60.00

Summary of the debt component of the convertible debentures:

	2021 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2021 Balance, End of Year
Unsecured Debentures – 2016	\$ 67,014	\$ –	\$ 1,941	\$ (1,074)	\$ (67,881)	\$ –
Unsecured Debentures – 2017	97,692	–	1,118	–	–	98,810
Unsecured Debentures – 2018	76,638	–	764	–	–	77,402
Unsecured Debentures – 2019	83,413	–	470	–	–	83,883
Unsecured Debentures – July 2021	–	137,661	297	–	–	137,958
Unsecured Debentures – December 2021	–	110,129	32	–	–	110,161
						508,214
less: unamortized transaction costs						(15,998)
Convertible Debentures – Debt Component, end of year						\$ 492,216
less: current portion						98,808
Convertible Debentures – Debt Component (long-term portion)						393,408

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	2020 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2020 Balance, End of Year
Unsecured Debentures – 2016	\$ 66,314	\$ –	\$ 700	\$ –	\$ –	\$ 67,014
Unsecured Debentures – 2017	96,643	–	1,049	–	–	97,692
Unsecured Debentures – 2018	75,922	–	716	–	–	76,638
Unsecured Debentures – 2019	82,972	–	441	–	–	83,413
						324,757
less: unamortized transaction costs						(8,927)
Convertible Debentures – Debt Component, end of year						\$ 315,830

During the year ended December 31, 2021, convertible debentures totaling a face value of \$1,094 were converted by the holders at various times into 24,446 shares of the Corporation (2020 – \$nil and nil shares). Interest expense recorded during the 2021 year for the convertible debentures was \$28,856 (2020 – \$23,376).

On July 30, 2021, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued \$143,750 principal amount of debentures which included the full exercise of the over allotment option granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of \$52.70 per share. The maturity date of the debentures is July 31, 2028.

On September 2, 2021, the Corporation redeemed its 7 year 5.25% convertible debentures which were to mature on June 30, 2023. On the redemption date, the remaining outstanding debentures in the principal amount of \$67,881 were redeemed by the Corporation.

On December 6, 2021, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued \$115,000 principal amount of debentures which included the full exercise of the over allotment option granted to the underwriters. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of \$60.00 per share. The maturity date of the debentures is January 15, 2029.

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 convertible unsecured debentures have \$nil (2020 – \$68,975) of principal outstanding as at December 31, 2021, and were redeemed September 2, 2021 as described above.

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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 convertible unsecured debentures have \$100,000 (2020 – \$100,000) of principal outstanding as at December 31, 2021, and subsequent to December 31, 2021 were redeemed on February 11, 2022 (Note 27).

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 (2020 – \$80,500) of principal outstanding as at December 31, 2021, and mature in June 2025.

March 2019 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 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.

The March 2019 convertible unsecured debentures have \$86,250 (2020 – \$86,250) of principal outstanding as at December 31, 2021, and mature in March 2026.

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July 2021 Unsecured Convertible Debenture Offering

The Corporation issued the \$143,750 Seven Year 5.25% Convertible Unsecured Subordinated Debentures on July 30, 2021. These debentures bear interest at the rate of 5.25% per annum payable semi-annually in arrears, in cash, on January 31 and July 31 of each year. The maturity date of the debentures is July 31, 2028. 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 \$52.70.

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 debentures are not redeemable until after July 31, 2024. After July 31, 2024, but prior to July 31, 2026, 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 July 31, 2026, 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 July 2021 convertible unsecured debentures have \$143,750 (2020 – \$nil) of principal outstanding as at December 31, 2021, and mature in July 2028.

December 2021 Unsecured Convertible Debenture Offering

The Corporation issued the \$115,000 Seven Year 5.25% Convertible Unsecured Subordinated Debentures on December 6, 2021. These debentures bear interest at the rate of 5.25% per annum payable semi-annually in arrears, in cash, on January 15 and July 15 of each year. The maturity date of the debentures is January 15, 2029. 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 \$60.00.

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 January 15, 2025. After January 15, 2025, but prior to January 15, 2027, 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 January 15, 2027, 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 2021 convertible unsecured debentures have \$115,000 (2020 – \$nil) of principal outstanding as at December 2021, and mature in January 2029.

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

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Summary of the equity component of the convertible debentures:

	December 31 2021	December 31 2020
Unsecured Debentures – 2016	\$ –	\$ 3,261
Unsecured Debentures – 2017	3,590	3,590
Unsecured Debentures – 2018	3,866	3,866
Unsecured Debentures – 2019	2,497	2,497
Unsecured Debentures – July 2021	4,241	–
Unsecured Debentures – December 2021	3,413	–
Convertible Debentures – Equity Component, end of year	\$ 17,607	\$ 13,214

All convertible debentures outstanding at December 31, 2021, represent direct unsecured debt obligations of the Corporation.

14. SHARE CAPITAL

Changes in the shares issued and outstanding during the year ended December 31, 2021, are as follows:

	Number of Shares	2021 Amount
Share capital, beginning of year	35,471,758	\$ 731,343
Issued upon conversion of convertible debentures	24,446	1,119
Issued under dividend reinvestment plan	323,602	12,850
Issued under employee share purchase plan	59,720	2,420
Issued under deferred share plan	189,062	2,156
Issued under First Nations community partnership agreements	4,039	129
Shares issued to Carson Air vendors on closing (Note 6)	73,906	2,904
Shares issued to Macfab vendors on closing (Note 6)	39,145	1,602
Shares issued to Telcon vendor on closing (Note 6)	46,063	1,993
Shares issued to Ryko vendors on closing (Note 6)	47,782	2,093
Shares issued to Crew Training International vendor on closing (Note 6)	224,866	9,266
Prospectus offering, including over-allotment	2,236,000	84,946
Share capital, end of year	38,740,389	\$ 852,821

Changes in the shares issued and outstanding during the year ended December 31, 2020, are as follows:

	Number of Shares	2020 Amount
Share capital, beginning of year	34,703,237	\$ 709,546
Issued under dividend reinvestment plan	319,265	9,427
Issued under employee share purchase plan	69,654	2,312
Issued under deferred share plan	30,618	606
Issued under First Nations community partnership agreements	2,039	50
Issued to Window Installation Specialists, Inc. vendor on closing	346,945	9,402
Share capital, end of year	35,471,758	\$ 731,343

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On February 22, 2021, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 3,253,765 Common Shares, representing 10% of the issued and outstanding shares at January 31, 2021. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on February 24, 2021, and ending on February 23, 2022. The maximum number of shares that can be purchased by the Corporation daily is limited to 27,845 shares, other than block purchase exemptions.

During the years ended December 31, 2021 and December 31, 2020, the Corporation did not make any purchases of shares.

On April 26, 2021, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 2,236,000 shares of the Corporation at \$39.40 per share, for gross proceeds of \$88,098.

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 2021 year and the comparative 2020 year are as follows:

Year Ended December 31	2021	2020
Cumulative dividends, beginning of year	\$ 576,932	\$ 496,920
Dividends during the year	85,387	80,012
Cumulative dividends, end of year	\$ 662,319	\$ 576,932

The amounts and record dates of the dividends during the year ended December 31, 2021, and the comparative 2020 year are as follows:

Month	Record date	Per Share	2021 Dividends Amount	Record date	Per Share	2020 Dividends Amount
January	January 29, 2021	\$ 0.19	\$ 6,744	January 31, 2020	\$ 0.19	\$ 6,596
February	February 26, 2021	0.19	6,748	February 28, 2020	0.19	6,599
March	March 31, 2021	0.19	6,755	March 31, 2020	0.19	6,606
April	April 30, 2021	0.19	7,146	April 30, 2020	0.19	6,612
May	May 31, 2021	0.19	7,189	May 29, 2020	0.19	6,621
June	June 30, 2021	0.19	7,198	June 30, 2020	0.19	6,634
July	July 30, 2021	0.19	7,218	July 31, 2020	0.19	6,707
August	August 31, 2021	0.19	7,231	August 31, 2020	0.19	6,715
September	September 30, 2021	0.19	7,247	September 30, 2020	0.19	6,722
October	October 29, 2021	0.19	7,252	October 30, 2020	0.19	6,728
November	November 30, 2021	0.19	7,298	November 30, 2020	0.19	6,732
December	December 31, 2021	0.19	7,361	December 31, 2020	0.19	6,740
Total		\$ 2.28	\$ 85,387		\$ 2.28	\$ 80,012

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After December 31, 2021, and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of \$0.19 per share for January and February 2022.

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. MFC Training and Southern Interior Flight Centre provide pilot training services. CTI delivers training solutions for governments across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft. The results of Carson and CTI are included in the Aerospace & Aviation segment results subsequent to the date of acquisition (Note 6). The Manufacturing segment consists of niche specialty manufacturers in markets throughout Canada and the United States. The results of Macfab, Telcon, and Ryko are included in the Manufacturing segment results subsequent to the date of acquisition (Note 6).

The Corporation evaluates each segment's performance based on Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). The Corporation's method of calculating Adjusted EBITDA may differ from that of other corporations and therefore may not be comparable to measures utilized by them. The Corporation's method of calculating Adjusted EBITDA is consistent with the Corporation's Operating Profit before Depreciation, Amortization, Finance Costs, and Other presented in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Year Ended December 31, 2021			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	\$ 917,368	\$ 495,778	\$ –	\$ 1,413,146
Expenses	629,365	422,782	31,119	1,083,266
Adjusted EBITDA	288,003	72,996	(31,119)	329,880
Depreciation of capital assets				144,946
Amortization of intangible assets				16,897
Finance costs – interest				48,955
Depreciation of right of use assets				24,542
Interest expense on right of use lease liabilities				3,243
Acquisition costs				3,034
Other (Note 5)				(6,000)
Earnings before income taxes				94,263
Current income tax expense				17,741
Deferred income tax expense				7,934
Net Earnings				\$ 68,588

	Year Ended December 31, 2020			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	\$ 687,321	\$ 462,308	\$ –	\$ 1,149,629
Expenses	469,244	374,327	21,523	865,094
Adjusted EBITDA	218,077	87,981	(21,523)	284,535
Depreciation of capital assets				139,898
Amortization of intangible assets				17,573
Finance costs – interest				47,000
Depreciation of right of use assets				25,374
Interest expense on right of use lease liabilities				3,934
Acquisition costs				1,816
Impairment loss				6,117
Other (Note 5)				(177)
Earnings before income taxes				43,000
Current income tax expense				17,007
Deferred income tax recovery				(2,062)
Net Earnings				\$ 28,055

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	For the year ended December 31, 2021			
	Aerospace & Aviation	Manufacturing	Head Office ⁽¹⁾	Consolidated
Total assets	\$ 1,921,682	\$ 580,841	\$ 86,144	\$ 2,588,667
Net capital asset additions	216,752	5,305	71	222,128
Indefinite lived intangible assets	56,852	34,543	–	91,395
Goodwill	289,415	197,460	–	486,875

	For the year ended December 31, 2020			
	Aerospace & Aviation	Manufacturing	Head Office ⁽¹⁾	Consolidated
Total assets	\$ 1,623,340	\$ 548,476	\$ 122,368	\$ 2,294,184
Net capital asset additions	122,310	5,037	1,040	128,387
Indefinite lived intangible assets	53,518	32,370	–	85,888
Goodwill	218,164	179,425	–	397,589

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 2021	December 31 2020
Aerospace & Aviation Segment		
Sale of goods – point in time	\$ 198,758	\$ 121,538
Sale of services – point in time	687,415	542,480
Sale of services – over time	31,195	23,303
Manufacturing Segment		
Sale of goods – point in time	97,297	93,184
Sale of goods and services – over time	398,481	369,124
Total revenue	\$ 1,413,146	\$ 1,149,629

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The following is the geographic breakdown of revenues for the year ended December 31, 2021, and the 2020 comparative year, based on the location of the customer, and long-term assets as at the balance sheet dates:

Year Ended December 31	2021	2020
Canada	\$ 851,474	\$ 702,303
United States	394,540	292,843
Europe	20,383	16,129
Other	146,749	138,354
Total revenue for the year	\$ 1,413,146	\$ 1,149,629

	As at December 31, 2021				
	Other Assets	Capital Assets	Right of Use Assets	Intangible Assets	Goodwill
Canada	\$ 40,063	\$ 714,150	\$ 62,153	\$ 152,948	\$ 323,987
United States	22,677	107,580	21,286	27,716	162,888
Europe	3	245,487	–	–	–
Other	3,915	3,356	–	–	–
	\$ 66,658	\$ 1,070,573	\$ 83,439	\$ 180,664	\$ 486,875

	As at December 31, 2020				
	Other Assets	Capital Assets	Right of Use Assets	Intangible Assets	Goodwill
Canada	\$ 48,482	\$ 622,302	\$ 70,573	\$ 127,059	\$ 289,242
United States	22,770	79,211	19,910	34,713	108,347
Europe	–	248,524	–	–	–
Other	4,095	–	–	–	–
	\$ 75,347	\$ 950,037	\$ 90,483	\$ 161,772	\$ 397,589

Contract Assets	December 31 2021	December 31 2020
Accounts receivable, including long-term portion	\$ 306,437	\$ 274,403
Amounts due from customers on construction contracts	27,705	21,372
Total	\$ 334,142	\$ 295,775
Current	329,472	285,257
Non-current	\$ 4,670	\$ 10,518

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

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will previously have recognized a contract asset for any work performed. Any amount previously recognized as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

Contract Liabilities	December 31 2021	December 31 2020
Customer loyalty programs – Airlines	\$ 1,338	\$ 940
Deferred revenue, net of customer loyalty programs	53,690	27,033
Amounts due to customers on construction contracts	30,556	24,997
Total	\$ 85,584	\$ 52,970
Current	83,727	52,970
Non-current	\$ 1,857	\$ –

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.

17. CONSTRUCTION CONTRACTS

The operations of Stainless, WesTower, Quest, AWI, and WIS 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, 2021, the Corporation recognized revenue on these types of long-term contracts totaling \$402,145 (2020 – \$370,902).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2021, and the 2020 comparative year:

As at December 31	2021	2020
Costs incurred on uncompleted contracts	\$ 347,530	\$ 277,366
Estimated earnings	76,138	53,723
	423,668	331,089
less: billings to date	(426,519)	(334,714)
Total	\$ (2,851)	\$ (3,625)
Amounts due from customers on construction contracts	\$ 27,705	\$ 21,372
Amounts due to customers on construction contracts	(30,556)	(24,997)
Total	\$ (2,851)	\$ (3,625)

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

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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, 2021, and the comparative for the 2020 year are as follows:

Year Ended December 31	2021	2020
Net earnings	\$ 68,588	\$ 28,055
Effect of dilutive securities		
Convertible debenture interest	—	—
Diluted Net Earnings	\$ 68,588	\$ 28,055
Basic weighted average number of shares	37,265,034	35,048,953
Effect of dilutive securities		
Deferred Shares	822,640	928,471
Convertible debentures	—	—
Diluted basis weighted average number of shares	38,087,674	35,977,424
Net Earnings per share:		
Basic	\$ 1.84	\$ 0.80
Diluted	\$ 1.80	\$ 0.78

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.

	2021	2020
Salaries, wages & benefits	\$ 383,415	\$ 275,505
Aircraft and component part sale	121,333	79,680
Aircraft operating expenses	169,298	159,093
Materials	228,030	228,897
General and administrative	71,630	46,704
Building rent and maintenance	14,909	10,895
Communication and information technology	16,012	12,374
Advertising	7,401	2,981
Sub-contracting services	64,923	28,175
Other	6,315	20,790
	\$ 1,083,266	\$ 865,094

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20. EMPLOYEE BENEFITS

Deferred Share Plan

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

	2021	2020
Deferred shares outstanding, beginning of year	928,471	870,972
Granted during the year	30,607	18,741
Granted through dividends declared during the year	52,624	69,376
Redeemed during the year	(189,062)	(30,618)
Deferred shares outstanding, end of year	822,640	928,471
Vested portion of deferred shares outstanding, end of year	813,671	892,004

The fair value of the deferred shares granted during the 2021 year was \$1,214 at the time of the grant (weighted average grant price of \$39.65 per share) and was based on the market price of the Corporation's shares at that time (2020 – \$811, weighted average grant price of \$43.25 per share). During the 2021 year, the Corporation recorded a compensation expense of \$1,273 for the Deferred Share Plan within head office expenses (2020 – \$1,645).

Restricted Share Plan

During the year ended December 31, 2021, the Corporation granted 121,408 (2020 – 103,556) restricted shares to certain personnel. The fair value of the restricted share units granted was \$4,881 (2020 – \$4,196) 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, 2021, the Corporation recorded compensation expense of \$5,386 for the Corporation's Restricted Share Plan within the general and administrative expenses of head office (2020 – \$2,870), 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 2021, employees acquired 59,720 shares from Treasury at a weighted average price of \$40.52 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 \$840 based on the share price and monthly dividend rate at that time.

During 2020, employees acquired 69,654 shares from Treasury at a weighted average price of \$33.20 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 \$841 based on the share price and monthly dividend rate at that time.

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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 2021, the total expense recorded for the ESPP in head office expenses was \$958 (2020 – \$549). At December 31, 2021, the Corporation had \$488 (2020 – \$523) recorded within Accounts Payable and Accrued Expenses, representing the portion of additional shares that have vested at that date.

Pension Plan

The Corporation has pension-related costs associated with the defined contribution pension plans to which certain 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. During 2021, the Corporation recorded defined contribution pension plan costs of \$5,237 (2020 – \$4,714).

21. CONTINGENCIES AND COMMITMENTS

The Corporation and its subsidiaries rent premises and equipment under operating lease agreements some of which fall outside the scope of IFRS 16. The minimum lease payments under these contractual obligations are as follows:

Commitments	December 31, 2021	December 31, 2020
Less than 1 year	\$ 3,522	\$ 2,399
Between 1 year and 5 years	3,696	3,118
More than 5 years	1,923	626
	\$ 9,141	\$ 6,143

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.

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, 2021, the total value of these letters of credit and surety bonds was \$239,713 (2020 – \$174,306).

22. RELATED PARTY TRANSACTIONS

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

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. These leases are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2021 under these leases was \$4,197 (2020 – \$3,868) and the lease term maturities range from 2022 to 2031.

Certain of the Corporation's airline subsidiaries purchase jet fuel from an entity controlled by a related party who was a vendor of a business the Corporation acquired. This vendor is considered a related party because of their continued involvement in the management of the subsidiary. The purchases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. Total costs incurred in 2021 for these purchases was \$590 (2020 – nil).

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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 include the executive management team and the Board of Directors.

Compensation expensed for key management during the 2021 year, and the comparative 2020 year is detailed in the table below. Share based compensation vests over a period of up to three years and is expensed over that period. There was a calculation error in the prior year relating to the Corporation's deferred share plan, which is included in the share-based compensation expense line below, and therefore the prior year amounts have been restated. There was no impact on the consolidated earnings in the prior period, only the amounts presented in the table below.

Year Ended December 31,	2021	2020
Salaries and short-term benefits	\$ 6,534	\$ 3,372
Share-based compensation expense	4,501	2,992
	\$ 11,035	\$ 6,364

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 distributions 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 and therefore there can be a delay between when income is recognized and when returns become paid or payable to CRJ Capital Corp.

During 2021, CRJ Capital Corp. invested US \$383 (2020 – US \$1,787). CRJ Capital Corp.'s total investment generated returns paid or payable of US \$1,477 (2020 – US \$2,091). As a result of the sale of certain assets, depreciation recorded on its leasing assets, and the return of initial investment to CRJ Capital Corp., the remaining assets attributable to CRJ Capital Corp. at December 31, 2021, was US \$6,729 (December 31, 2020 – US \$8,378). The prior year remaining investment has been restated to reflect current year presentation, which uses the same accounting policies as other similar assets owned by the Corporation, including for lease sales, parts sales, and aircraft and engine sales. At December 31, 2021, US \$155 is recorded as accounts payable due to CRJ Capital Corp. (December 31, 2020 – US \$545 accounts payable to CRJ Capital Corp.).

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.

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Currency Risk

The Corporation has US \$410,697 or \$520,681 (2020 – US \$477,100 or \$607,444) 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 \$134,997 (2020 – US \$82,500) is drawn by EIIIF 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 \$153,900 (2020 – US \$137,400) 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 can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 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, 2021, was a financial liability of \$482 (2020 – financial liability of \$4,433). At December 31, 2021, the notional value of the swaps outstanding is US \$121,800 (2020 – US \$257,200). Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, \$482 was reclassified from other comprehensive income in 2021 (2020 – \$4,433). No hedge ineffectiveness was recorded during 2021 or 2020.

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, 2021, would have a nil (2020 – nil) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately \$5,207 (2020 – \$6,074).

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, 2021:

- US \$410,600 (2020 – US \$477,100) was outstanding under US LIBOR, and
- US \$97 (2020 – \$nil) was outstanding under US Prime, and
- \$190,000 (2020 – \$190,000) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2021 a 1% increase in interest rates for the Corporation would decrease pre-tax net earnings by approximately \$5,719 (\$4,187 after-tax) (2020 – \$6,326 (\$4,627 after tax)).

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

In the prior year, the Corporation amended its 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 during the year. The amendment

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reduced the effective fixed interest rate on the swap and extended the maturity by one year. 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 classified as a long-term financial liability of \$943 (2020 – long-term financial liability of \$7,407) is recorded as a separate line within other comprehensive income. No hedge ineffectiveness was recorded in 2021 or 2020.

Other Price Risk

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

To mitigate the income statement impact of a change in the Corporation's share price, the Corporation entered into a derivative instrument for each of the 2019, 2020, and 2021 Restricted Share Plan grants, which fixes the cost of the initial grant 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. On a combined basis, the initial grant date fair value for the 2019, 2020, and 2021 programs was \$12,583. The instruments are classified as a long-term financial asset of \$405 (2020 – long-term financial liability of \$43) and are 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, \$1,033 was reclassified from other comprehensive income in 2021 (2020 – \$116). No hedge ineffectiveness was recorded during 2021 or 2020.

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, 2021, \$48,907 (2020 – \$53,871) of the receivables were outstanding for greater than 90 days. Approximately \$3,346 (2020 – \$6,872) of this relates to the Manufacturing segment and \$45,561 (2020 – \$46,999) relates to the Aerospace & Aviation segment. Management at each of the Corporation's subsidiaries monitor accounts receivable 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.

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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 \$563 at December 31, 2021 (2020 – \$1,543) and the loan is secured against the cash flows the borrower is entitled to from the partnership until the loan is repaid.

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, borrowings 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). During the year, the Corporation amended its credit facility as discussed in 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	\$ 267,635	\$ 267,635	\$ –	\$ –
Long-term debt (principal value)	710,681	–	710,681	–
Convertible debentures (par value)	525,500	100,000	166,750	258,750
Contractual interest ⁽¹⁾	183,705	40,041	113,476	30,188
Total	\$ 1,687,521	\$ 407,676	\$ 990,907	\$ 288,938

Note (1) The contractual interest reflects the assumption that amounts outstanding and floating interest rates at December 31, 2021, will remain at current levels until maturity.

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Fair Value of Financial Instruments

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

		Fair Value		
	Carrying Value December 31, 2021	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Recurring fair value measurements				
Financial Assets				
Other long-term assets – Restricted share hedge – Financial asset at fair value through profit and loss (Note 8)	405	–	405	–
Other assets – Fair value through OCI (Note 8)	11,029	–	–	11,029
Financial Liabilities				
Consideration liabilities – Financial liability at fair value through profit and loss	(8,100)	–	–	(8,100)
Other long-term liabilities – Cross-currency basis swap – Financial liability at fair value through profit and loss	(482)	–	(482)	–
Other long-term liabilities – Interest Rate Swap – Financial liability at fair value through OCI	(943)	–	(943)	–
Fair Value Disclosures				
Other assets – Amortized cost	7,144	–	7,144	–
Long-term debt – Amortized cost	(707,611)	–	–	(710,681)
Convertible debt – Amortized cost	(492,216)	(534,947)	–	–

		Fair Value		
	Carrying Value December 31, 2020	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Recurring fair value measurements				
Financial Assets				
Other assets – Fair value through OCI (Note 8)	\$ 7,975	\$ –	\$ –	\$ 7,975
Financial Liabilities				
Consideration liabilities – Financial liability at fair value through profit and loss	(5,714)	–	–	(5,714)
Other long-term liabilities – Cross-currency basis swap – Financial liability at fair value through profit and loss	(4,433)	–	(4,433)	–
Other long term liabilities – Restricted Share Plan Derivative – Financial liability at fair value through profit and loss	(43)	–	(43)	–
Other long-term liabilities – Interest Rate Swap – Financial liability at fair value through OCI	(7,407)	–	(7,407)	–
Fair Value Disclosures				
Other assets – Amortized cost	26,353	–	26,353	–
Long-term debt – Amortized cost	(794,194)	–	–	(797,444)
Convertible debt – Amortized cost	(315,830)	(335,454)	–	–

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.

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The following table summarizes the changes in the consideration liabilities recorded on the acquisitions of MFC Training, Wings Over Kississing, LV Control, AWI, Carson, Macfab, Telcon, Ryko, and CTI including any changes for settlements, changes in fair value, and changes due to foreign currency fluctuations:

Consideration Liability Summary For the years ended	December 31 2021	December 31 2020
Opening balance	\$ 5,714	\$ 12,411
Accretion	286	272
Change in estimate	(6,000)	(177)
Acquisition of Advanced Window, including change in estimate	–	422
Acquisition of Window Installation, including change in estimate	6,505	–
Acquisition of Carson	1,091	–
Acquisition of Macfab	598	–
Acquisition of Ryko	419	–
Acquisition of CTI	7,204	–
Settled during the period	(7,596)	(7,255)
Translation loss	(121)	41
Ending balance	\$ 8,100	\$ 5,714

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

Included in the \$8,100 above is the working capital settlement for Macfab, Ryko, and CTI. During the year ended December 31, 2021, the Corporation settled its consideration liability related to the WIS acquisition. This resulted in a payment of \$6,505 and finalized the purchase price allocation for the acquisition of WIS. Also during the year, the Corporation settled its consideration liability with the vendors of Carson, resulting in a payment of \$1,091. During the year, the estimated liability for additional purchase consideration associated with LV Control was reduced to reflect earnings levels during the earn out period (Note 5).

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, 2021, 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 3.5%. 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, 2021, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is \$534,947 (December 31, 2020 – \$335,454) with a carrying value of \$492,216 (December 31, 2020 – \$315,830).

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.

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24. CHANGES IN WORKING CAPITAL

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

Year Ended December 31	2021	2020
Accounts receivable, including long-term portion	\$ (2,401)	\$ 47,289
Amounts due from customers on construction contracts	(6,362)	5,625
Inventory	(16,385)	(14,400)
Prepaid expenses and deposits, including long-term portion	(10,918)	3,513
Accounts payable and accrued expenses, including long-term portion	30,969	(10,772)
Income taxes receivable/payable	(4,764)	6,218
Deferred revenue, including long-term portion	24,973	(3,750)
Amounts due to customers on construction contracts	5,643	4,732
Net change in working capital	\$ 20,755	\$ 38,455

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 Operating profit before Depreciation, Amortization, Finance Costs and Other, normalized for the full year contribution of recent acquisitions. The Corporation has been near the top end of this range at times during the pandemic and management expects this to normalize as the impacts of the pandemic lessen.

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 2021	December 31 2020
Total senior debt outstanding (principal value)	\$ 710,681	\$ 797,444
Convertible debentures outstanding (par value)	525,500	335,725
Common shares	852,821	731,343
Total capital	\$ 2,089,002	\$ 1,864,512

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 ("Adjusted 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 2021 year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Changes in the capital of the Corporation during the year ended December 31, 2021, are mainly attributed to the following events that occurred during the year. First, the Corporation closed a bought deal financing of common shares resulting in the issuance of 2,236,000 shares at \$39.40 per share. The Corporation issued two new series of convertible debentures in July and December 2021 with a par value of \$143,750 and \$115,000, respectively. The transactions temporarily reduced the Corporation's senior debt until being deployed elsewhere. The Corporation completed the early redemption of its June 2016 convertible debentures with a par value of \$67,881 at the time of redemption. Finally, the Corporation used its credit facility to fund the acquisitions of Carson, Macfab, Telcon, Ryko, and CTI. Subsequent to December 31, 2021, the Corporation used a portion of the net proceeds from the December 2021 convertible debenture offering to redeem the debentures due December 31, 2022.

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:

	2021	2020
Earnings before provision for income taxes	\$ 94,263	\$ 43,000
Combined Canadian federal and provincial tax rates	27.0%	27.0%
Income tax expense at statutory rates	25,451	11,610
Increase (decrease) in taxes resulting from:		
Permanent differences	3,019	3,317
Realized capital gains	93	(3)
Accounting income not subject to tax	(1,620)	(48)
Impact of foreign jurisdiction differences	(1,284)	(276)
Amounts in respect of prior periods	(186)	186
Other	202	159
Provision for income taxes	\$ 25,675	\$ 14,945

Unrecognized Deferred Tax Liabilities

At December 31, 2021, 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 \$146,879 (2020 – \$144,658).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Movement in Deferred Tax Balances during the Year

The movement in the net deferred income tax balances during the 2021 year and the 2020 comparative year are as follows:

	December 31, 2020	Business Acquisitions	Credited /(charged) through statement of income	Credited /(charged) to other comprehensive income	Credited / (charged) through equity	December 31, 2021
Deferred income tax assets						
Accruals – deductible when paid	\$ 734	\$ –	\$ (66)	\$ 4	\$ –	\$ 672
Financing costs	–	–	(927)	–	1,104	177
ROU lease liabilities	26,124	1,056	(3,142)	(41)	–	23,997
Capital and non-capital loss carryforwards	12,528	–	6,982	50	–	19,560
Non-deductible reserves	2,448	143	1,321	(42)	–	3,870
Amounts recognized in OCI	2,011	–	(17)	(1,849)	–	145
Other	740	(30)	(259)	4	–	455
Total deferred income tax asset	\$ 44,585	\$ 1,169	\$ 3,892	\$ (1,874)	\$ 1,104	\$ 48,876
Deferred income tax liability						
Capital assets	\$ (76,518)	\$ (8,168)	\$ (14,689)	\$ 4	\$ –	\$ (99,371)
ROU assets	(24,658)	(1,056)	3,448	29	–	(22,237)
Intangible assets	(35,949)	(7,535)	195	59	–	(43,230)
Financing costs	(225)	–	–	–	225	–
Convertible debentures	(2,961)	–	1,248	–	(2,955)	(4,668)
Investments	(1,936)	–	(2,028)	96	–	(3,868)
Total deferred income tax liability	(142,247)	(16,759)	(11,826)	188	(2,730)	(173,374)
Net	\$ (97,662)	\$ (15,590)	\$ (7,934)	\$ (1,686)	\$ (1,626)	\$ (124,498)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2019	Credited /(charged) through statement of income	Credited /(charged) to other comprehensive income	Credited / (charged) through equity	December 31, 2020
Deferred income tax assets					
Accruals – deductible when paid	\$ 641	\$ 162	\$ (69)	\$ –	\$ 734
Financing costs	474	(474)	–	–	–
ROU lease liabilities	31,066	(4,885)	(57)	–	26,124
Capital and non-capital loss carryforwards	10,052	2,576	(100)	–	12,528
Non-deductible reserves	–	–	2,448	–	2,448
Amounts recognized in OCI	–	–	2,011	–	2,011
Other	191	570	(21)	–	740
Total deferred income tax asset	\$ 42,424	\$ (2,051)	\$ 4,212	\$ –	\$ 44,585
Deferred income tax liability					
Capital assets	\$ (68,024)	\$ (8,860)	\$ 366	\$ –	\$ (76,518)
ROU assets	(29,689)	4,989	42	–	(24,658)
Intangible assets	(38,372)	2,202	221	–	(35,949)
Financing costs	–	(225)	–	–	(225)
Convertible debentures	(3,746)	785	–	–	(2,961)
Non-deductible reserves	(3,122)	5,732	(2,610)	–	–
Amounts recognized in OCI	(231)	–	231	–	–
Investments	(1,722)	(185)	(29)	–	(1,936)
Total deferred income tax liability	(144,906)	4,438	(1,779)	–	(142,247)
Net	\$ (102,482)	\$ 2,387	\$ 2,433	\$ –	\$ (97,662)

Income taxes credited (charged) through the Statement of Income includes investment tax credits of nil (2020 – \$325) that were classified as reductions of the related expenditures incurred.

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 2021	December 31 2020
Deferred tax liabilities	\$ (124,498)	\$ (97,662)
	\$ (124,498)	\$ (97,662)

27. SUBSEQUENT EVENTS

Early Redemption of Convertible Debentures

On February 11, 2022, the Corporation redeemed its 5 year 5.25% convertible debentures which were due on December 31, 2022. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its December 2021 5.25% convertible debenture offering. Prior to the redemption date, \$8 principal amount of debentures were converted into 155 common shares at a price of \$51.50 per share. On February 11, 2022, the remaining outstanding debentures in the principal amount of \$99,992 were redeemed by the Corporation.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Hon. Gary Filmon, P.C., O.C., O.M.
LL.D., ICD.D.
Chairman

Duncan D. Jessiman, Q.C.
Executive Vice-Chairman & Chair,
Disclosure & Competition
Committee

Brad Bennett, CM., O.B.C.

Gary Buckley
Chair, Compensation Committee

Polly Craik, ICD.D

Michael Pyle, MBA, ICD.D.
Chief Executive Officer

Grace Schalkwyk

Melissa Sonberg, B.SC., M.H.A., ICD.D
Chair, Corporate Governance Committee

Donald Streuber, F.C.P.A., F.C.A
Chair, Audit Committee &
Aerospace & Aviation Sector
Advisory Committee

Edward Warkentin, LL.B.
Chair, Manufacturing Sector
Advisory Committee

SENIOR MANAGEMENT AND OFFICERS

Michael Pyle, MBA, ICD.D.
Chief Executive Officer

Carmelee Peter, Q.C., LL.B.
President

Duncan D. Jessiman, Q.C.
Executive Vice-Chairman

Steven Stennett,
Chief Legal Officer

Darryl Bergman, MBA, C.P.A.
Chief Financial Officer

Adam Terwin, C.P.A., C.A., C.F.A.
Chief Corporate Development Officer

Darwin Sparrow
Chief Operating Officer

Curtis Anderson,
Chief Technology Officer

Richard Wowryk, C.P.A., C.A, C.B.V.
Chief Accounting Officer

David White
Executive Vice-President, Aviation

Dianne Spencer
Corporate Secretary

LEGAL COUNSEL

MLT Aikins LLP
Winnipeg, MB

AUDITORS

PricewaterhouseCoopers LLP
Winnipeg, MB

BANKERS

National Bank Financial

**Canadian Imperial
Bank of Commerce**

The Toronto-Dominion Bank

The Bank of Nova Scotia

Bank of Montreal

ATB Financial

Laurentian Bank of Canada

HSBC Bank Canada

**Raymond James Finance
Company of Canada**

Royal Bank of Canada

**Wells Fargo Bank,
N.A. Canadian Branch**

TRANSFER AGENT

AST Trust Company (Canada)
Calgary, AB

STOCK EXCHANGE
LISTING & SYMBOL
TSX: EIF

ANNUAL GENERAL MEETING

Calm Air Hangar Facility
930 Ferry Road
Winnipeg, MB R3H 0Y8

Date: May 11, 2022
Time: 10:30 am CT

See company website for
additional details.

CORPORATE OFFICE

101 - 990 Lorimer Blvd.
Winnipeg, MB R3P 0Z9
Tel: (204) 982-1857
Fax: (204) 982-1855
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WEBSITE LISTINGS FOR SUBSIDIARY COMPANIES

Calm Air
calmair.com

Carson Air
carsonair.com

Crew Training International
cti-crm.com

Custom Helicopters
customheli.com

Keewatin Air
keewatinair.com

MFC Training
mfctraining.com
lifeinflight.ca

Perimeter Aviation
perimeter.ca
bearskinairlines.com

Provincial Aerospace
palaerospace.com
palairlines.ca
cartenav.com

Regional One
regionalone.com
teamjas.com

Alberta Operations
hotsyab.com
jaspertank.com

Ben Machine
benmachine.com
macfab.ca

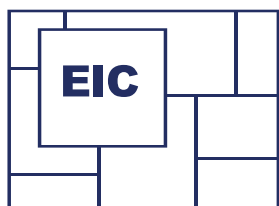
L.V. Control Manufacturing
lvcontrol.com

Overlanders Manufacturing
overlanders.com

Quest Window Systems
questwindows.com
advancedwindow.net
wiswindows.com

Stainless Fabrication
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WesTower Communications
westower.ca
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ryko.ca



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