EXCHANGE INCOME CORPORATION 2016 ANNUAL REPORT

STRATEGY EXECUTION RESULTS

EXCHANGE INCOME CORPORATION

ANNUAL REPORT 2016

MAKE STRATEGIC ACQUISITIONS ✓

MAKE INVESTMENTS FOR FUTURE GROWTH ✓

STRENGTHEN BALANCE SHEET ✓

GENERATE RECORD RESULTS ✓

GROW DIVIDEND ✓✓

Since our start in 2004, we have followed a simple and clear strategy—regularly increase dividends by generating steady growth through disciplined acquisitions, strategic investments and diversified operations.

Through the consistent execution of our strategy for more than a decade. In 2016 we achieved record profitability, increased our dividend twice and completed a number of major milestones, including being added to the S&P TSX Composite Index and joining the exclusive club of Canadian companies with a market cap of more than $1 billion.

A proven strategy with careful execution always gets winning results.

STRATEGIC ACQUISITIONS ✓

2004	PERIMETER
2005	KEEWATIN AIR JASPER TANK
2006	OVERLANDERS
2008	STAINLESS WATERBLAST
2009	CALM AIR
2011	WESTOWER BEARSKIN
2012	CUSTOM HELICOPTERS
2013	REGIONAL ONE
2015	PROVINCIAL AEROSPACE BEN MACHINE PRODUCTS
2016	CARTENAV SOLUTIONS TEAM J.A.S.

■ Aerospace & Aviation
■ Manufacturing

Completed the strategic acquisitions of CarteNav Solutions in August 2016 and Team J.A.S. in November 2016.

CarteNav is a leading software developer in the intelligence, surveillance, and reconnaissance (ISR) industry. Working together with Provincial Aerospace, the two companies will be able to provide enhanced product and service offerings to increase market share. CarteNav's flagship product, AIMS-ISR®, has become the software of choice for both government and public-sector customers in more than 30 countries across six continents.

Team J.A.S. specializes in parts supply and maintenance repair services for the Twin Otter aircraft. Building on Regional One's expertise with other regional aircraft, the Team J.A.S. acquisition allows us to expand into a new type of specialized aircraft and will support our fleet of Twin Otters operated by Provincial Airlines.

We were able to complete these two strategic acquisitions despite purchase multiples in the market increasing to record highs. In the face of these high multiples we will continue to stick to our disciplined acquisition criteria, where target companies must:

- Operate in a niche market with a defensible position
- Have strong management teams
- Generate steady cash flow
- Be immediately accretive to our financial results.

STRATEGIC GROWTH INVESTMENTS ✓

Through acquisition or investment in organic growth opportunities, we have been able to meet our return thresholds. In 2016, we invested nearly $160 million into our subsidiaries that will grow those operations and the returns they generate going forward.

These investments included aftermarket planes and equipment that Regional One makes available for re-sale or lease to customers around the world. We also started construction of a maritime surveillance aircraft at Provincial that will serve as a demonstrator of Provincial's capabilities to potential customers while being available for quick response deployment when required by customers around the world.

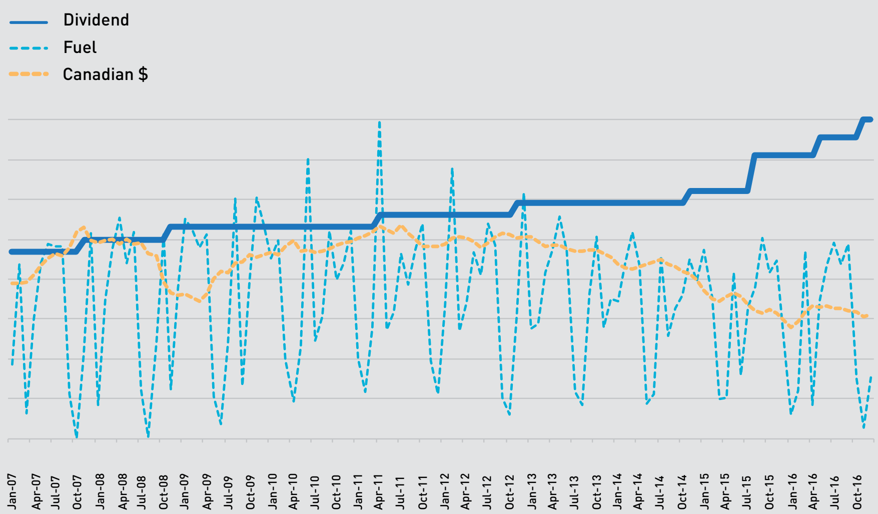
Our criteria to make growth investments is the same as making acquisitions. We are indifferent. In some ways, we prefer to make organic growth investments because of the familiarity and confidence in our existing management teams to get the returns projected. We have followed this model since day one, starting with our acquisition of Perimeter. We have since invested more into the business to grow it beyond what it was when it was acquired.

THE STRATEGIC IMPORTANCE OF DIVERSIFICATION ✓

Diversification has been core to our strategy since we became a public company.

Being diversified matters. It makes it possible for us to withstand volatile markets, fluctuations in the price of oil or the value of the Canadian dollar and the cyclical nature of the overall economy.

EIC'S DIVIDEND DISTRIBUTIONS COMPARED TO THE PRICE OF OIL AND THE VALUE OF THE CANADIAN DOLLAR OVER THE YEARS



SOLID EXECUTION ✓

Our ability to generate record results and grow our dividend twice during 2016 resulted from the ongoing execution of our well-defined strategy. We strengthened our balance sheet, became more diversified and ended the year well positioned to grow through 2017 and beyond. This execution of our strategy was reflected in a number of milestones.

ADDED TO THE S&P COMPOSITE INDEX ✓

Late in the year, we were the only company to be added to the S&P TSX Composite Index, a list of 249 of the largest companies as measured by valuation. The addition marks an important milestone for EIC. It represents the culmination of more than 10 years of steady growth in our market capitalization to approximately $1.3 billion at year-end, and our ability to attract a wider array of investors, research analysts and media coverage. Membership in the Index effectively solidifies the strength of our business model and our ability to deliver against expected performance.

GOVERNMENT OF CANADA CONTRACT WIN ✓

20+ YEAR CONTRACT

In December 2016, the Government of Canada awarded the Fixed Wing Search and Rescue (FWSAR) Aircraft Replacement Program to Airbus Defence and Space, partnering with Provincial Aerospace. The Government will be replacing its ageing fleet of CC-115 Buffalo and the CC-130 Hercules aircraft with a brand new fleet of sensor-equipped Airbus C295W aircraft. Provincial Aerospace will be responsible for up to 20 years of In-Service Support covering all aspects of maintenance not undertaken by the Royal Canadian Air Force technicians. This contract reinforces Provincial's strong relationship with the Government of Canada and further enhances our relationship with Airbus.

NEW REMARKETING AGREEMENT WITH BOMBARDIER

As part of its plan to deploy growth capital, Regional One signed a re-marketing agreement with Bombardier Commercial Aircraft Asset Management. As part of this agreement, we are in the process of acquiring 13 previously owned CRJ900 aircraft that will all be delivered by April 2017. The contract includes the opportunity to acquire additional aircraft, which opens up a pipeline of aircraft acquisition opportunities and further develops a relationship with another leading aerospace company.

LEGACY AIRLINES MARKET EXPANSION ✓

Our Legacy Airlines continued to grow with improved results in 2016 in spite of some challenges. Investments made to this group in the past enabled this return.

The recently announced expansion into northwestern Ontario with additional passenger services will allow for that growth to continue.

ROCK SOLID BALANCE SHEET ✓

$100M EQUITY RAISED

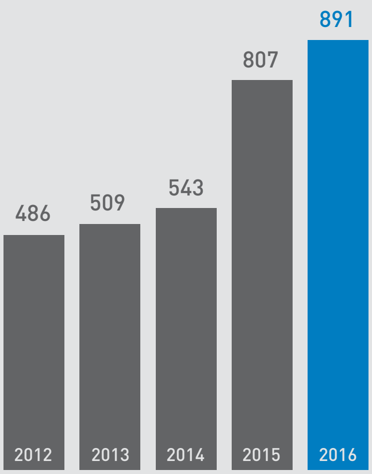
A cornerstone of our business model has always been to maintain a strong balance sheet with limited leverage and high liquidity. This allows us to support existing operations while capitalizing on growth opportunities through investments or acquisitions. Late in 2016 we executed a bought deal financing that closed at the beginning of 2017 that raised approximately $100 million. The financing was raised at $42.45 per share, an increase of more than 70% from the previous raise in September 2015 at $24.85 per share.

RECORD RESULTS

EIC set new benchmarks for its key financial metrics in 2016. The results validate EIC's strategy to become more diversified, invest in existing businesses and grow by strategic acquisitions.

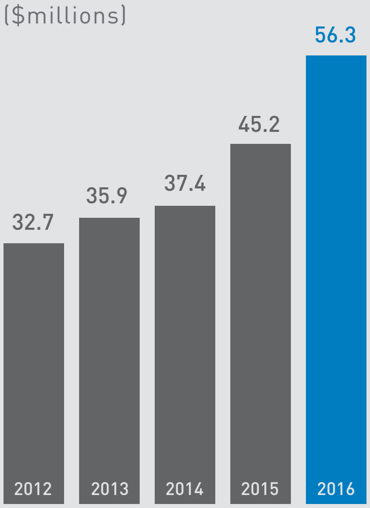
- 2016 revenue grew by 10% to $891.0 million.
- 2016 EBITDA increased 19% to a record $212.6 million.
- 2016 Net earnings grew by 53% to $61.5 million
- 2016 Net earnings per share (basic) increased by 34% to $2.18 per share
- The dividend payout ratio was 61% even with two dividend increases and a growth in the average number of shares by 14% to 28.2 million.

REVENUE
($millions)



16.3% CAGR

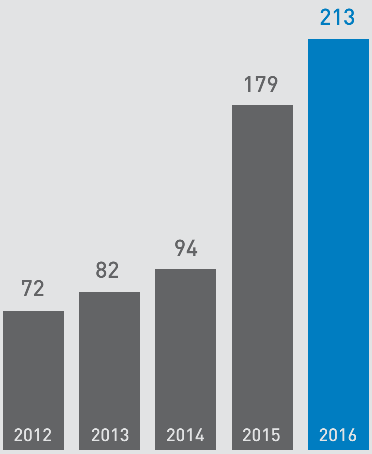
DIVIDENDS DECLARED
($millions)



14.6% CAGR

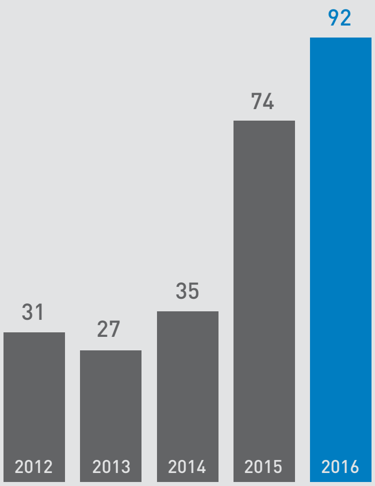
All financial data referenced is the Corporation's continuing operations and presented in a consistent manner.

EBITDA
($millions)



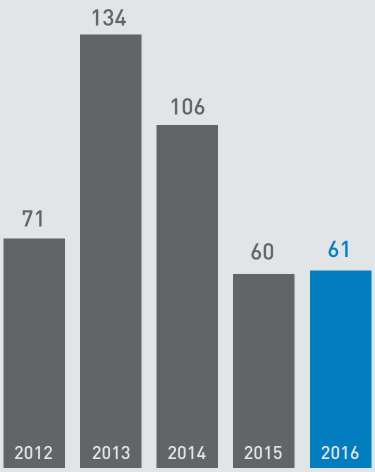
31.2% CAGR

FREE CASHFLOW LESS MAINTENANCE CAPEX
($millions)

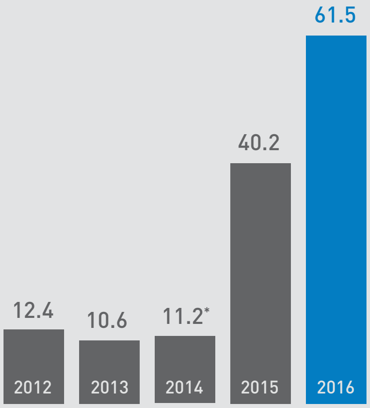


31.4% CAGR

PAYOUT RATIO
(%)

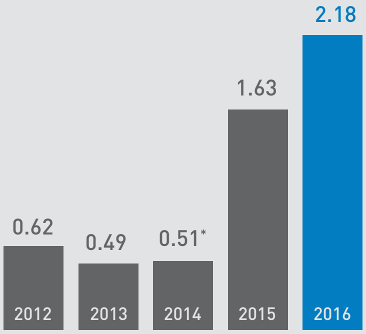


NET EARNINGS
($millions)



49.2% CAGR

NET EARNINGS PER SHARE
($per share)

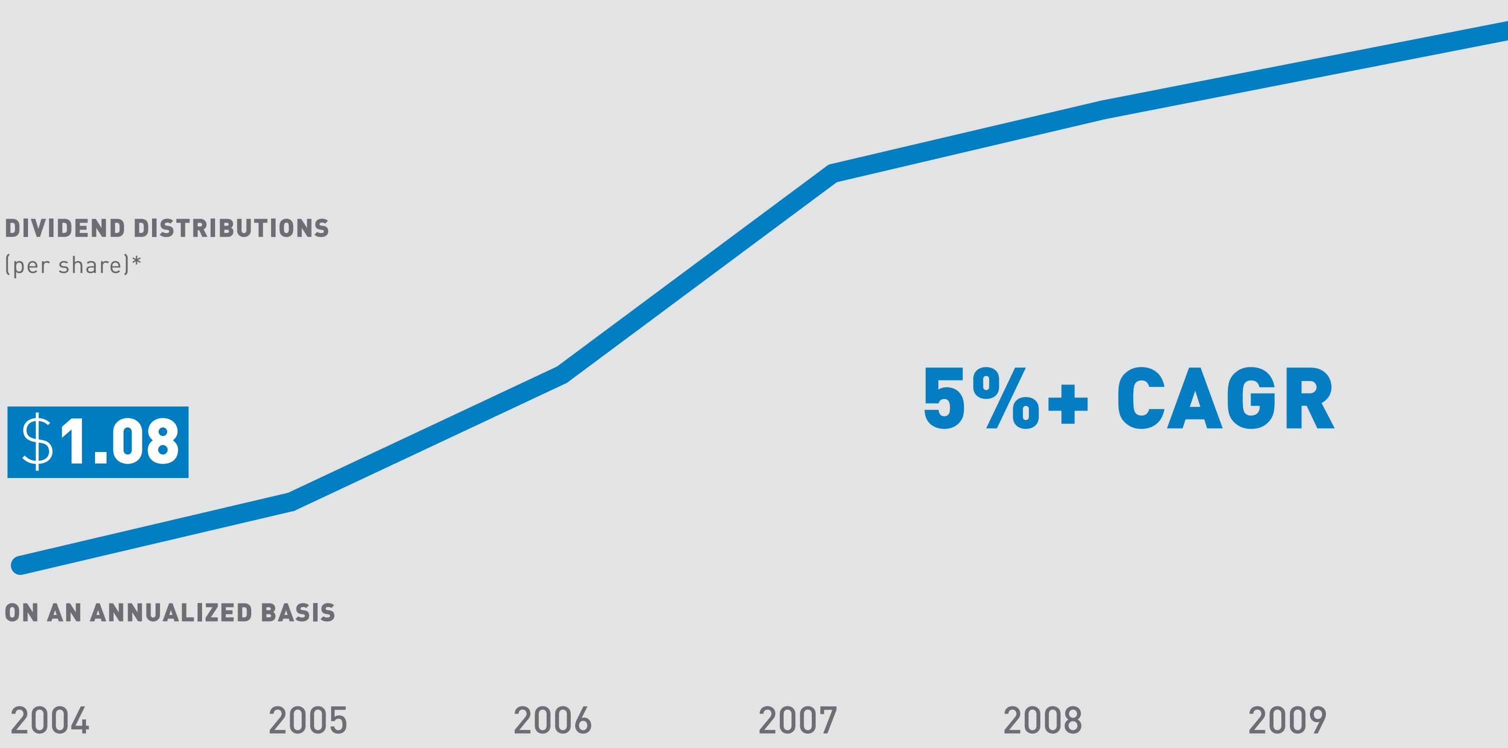


36.9% CAGR

*The 2014 Net Earnings and Per Share amounts were adjusted for the non-cash charge coming from the settlement with the Canada Revenue Agency.

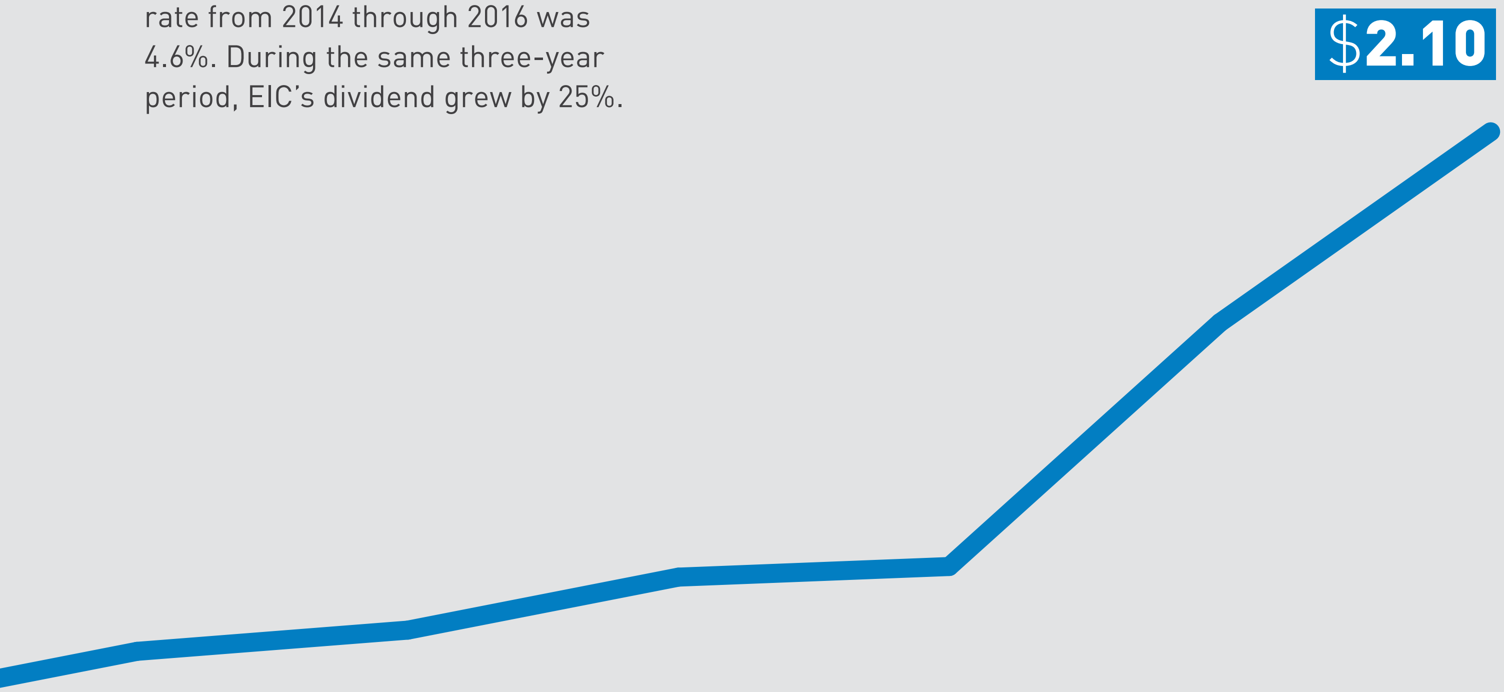
OUR DIVIDEND

In 2016, we increased the dividends we pay to shareholders twice. The hike marked the fourth in two years and the 12th since the Company went public in 2004, putting EIC in a very exclusive club of Canadian dividend-paying companies. With the increase, we currently pay shareholders $2.10 per share on an annualized basis.



All financial data referenced is the Corporation's continuing operations and presented in a consistent manner.

A look at Canada's economy will put our dividend growth in perspective. Canada's inflation rate from 2014 through 2016 was 4.6%. During the same three-year period, EIC's dividend grew by 25%.



12-YEAR TRACK RECORD OF GROWTH

2010 2011 2012 2013 2014 2015 2016

CHAIRMAN'S MESSAGE

2016 was a remarkable year for EIC with all-time highs in our stock price, record operating results and two dividend increases.

There is a temptation to look at the successes and ask "What changed in 2016?" Was there a new strategy or a new product? The answer will surprise many – nothing. We stuck to our strategy of disciplined diversified growth both organically and through acquisition. In fact, our core values are unchanged from our IPO in 2004.

While 2016 was a year of very strong operating performance for EIC, what really changed was the capital markets took notice of our results and our more than a decade long track record of profitable growth and increases in dividends to our shareholders. The dividend increase announced in November was the 12th in less than 13 years of operation and our fourth in 24 months. It helped us maintain the cumulative annual growth rate of our dividend at over 5% since our inception, a track record very few companies can match.

EIC, like most public companies, was impacted by a weak market early in 2016, but this was a short term issue and by August we broke through the $1-billion barrier in market capitalization for the first time. This was not a short term blip, as we finished the year with a market cap of $1.2 billion.

While the billion dollar market cap was a significant milestone, it was surpassed by our inclusion in the TSX Composite Index, which was announced in December. There are well defined requirements in terms of valuation and liquidity in order to be included in this exclusive group of approximately 250 Canadian public companies. EIC has come a long way from our $8 million IPO on the TSX Venture Exchange in 2004.

All businesses experience opportunities and challenges, but it's how you respond to them that defines you. EIC is no different, and has faced many challenges, but none more difficult than the rapid growth of our WesTower USA subsidiary in 2013 and 2014. As a result of new contracts with our biggest customer our revenues grew over 400% to approximately $500 million. Unfortunately, the returns on these sales did not meet our expectations, and the concentration of revenue in one business with a single customer impugned our diversified model. Our strong balance sheet gave us the flexibility to improve the returns and sell the business at a significant profit. We then quickly redeployed the funds in a new subsidiary which has increased our diversity of operations and fueled our growth. Opportunity led to challenges, which in turn led to opportunity, but most importantly through it all we stayed true to our model. Our company and our shareholders are the beneficiaries of this discipline.

The acquisition market has been challenging, particularly in the USA, with hyper liquidity in the capital markets leading to purchase prices which we do not believe are appropriate or sustainable. While we remain very active in looking for target companies that meet our strict requirements, we are not prepared to compromise our criteria to close an acquisition. One of the great strengths of EIC is our willingness to be patient and wait for transactions that fulfil our requirements, and to create growth internally. 2016 was a great example of this discipline and flexibility. While we completed two small acquisitions we still achieved significant growth. Revenue grew 10% to $891 million while profits increased 53% to $61 million and basic EPS reached $2.18 up 34% from 2015.

During the year we deployed approximately $159 million in internal growth initiatives, focused primarily in our aerospace operations which have historically generated strong

returns. These investments in Regional One and Provincial will fuel continued growth in 2017 and beyond.

One of the long-standing cornerstones of our business model is a strong balance sheet with limited leverage and high liquidity. This enables us to strike quickly when opportunities are discovered or to work through challenges without worrying about having sufficient financial resources. In December, we announced an equity issuance that closed in early January, which after the overallotment option that was fully exercised by the underwriters, raised $98 million at $42.45 per share. This resulted in the issuance of 2.3 million new shares. The impact of our strong share price is evident when compared to the equity raise completed a year earlier when gross proceeds to EIC of only $75 million required the issuance of over 3 million shares ($24.85 per share).

We subsequently announced that we increased the size of our syndicated debt facility from $550 million to $750 million. When combined with the equity raised, EIC has approximately $300 million of additional liquidity to execute on our acquisition and organic growth opportunities. It does not in any way however signal a change in our strategy of a strong balance sheet. The new facility is required due to our growth and not because we plan to change our conservative leverage model.

Each new year brings different challenges and opportunities. 2017 is shaping up to be a year with higher fuel prices and a changing international political environment. Our business model is not dependent on any one economic or political environment. It has proven itself for 13 years. So we move into 2017 with the same excitement as we ended 2016. Our balance sheet is strong. Our payout ratio is at the low end of our target range. The investments made in 2016 together with new contracts and relationships in the aerospace business have the potential to drive growth into the future. We remain committed to our model of reliable dividend growth through consistent implementation of our diversified business plan.

I want to thank our shareholders for their consistent support of EIC.

HONORABLE GARY FILMON

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

CEO'S MESSAGE

2016 was an excellent year for EIC, with record operating results, two dividend increases, new contract wins which will strengthen future profitability and a stock price that nearly doubled from January to the end of the year.

While there is no question that 2016 was one of the most successful years in our history there is a temptation to believe that it was all smooth sailing and without challenges or effort, and quite frankly that belief would not be correct. I am reminded of the image of a duck swimming calmly across a still lake. Above the surface, everything looks serene and peaceful. Under the water it is a whole different story.

Our Chairman speaks in his message to shareholders of EIC's long standing commitment to disciplined diversified growth. We witnessed the power of that discipline in 2013 and 2014 as we navigated through challenges with our largest operating subsidiary. And that power has become even more evident over the last two years as those challenges have become specks in our rearview mirror, with results that have enabled us to increase our dividend 4 times by a total of 25%!

Some people may judge the year that we have had simply by the performance of our stock price which increased dramatically over the course of 2016, but the story is not that simple. While there is no question that our stock performed well, the increase in our valuation is the result of many factors including investments made in previous periods, which together with our strong balance sheet have driven record levels of profitability.

Our operating results are unmatched in our 13 year history

- Revenues increased by 10% to $891 million
- EBITDA climbed 19% to $213 million
- Net Earnings reached $61 million up 53%
- Basic Earnings per Share were $2.18 an increase of 34%
- Free Cash Flow less maintenance capital expenditures on a per share basis grew 8% to $3.25
- Our dividend payout ratio was a solid 61% in spite of four dividend increases in 24 months

The results we achieved this year were largely the result of decisions and investments made in prior years to refleet our Legacy Airlines and expand our exposure to the aerospace sector with the acquisitions of and subsequent investment in Regional One and Provincial. We continue to focus on future growth, both through acquisition and investment in our existing subsidiaries.

With liquidity in capital markets exceptionally high, acquisition prices in our opinion, have risen to unsustainable levels. We refuse to expand what we are willing to pay beyond our well defined metrics. We have focused our efforts on smaller tuck-in acquisitions which can be made at reasonable prices and are accretive in their own right while facilitating greater opportunities within our existing operations.

The first such acquisition occurred in August with CarteNav Solutions, a small software company based in Halifax, which will be integrated into Provincial. We expect CarteNav, which develops software for intelligence, surveillance and reconnaissance solutions for defence, security and commercial clients in 30 countries around the world, to strengthen Provincial's ability to customize software applications in its surveillance operations. Provincial provides maritime surveillance work in Canada, the Caribbean and the Middle East and we believe CarteNav's ability to stream data between various types of equipment for maritime, land and air applications will help advance Provincial's business plan much more quickly than if we were doing it on our own.

We also acquired Team J.A.S., a leading provider of parts, services and MRO capabilities for the Twin Otter platform. We believe Team J.A.S., which is based in Florida and is now under the Regional One umbrella, brings a wide array of knowledge to this new aircraft platform and will increase Regional One's expansion opportunities.

We also made significant growth capital investments which were focused in Provincial and Regional

One. These growth investments totaled approximately $159 million and laid the foundation for expansion in 2017 and beyond. In Provincial, we began work on the construction of a company owned maritime surveillance aircraft which will serve as both a demonstrator of Provincial's capabilities to potential customers and be available for quick response deployment when required anywhere in the world. The bulk of the growth investments were made at Regional One where, net of divestitures, 16 additional planes were purchased and added to our lease portfolio. The majority of these aircraft were Bombardier CRJ aircraft and as a result of these transactions we have entered into a strategic relationship with Bombardier that will provide Regional One with opportunities to acquire additional aircraft in the future. Regional One has generated strong returns within its lease portfolio in the past and we believe that the additional aircraft will, when deployed, generate regular sustainable accretive returns to EIC.

We also announced the expansion of our leasing business in Ireland. Ireland is the headquarters of most aircraft leasing companies in the world and we believe that by expanding operations in this market we will have not only access to a strong pool of industry experts to grow our operations, but also to aircraft acquisition opportunities as the assets come off of lease with traditional first tier carriers. Leasing operations located in Ireland are also subject to tax rates which are advantageous and will mitigate our tax expenses.

In December, Provincial, partnered with Airbus Defence and Space, was the successful bidder to provide and maintain a new fleet of search and rescue aircraft for the Government of Canada. Airbus will provide the aircraft, and Provincial will provide in service support for up to 20 years. While the impact of this contract in the short term will not be significant as the first aircraft are not scheduled for delivery until approximately 2019, it sets the stage for two decades of reliable and recurring revenues. Furthermore, this new relationship with Airbus, one of the world's leading aerospace companies, is expected to provide other opportunities to partner with them in the future.

2016 was not without its challenges. Our Manufacturing segment dealt with a particularly difficult year. Continued low natural resource prices in general and oil prices in particular significantly reduced demand for our pressure systems business in Alberta while general economic uncertainty in the USA leading into the November elections caused many companies to defer capital investment decisions, which hurt revenues at our stainless tank operations in Missouri. We are cautiously optimistic about both of these areas for 2017 as markets are showing signs of recovery. It will likely be some time however until they return to the levels we have seen prior to the recent downturn.

One of the hallmarks of our business plan is a strong and liquid balance sheet which enables us to strike quickly when opportunities present themselves. We announced in December and closed in January an offering of common shares where the Corporation raised approximately $98 million at $42.45 per share. The offering was well received and the underwriters exercised the full overallotment option provided by EIC. Subsequent to year end we announced that we expanded our syndicated debt facility by $200 million to $750 million. The combination of these two transactions has provided approximately $300 million of new capital to deploy when the time comes to pull the trigger on the right opportunity.

We are excited about 2017. We have laid the groundwork for future growth with our investments made in 2016. We have entered into new contracts and enhanced relationships with aerospace giants Airbus and Bombardier. Our balance sheet is strong with plenty of available capital to fuel our opportunities.

I want to take this opportunity to thank our shareholders for their continued support. We look forward to continuing to execute on our model and continuing to provide a stable reliable and growing dividend to our shareholders.

MIKE PYLE

Chief Executive Officer

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 22, 2017

FORWARD-LOOKING STATEMENTS

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

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

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

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

INTRODUCTION

This MD&A supplements the audited consolidated financial statements and related notes for the year ended December 31, 2016 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian dollars, except per share information and share data, unless otherwise stated.

This MD&A should be read in conjunction with the Consolidated Financial Statements of the Corporation for the year ended December 31, 2016. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements.

1. FINANCIAL HIGHLIGHTS

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

For the year ended December 31	2016	per share basic	per share fully diluted	2015	per share basic	per share fully diluted
Financial Performance						
Revenue	$ 891,026			$ 807,403		
EBITDA	212,575			179,240		
Net earnings	61,490	$ 2.18	$ 2.12	40,234	$ 1.63	$ 1.60
Adjusted net earnings	72,094	2.56	2.43	52,262	2.12	2.07
Free Cash Flow	164,211	5.83	5.08	139,772	5.67	4.76
Free Cash Flow less maintenance capital expenditures	91,584	3.25	3.00	74,405	3.02	2.73
Free Cash Flow less maintenance capital expenditures payout ratio		61%	67%		60%	66%
Dividends declared	56,331	1.995		45,227	1.815	
Financial Position	December 31, 2016			December 31, 2015		
Working capital	$ 170,640			$ 135,310		
Capital assets	693,993			542,629		
Total assets	1,424,532			1,229,056		
Senior debt and finance leases	446,329			304,886		
Equity	486,137			446,618		
Share Information	December 31, 2016			December 31, 2015		
Common shares outstanding	28,793,354			27,633,217		
	December 31, 2016			December 31, 2015		
Weighted average shares outstanding during the year – basic	28,151,807			24,656,755		

2. OVERVIEW

EXCHANGE INCOME CORPORATION

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

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

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

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

SEGMENT SUMMARY

The Corporation's operating segments are strategic business units that offer different products and services. The Corporation has two operating segments: Aerospace & Aviation and Manufacturing. During 2016, the Corporation changed the name of one of its operating segments. The segment previously referred to as the Aviation segment was renamed the Aerospace & Aviation segment to better reflect the product mix offered by the subsidiaries within the segment.

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

(b) Manufacturing – provides a variety of manufactured goods and related services in a number of industries and geographic markets throughout North America. The operations of **WesTower** are focused on the engineering, design, manufacturing and construction of communication towers. **Stainless** manufactures specialized stainless steel tanks, vessels and processing equipment. The **Alberta Operations** manufactures specialized heavy duty pressure washing and steam systems, commercial water recycling systems and custom tanks for the transportation of various products, primarily oil, gasoline and water. Overlanders manufactures precision sheet metal and tubular products. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector.

Management of the Corporation continuously monitors the operating subsidiaries. The operating subsidiaries of the Corporation, however, operate autonomously and maintain their individual business identities. The Corporation will undertake future acquisitions as deemed beneficial to the Corporation.

SIGNIFICANT EVENTS

CONVERTIBLE DEBENTURE ISSUANCE – UNSECURED 2016 SERIES

On June 7, 2016, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued $69.0 million principal amount of debentures. This amount included the exercise of the $9.0 million overallotment granted to the underwriters of the offering. The debentures bear interest at 5.25% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $44.75 per share. The maturity date of the debentures is June 30, 2023.

CONVERTIBLE DEBENTURE EARLY REDEMPTION – SERIES J

On June 30, 2016, the Corporation exercised its right to call the 6.25% Series J convertible debentures. Before the redemption date, $27.1 million of convertible debentures were converted into 886,264 common shares at a price of $30.60 per share of the Corporation. The remaining convertible debentures in the principal amount of $30.4 million, plus accrued interest, were repaid on June 30, 2016 using funds from the Corporation's credit facility.

ACQUISITION OF CARTENAV

On August 8, 2016, the Corporation acquired all of the issued and outstanding shares of CarteNav Solutions Inc. (CarteNav). CarteNav, headquartered in Halifax, Nova Scotia, is a leading software developer providing intelligence, surveillance, reconnaissance ("ISR") and situational awareness software solutions for the maritime, land and air environments to defence, security and commercial clients. Its flagship product, AIMS-ISR® has become the software of choice for both government and non-government customers in more than 30 countries across six continents. CarteNav is strategically complementary to Provincial's aerospace business and, as of the close of the transaction, is a wholly-owned subsidiary of Provincial.

The total purchase price is up to $17.0 million, which includes the purchase price on closing and payments relating to an earn out over the next five years. The determination of the fair value of assets acquired, including intangible assets, was completed during the fourth quarter. The final settlement of working capital and other post-closing adjustments, expected to occur in the first quarter of 2017, will finalize the purchase price allocation. The Corporation has included an estimate of the final working capital settlement in the purchase price allocation at December 31, 2016 and no significant variances are expected.

ACQUISITION OF TEAM J.A.S.

On November 4, 2016, the Corporation acquired the shares of Team J.A.S., Inc. ("Team J.A.S."), a US corporation based in Jacksonville, Florida. Team J.A.S. is a leading provider of parts, services and MRO capabilities to Twin Otter operators throughout the world. Team J.A.S. is strategically complementary to Regional One's business offering a new product platform in the Twin Otter and new capabilities as a Federal Aviation Administration ("FAA") Part 145 Repair Station and Parts Manufacturer Approval ("PMA").

The total purchase price is approximately US$10.0 million, and is subject to customary post-closing adjustments. The final settlement of working capital and other post-closing adjustments, expected to occur in the first quarter of 2017, will finalize the purchase price allocation. The Corporation has included an estimate of the final working capital settlement in the purchase price allocation at December 31, 2016 and no significant variances are expected.

FIXED-WING SEARCH AND RESCUE (FWSAR) CONTRACT AWARD

In December 2016, the Government of Canada announced that the FWSAR Aircraft Replacement Program was awarded to the C295 team, comprised of Provincial and Airbus Defence and Space.

Provincial will be responsible for all maintenance work not performed by Royal Canadian Air Force technicians, which will include repairs, future modification work and deep inspections of the aircraft. The first aircrafts are not scheduled to be delivered by Airbus for approximately three years. As such, the impact of this contract will begin at that time, ramp up and then plateau several years later when all of the planes are in operation and in need of service and overhaul.

The contract will not have a material impact on EIC's operations for the short term but positions the Corporation well for the medium- and long-term future.

SUBSEQUENT EVENT – BOUGHT DEAL FINANCING OF COMMON SHARES

In December 2016, the Corporation announced its $85.0 million bought deal financing of common shares, representing 2,003,000 Shares of the Corporation at $42.45 per Share. The underwriters were also granted an overallotment option to purchase 300,450 additional Shares, representing 15% of the size of the offering. On January 4, 2017, subsequent to the current year, the Corporation closed the offering. The entire overallotment option was exercised, resulting in the issuance of 2,303,450 Shares of the Corporation. The net proceeds of the offering were used to make a $93.8 million repayment against the Corporation's outstanding credit facility in 2017.

SUBSEQUENT EVENT – AMENDED CREDIT FACILITY

Subsequent to year-end the Corporation reached an agreement to amend the terms of its credit facility. The amendments include increasing the credit available to US$55.0 million allocated to EIIF Management USA Inc. and $695.0 million allocated to the Corporation's Canadian head office, which is an aggregate increase of $200.0 million over the Corporation's current credit facility. Two new banks were added to the syndicate and the maturity was extended to March 2021.

3. KEY PERFORMANCE INDICATORS

The following section will quantify and analyze the key performance indicators of the Corporation. The Corporation continually monitors and evaluates its metrics and updates these metrics as required to ensure they provide information considered most useful in any decision-making based on the Corporation's performance.

The dividends declared by the Corporation to its shareholders are dependent on its cash flow from operating activities with consideration for changes in working capital requirements, investing activities and financing activities of the Corporation. The EBITDA, Free Cash Flow, Free Cash Flow less maintenance capital expenditures, and Net Earnings generated from operations are important performance measures that are used by management to evaluate the performance of the Corporation.

NET EARNINGS AND EARNINGS PER SHARE

The Net Earnings generated by the Corporation for the current year was $61.5 million, an increase of $21.3 million or 53% over the comparative year. The increase was driven by an increase in EBITDA, which is described below, a decrease in acquisition costs, and a decrease in the effective tax rate to 29.3% in 2016 from 32.4% in 2015, offset in part by an increase in depreciation and amortization. A further discussion of the changes in acquisition costs, taxes, and depreciation and amortization is included in Section 4 – *Analysis of Operations*.

Basic Earnings per Share generated by the Corporation for the current year was $2.18, an increase of $0.55 or 34% over the comparative year. The increase is due to the increase in absolute Net Earnings and was partially offset by the 14% increase in the average number of Shares outstanding during the year. Details around the change in Shares outstanding can be found in Section 7 – *Liquidity and Capital Resources*.

EBITDA (SECTION 14 – NON-IFRS FINANCIAL MEASURES)

The following reconciles net earnings before income taxes to EBITDA. Further discussion and analysis of EBITDA for the periods can be found in Section 4 – Analysis of Operations:

Year Ended December 31,	2016	2015
Earnings before income taxes	$ 87,034	$ 59,559
Depreciation and amortization	94,063	84,576
Finance costs – interest	30,169	30,041
Acquisition costs	1,309	5,064
EBITDA	$ 212,575	$ 179,240

The EBITDA generated by the Corporation during the current year was $212.6 million, an increase of $33.3 million or 19% over the comparative year. The increase in EBITDA is a result of improved performance in the Aerospace & Aviation segment ($32.2 million increase), an increase in EBITDA generated by the Manufacturing segment ($1.0 million increase) and lower head office costs ($0.1 million decrease). EBITDA growth was driven by improvements at Regional One, Provincial, and in the Manufacturing segment. Regional One generated significant EBITDA growth, driven by strong lease revenue from previous investments in growth capital expenditures and increased revenue from aircraft and parts sales. Provincial's strong EBITDA growth during 2016 was primarily driven by the Middle East operations resulting from the multi-year contract announced in November 2015. The Legacy Airlines experienced growth in its Kivalliq and Northern Manitoba operations, offset by shortfalls in its rotary wing operations and weather and equipment challenges experienced in the fourth quarter, resulting in relatively flat EBITDA compared to 2015. The growth in EBITDA in the Manufacturing segment is attributable to the acquisition of Ben Machine in the third quarter of 2015, with results in only a portion of the comparative year. The growth in EBITDA attributable to Ben Machine was partially offset by weakness at the Alberta Operations.

FREE CASH FLOW (SECTION 14 – NON-IFRS FINANCIAL MEASURES)

Year Ended December 31,	2016	2015
Cash flows from operations	$ 136,847	$ 107,442
Change in non-cash working capital items	26,055	27,266
Acquisition costs	1,309	5,064
Free Cash Flow	$ 164,211	$ 139,772
per share – Basic	$ 5.83	$ 5.67
per share – Fully Diluted	$ 5.08	$ 4.76

The Free Cash Flow generated by the Corporation for the current year was $164.2 million, an increase of $24.4 million or 17% over the comparative year. The change in Free Cash Flow is the result of a number of factors but primarily due to the increase in EBITDA generated in the current year, partially offset by an increase in current taxes. The higher EBITDA is a result of the growth in the aerospace sector at Regional One and Provincial, growth in the Kivalliq and Northern Manitoba operations of the Legacy Airlines, the addition of Ben Machine which was acquired mid-way through the comparative year, partially offset by shortfalls experienced in the rotary wing operations during the year and weather and equipment challenges experienced by the Legacy Airlines in the fourth quarter.

In addition to the increase in EBITDA, a decrease of $1.0 million of cash interest on the Corporation's convertible debentures further improved Free Cash Flow. The cash interest on the Corporation's convertible debentures was lower in the current year as a result of the early redemption of the Series I convertible debentures in the first quarter of 2015 and the early redemption of the Series H convertible debentures in the third quarter of 2015. The decrease in cash interest on convertible debentures was offset by an increase of $1.0 million in cash interest on the Corporation's credit facility. As a result of these factors, the Corporation's cash interest was flat compared to the prior year.

The Corporation's cash taxes increased by $10.3 million in the current year, which reduced Free Cash Flow. The higher cash taxes are primarily as a result of the increased earnings generated by the Corporation. Further detail on changes in cash taxes can be found in Section 4 – *Analysis of Operations*.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts and was partially offset by the 14% increase in the average number of Shares outstanding in the current year. The combined impact resulted in Free Cash Flow of $5.83 per share for the current year, an increase of $0.16 per share or 3% over the comparative year (fully diluted $5.08, an increase of $0.32 or 7%). Details around the change in Shares outstanding can be found in Section 7 – *Liquidity and Capital Resources*.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES (SECTION 14 – NON-IFRS FINANCIAL MEASURES)

Year Ended December 31,	2016	2015
Free Cash Flow	$ 164,211	$ 139,772
Maintenance Capital Expenditures	72,627	65,367
Free Cash Flow less maintenance capital expenditures	$ 91,584	$ 74,405
per share – Basic	$ 3.25	$ 3.02
per share – Fully Diluted	$ 3.00	$ 2.73

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the current year was $91.6 million, an increase of $17.2 million or 23% over the comparative year. The increase is due to the increase in Free Cash Flow as described above, partially offset by the $7.3 million or 11% increase in maintenance capital expenditures, which is described in detail in the Capital Expenditures section.

Maintenance capital expenditures fluctuate from period to period. As a result of the variability in timing of maintenance capital expenditures, Free Cash Flow is a more stable metric than Free Cash Flow less maintenance capital expenditures as a measure of ongoing operating performance. Maintenance capital expenditures are variable because overhaul maintenance for aircraft engines and airframe heavy checks are treated as capital expenditures when the event takes place. Free Cash Flow less maintenance capital expenditures is still an important operating metric; however, it will be subject to quarterly and annual variability as a result of the uneven timing of maintenance capital expenditures and therefore needs to be evaluated over longer operating periods.

The increase in absolute Free Cash Flow less maintenance capital expenditures contributed to the increase in basic per share amounts and was partially offset by the higher base of the Corporation's Shares outstanding in the current year. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $3.25 per share for the current year, an increase of $0.23 per share or 8% over the comparative year (fully diluted $3.00, increase of $0.27 or 10%). Details around the change in Shares outstanding can be found in Section 7 – Liquidity and Capital Resources.

CAPITAL EXPENDITURES

Year Ended December 31,	2016	2015
Maintenance capital expenditures	$ 71,605	$ 64,488
add: finance lease principal payments	1,022	879
Maintenance capital expenditures	72,627	65,367
Growth capital expenditures	159,383	60,700
Capital Expenditures	$ 232,010	$ 126,067
Maintenance capital expenditures per share – Basic	$ 2.58	$ 2.65
Growth capital expenditures per share – Basic	5.66	2.46
Total capital expenditures per share – Basic	$ 8.24	$ 5.11

Capital expenditures are split between growth and maintenance. In all subsidiary companies other than Regional One, this is done based on the nature of the asset being purchased. If it creates a new source of cash flow, it is a growth capital expenditure, and if it serves to maintain existing cash flow streams, it is a maintenance capital expenditure. The split within Regional One is done on a different basis because of its significant leasing revenue.

Operating aircraft purchased by Regional One are classified as capital expenditures. Aircraft under lease are being used up and if over time re-investment is not made, either through overhaul or the purchase of replacement aircraft, cash flow will decline. As such, all capital expenditures up to the depreciation expense are classified as maintenance as they sustain the ability of the lease portfolio to generate cash flow. Capital investments in excess of depreciation will create new cash flows and are classified as growth capital expenditures. When an operating aircraft is sold, the sale is netted against growth capital expenditures in the period of the sale.

Purchases of inventory by Regional One, including operating aircraft that are intended to be parted out and sold, are reflected in working capital and have no impact on growth or maintenance capital expenditures. If a decision is made to take an operating aircraft out of Regional One's lease portfolio to be parted out, the asset is transferred to inventory from capital assets and a negative growth capital expenditure is recorded.

MAINTENANCE CAPITAL EXPENDITURES (SECTION 14 – NON-IFRS FINANCIAL MEASURES)

The Corporation's maintenance capital expenditures totaled $72.6 million in the current year, an increase of $7.3 million or 11% over the comparative year. The majority of the expenditures occurred in the Aerospace & Aviation segment, as it invested $68.1 million, while the Manufacturing segment and head office invested $4.0 million and $0.5 million respectively.

The $68.1 million of maintenance capital expenditures invested by the Aerospace & Aviation segment was $5.9 million or 10% higher than the comparative year. The majority of the increase relates to Regional One where maintenance capital investments increased $5.8 million or 40% over the comparative year. This increase is caused by the additional depreciation on the growing number of aircraft in Regional One's lease portfolio due to previous growth capital expenditures. Provincial increased their investments by $0.7 million or 6% over the comparative year, while the Legacy Airlines investment in maintenance capital expenditures decreased $0.6 million or 2% from the comparative year.

The $4.0 million of maintenance capital expenditures invested by the Manufacturing segment was $1.3 million or 48% higher than the comparative year. The increase is primarily attributable to the timing of investments in replacement production equipment.

GROWTH CAPITAL EXPENDITURES (SECTION 14 – NON-IFRS FINANCIAL MEASURES)

Growth capital expenditures for the year ended December 31, 2016 totaled $159.4 million, an increase of $98.7 million or 163% over the comparative year. The growth capital expenditures were made entirely by the Aerospace & Aviation segment. The most significant investments were the purchases of 23 aircraft by Regional One, including Dash 8, Embraer 145, ATR 42, CRJ200, CRJ700 and expanding to include a new, larger series of CRJ aircraft, the CRJ900. After the impact of the sale of seven aircraft during the year, Regional One had net additions of 16 aircraft to its leasing portfolio. In addition, the Legacy Airlines purchased a Eurocopter EC135, a twin engine helicopter. The EC135 introduces significant additional capabilities to the rotary wing operation, including IFR (instrument flight rules) and night authorization.

Since its acquisition by EIC, Regional One has consistently delivered returns that exceed our target return on capital. EIC intends to rigorously identify and assess opportunities to grow its asset base and thereby its ability to generate profits. When capital expenditures are made by Regional One, these aircraft often take approximately six months before Regional One starts experiencing returns on these investments.

DIVIDENDS & PAYOUT RATIO

The amounts and record dates of the dividends declared during the year ended December 31, 2016 and the comparative year in 2015 were as follows:

			2016 Dividends			2015 Dividends
Month	Record date	Per share	Amount	Record date	Per Share	Amount
January	January 29, 2016	$ 0.16	$ 4,424	January 30, 2015	$ 0.145	$ 3,342
February	February 29, 2016	0.16	4,416	February 27, 2015	0.145	3,347
March	March 31, 2016	0.16	4,418	March 31, 2015	0.145	3,349
April	April 29, 2016	0.16	4,423	April 30, 2015	0.145	3,352
May	May 31, 2016	0.1675	4,633	May 29, 2015	0.145	3,354
June	June 30, 2016	0.1675	4,783	June 30, 2015	0.145	3,358
July	July 29, 2016	0.1675	4,786	July 31, 2015	0.145	3,550
August	August 31, 2016	0.1675	4,789	August 31, 2015	0.16	3,919
September	September 30, 2016	0.1675	4,791	September 30, 2015	0.16	4,404
October	October 31, 2016	0.1675	4,795	October 30, 2015	0.16	4,407
November	November 30, 2016	0.175	5,034	November 30, 2015	0.16	4,419
December	December 30, 2016	0.175	5,039	December 31, 2015	0.16	4,426
Total		$ 1.995	$ 56,331		$ 1.815	$ 45,227

Dividends declared for the current year increased over the comparative year. The increases are due to the increase in the dividend rate per month in the current year and the higher number of Shares outstanding in 2016. The Corporation increased the monthly dividend rate per share by $0.015 in the third quarter of 2015 (10% increase), $0.0075 in the second quarter of 2016 (5% increase), and $0.0075 in the fourth quarter of 2016 (4% increase). This resulted in the dividends declared for fiscal 2016 totaling $1.995 per share compared to $1.815 per share in the comparative year, an increase of 10%. Dividends declared for fiscal 2016 totaled $56.3 million. Impacting the dividends declared in 2016 most significantly was the Corporation's issuance of Shares through its equity offering that closed late in the third quarter of 2015 and the Shares issued as a result of the Series J convertible debenture conversions.

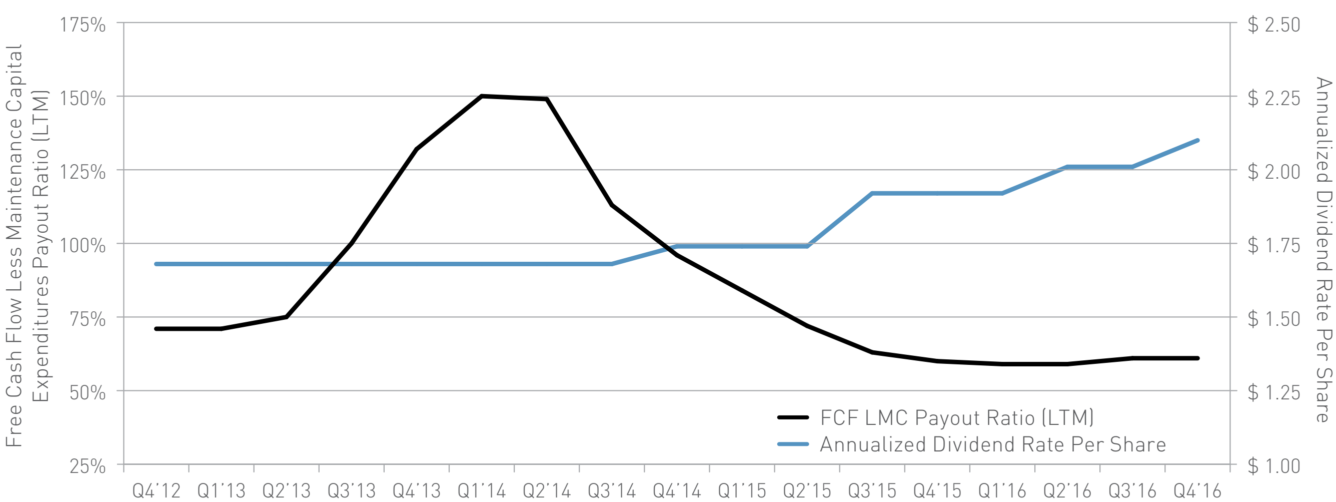
The Corporation compares the dividends declared in the year to the amount of cash flows generated by the Corporation in that year to determine a payout ratio. The dividends declared by the Corporation are presented as financing activities within the Corporation's statement of cash flows whereas Free Cash Flow and Free Cash Flow less maintenance capital expenditures, as defined, are driven from the Corporation's operating activities and exclude dividends. The payout ratio provides an indication of the Corporation's ability to generate sufficient funds from its operations to pay its dividends to shareholders.

The following compares the Corporation's dividends declared on a per share basis as a percentage of the Corporation's Free Cash Flow and Free Cash Flow less maintenance capital expenditures on a per share basis during the current year and the comparative year.

Payout Ratios for the Corporation Year Ended December 31,	2016	Per share basic	Per share fully diluted	2015	Per share basic	Per share fully diluted
Free Cash Flow		34%	39%		32%	38%
Free Cash Flow less maintenance capital expenditures		61%	67%		60%	66%

The Corporation's Free Cash Flow and Free Cash Flow less maintenance capital expenditures payout ratios remained relatively flat compared to the prior year despite a 10% increase in the per Share dividend declared during 2016 and a 14% increase in the average Shares outstanding. The Free Cash Flow and Free Cash Flow less maintenance capital expenditures payout ratios were 34% and 61% for the year ended December 31, 2016, compared to 32% and 60% in the prior year.

The following graph shows the Corporation's historical Free Cash Flow less maintenance capital expenditures trailing 12 months payout ratio on the left axis. On the right axis, the annualized dividend rate per share is shown. As can be seen in the graph, the current trailing twelve months payout ratio of 61% is below historical levels despite an increase in the annualized dividend from $1.68 per share in the fourth quarter of 2012 to $2.10 per share in the fourth quarter of 2016, which includes the impact of the dividend increase announced in November 2016.



In addition to the Free Cash Flow less maintenance capital expenditures payout ratio, the Corporation also monitors dividends declared as a percentage of net earnings (net earnings payout ratio). As the Corporation has grown, its net earnings are no longer impacted to the same extent as in the past by expenses not included in the Free Cash Flow calculation, such as intangible asset amortization and acquisition costs. In addition, increased margins and decreased taxes have helped improve the net earnings payout ratio. The net earnings payout ratio was 92% in 2016 compared to 111% in 2015. While the earnings payout ratio is expected to be less volatile compared to Free Cash Flow less maintenance capital expenditures payout ratio, the net earnings payout ratio will still be impacted by the same seasonal fluctuations in earnings. In addition, the net earnings payout ratio will be subject to variability in periods with significant acquisition costs and non-cash expenses. We anticipate that over time, the difference between the net earnings payout ratio and Free Cash Flow less maintenance capital expenditures payout ratio will be reduced as the net earnings of the Corporation see continued improvement.

The Corporation's Board of Directors regularly examines the dividends paid to shareholders. The Corporation has experienced an enhanced level of performance which is not considered to be transitory but indicative of an established base level of performance to be further augmented with growing profitability. This established base level is expected to continue into the foreseeable future and will be further supported through the enhanced access to capital the Corporation secured in 2016 and 2017. These additional capital resources allow the Corporation to move decisively when additional opportunities to grow its Free Cash Flow are identified. During the fourth quarter, the Corporation announced a 4% dividend increase, or $0.0075 per Share per month. This increase reflects a dividend of $2.10 per Share on an annualized basis. The latest increase is the Corporation's fourth dividend increase in 24 months, increasing the monthly dividend rate by 25% over that period, and the 12th dividend increase since 2004.

FOURTH QUARTER KEY PERFORMANCE INDICATORS

Three months ended December 31,	2016	Per share basic	Per share fully diluted	2015	Per share basic	Per share fully diluted
EBITDA	$ 51,304			$ 46,055		
Free Cash Flow	40,765	$ 1.42	$ 1.25	36,025	$ 1.31	$ 1.14
Payout ratio		36%	41%		37%	42%
Free Cash Flow less maintenance capital expenditures	22,823	0.80	0.74	20,460	0.74	0.69
Payout ratio		65%	70%		65%	70%
Dividends Declared	14,868	0.5175		13,252	0.48	
Net Earnings	13,822	0.48	0.47	9,923	0.36	0.35

The EBITDA generated by the Corporation during the fourth quarter of 2016 was $51.3 million, an increase of $5.2 million or 11% over the comparative period. The items impacting the EBITDA generated in the current period are described in Section 6 – *Review of Fourth Quarter Results*. Overall, the increase can be attributed to the additional EBITDA generated by the Aerospace & Aviation segment, in particular at Regional One and the Kivalliq operations of the Legacy Airlines, and lower head office costs.

The Free Cash Flow generated by the Corporation during the fourth quarter of 2016 was $40.8 million, an increase of $4.7 million or 13% over the comparative period. Consistent with the discussion for the full year, the increase in EBITDA generated in the current period was the main factor in the increase in Free Cash Flow. Cash taxes incurred on the additional earnings in the current year along with higher levels of cash interest on the Corporation's credit facility and convertible debentures partially offset the increase in EBITDA. The Corporation's cash taxes increased by $0.5 million and overall cash interest incurred by the Corporation increased by $0.4 million.

On a basic per share basis, the increase in Free Cash Flow contributed to the increase in per share amounts and was partially offset by the higher number of Shares outstanding. The combined impact resulted in Free Cash Flow of $1.42 per share for the fourth quarter of 2016, an increase of $0.11 per share or 8% over the comparative period (fully diluted $1.25, increase $0.11 or 10%). Details around the increase in Shares outstanding can be found in Section 7 – *Liquidity and Capital Resources*.

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the fourth quarter of 2016 was $22.8 million, an increase of $2.4 million or 12% over the comparative period. The increase is due to the increase in Free Cash Flow as described above partially offset by additional maintenance capital expenditures of $2.4 million or 15%, which is described further below.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the fourth quarter of 2016 increased to $0.80, an increase of $0.06 or 8% over the comparative period (fully diluted $0.74, increase $0.05 or 7%). The increase is due to the higher levels of Free Cash Flow less maintenance capital expenditures generated by the Corporation partially offset by an increased base of Shares outstanding for the Corporation during the current period. The maintenance capital expenditure component of this metric is $0.63 per share (2015 – $0.57).

Maintenance capital expenditures for the fourth quarter of 2016 totaled $17.9 million, an increase of $2.4 million or 15% over the comparative period. The Aerospace & Aviation segment invested an additional $2.4 million, the Manufacturing segment invested an additional $0.2 million, while the head office investment decreased $0.2 million. The majority of the increase is associated with Regional One, with maintenance capital expenditures of $6.2 million for the fourth quarter, which is an increase of $3.0 million or 93% over the comparative period. This increase is caused by the additional depreciation on the growing number of aircraft in Regional One's lease portfolio due to previous growth capital expenditures. This was offset by a decrease in Provincial's maintenance capital expenditures of $0.7 million or 18% from the comparative year.

Growth capital expenditures for the fourth quarter totaled $44.8 million, of which $38.5 million relates to the expansion of Regional One's portfolio. This expansion relates to its portfolio of aircraft available for lease, particularly its continued purchase of CRJ900 aircraft. During the fourth quarter, Regional One purchased six operating aircraft. After the impact of the sale of one aircraft during the quarter, Regional One had net additions of five aircraft to its leasing portfolio. Provincial invested $5.4 million, primarily relating to the development of a capability demonstrator aircraft.

The dividends declared by the Corporation for the fourth quarter totaled $14.9 million, which is an increase of $1.6 million or 12% over the comparative period. This is the result of an increase in the dividend rate and a higher number of Shares outstanding. The dividends rate per share during the fourth quarter of 2016 was $0.5175 per Share, compared to $0.48 per Share in the comparative period, an increase of 8%. In addition, the average number of Shares outstanding in the current period was 28.7 million compared to 27.6 million in the fourth quarter of 2015, an increase of 4%. The change in the number of Shares is described in Section 7 – *Liquidity and Capital Resources*; the largest impact is the conversion of convertible debentures into Shares of the Corporation during 2016.

The Corporation's Free Cash Flow payout ratio showed a slight improvement in the fourth quarter, while the Free Cash Flow less maintenance capital expenditures payout ratio was flat compared to 2015, despite a 12% increase in dividends declared and 4% increase in average Shares outstanding. The fourth quarter's basic Free Cash Flow payout ratio is 36% (2015 – 37%) and the basic Free Cash Flow less maintenance capital expenditures payout ratio was 65% (2015 – 65%).

4. ANALYSIS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the year ended December 31, 2016 and the comparative 2015 year.

Year Ended December 31, 2016	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 703,327	$ 187,699	$ —	$ 891,026
Expenses[1]	499,139	163,856	15,456	678,451
EBITDA	204,188	23,843	(15,456)	212,575
Depreciation and amortization				94,063
Finance costs – interest				30,169
Acquisition costs				1,309
Earnings before income tax				87,034
Current income tax expense				25,888
Deferred income tax recovery				(344)
Net earnings				$ 61,490

Year Ended December 31, 2015	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 614,773	$ 192,630	$ —	$ 807,403
Expenses[1]	442,789	169,798	15,576	628,163
EBITDA	171,984	22,832	(15,576)	179,240
Depreciation and amortization				84,576
Finance costs – interest				30,041
Acquisition costs				5,064
Earnings before income tax				59,559
Current income tax expense				15,544
Deferred income tax expense				3,781
Net earnings				$ 40,234

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

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

AEROSPACE & AVIATION SEGMENT

Year Ended December 31,	2016	2015	Variance	Variance %
Revenue	$ 703,327	$ 614,773	$ 88,554	14%
Expenses	499,139	442,789	56,350	13%
EBITDA	$ 204,188	$ 171,984	$ 32,204	19%

The revenue of the Aerospace & Aviation segment for the current year was $703.3 million, an increase of $88.6 million or 14% over the comparative year. The increase in revenue for the segment is attributable to the continued growth across the segment.

The EBITDA generated by the Aerospace & Aviation segment for the current year was $204.2 million, an increase of $32.2 million or 19% over the comparative year. EBITDA margins also increased and were 29.0% in the current year versus 28.0% in the comparative year. EBITDA growth was driven by Provincial and Regional One, while the Legacy Airlines remained relatively flat.

Provincial's strong revenue and EBITDA growth during the current year were primarily driven by the Middle East operations resulting from the multi-year contract announced near the end of 2015. Provincial's aerospace division also benefited from the addition of CarteNav, which was acquired in 2016. Partly offsetting the increases generated from Provincial's aerospace division were the difficulties faced by the airlines division. The difficulties arose from poor macroeconomic conditions across Newfoundland as a result of weakness in the energy and mining industries and reductions in government spending. Despite these challenges, Provincial was able to maintain its profitability through diligent management and the resilience of its diversified model.

Regional One generated significant revenue and EBITDA growth driven largely by growth capital expenditures made in 2016 and prior fiscal periods. Regional One's revenues grew by over 30% from 2015 driven by strong lease revenue and increased revenue from aircraft and parts sales. EBITDA margin also grew from higher levels of leasing income within the operation's product mix and the recent strategic investments made in growing Regional One's fleet of CRJ700 and CRJ900 aircraft. Regional One also benefited from the fourth quarter addition of Team J.A.S., which added additional platform expertise.

The Legacy Airlines experienced a year mixed with successes and challenges resulting in EBITDA remaining flat to 2015. The segment experienced EBITDA growth in the Kivalliq due largely to the acquisition of First Air's non aircraft assets in the Kivalliq region in the third quarter of 2015, organic growth for both passenger and cargo operations in the Kivalliq market and operational improvements. Perimeter had strong revenue and EBITDA growth in the first nine months of the year but in the fourth quarter encountered weather and equipment issues resulting in higher operating costs with the use of third party charters to address capacity issues. The EBITDA improvement was also offset by shortfalls from reduced rotary wing fire suppression work due to an abnormally wet season in Manitoba, surplus competitive capacity in one region in which the Legacy Airlines operate, and the closure of a mine the Legacy Airlines had serviced.

The operations of both Provincial's airline and the Legacy Airlines benefited from fuel cost savings, particularly in the first half of the year. These savings were partially offset by the increased cost of aircraft parts, maintenance, and flight training costs due to the deterioration in the Canadian dollar versus the US dollar compared to 2015. However, the reduced value of the Canadian dollar more than offset the higher costs as Provincial's US dollar denominated aerospace contracts and Regional One's results were positively impacted from the conversion of their US dollar operations into the Corporation's Canadian reporting currency.

MANUFACTURING SEGMENT

Year Ended December 31,	2016	2015	Variance	Variance %
Revenue	$ 187,699	$ 192,630	$ (4,931)	-3%
Expenses	163,856	169,798	(5,942)	-3%
EBITDA	$ 23,843	$ 22,832	$ 1,011	4%

The Manufacturing segment generated revenue of $187.7 million in 2016, a decrease of 3% from $192.6 million for 2015. The EBITDA generated by the Manufacturing segment for the year was $23.8 million, an increase of 4% from $22.8 million for the previous year.

Ben Machine, acquired in the third quarter of 2015, contributed to EIC's results for a full year in 2016 compared to just six months in 2015. Investments in equipment and capacity made late in 2015 proved beneficial in 2016, positioning them to take advantage of quick product mix changes and last minute bookings, adding to its manufacturing flexibility. As a result, Ben Machine realized slightly higher EBITDA margins.

The depressed oil and gas sector continued to put a drag on the revenue and EBITDA of the Alberta Operations. Large oil field projects were put on hold and spending in the oil and gas industry slowed to a minimum. The devastating wildfire that hit the Fort McMurray area in the spring of 2016 further impacted an already down market. The results of the fire and subsequent evacuation caused the temporary shutdown of certain production facilities, some of which are yet to return to full capacity. North Dakota and Saskatchewan were not immune to the economic challenges as those regions slowed as well. Towards the end of the year the market began to stabilize as oil prices showed signs of a modest recovery.

WesTower had a slight decline in 2016 over the previous year as its customers continue to prepare for significant technology changes. As a result, demand shifted from traditional tower construction and erection to more labour-intense and higher-margin work. As projects and spending shifted from region to region, WesTower used its national presence to shift crews to locations with the highest customer demand. The adjustment to higher-margin work coupled with tight cost control resulted in WesTower maintaining margins despite lower revenues.

Stainless' performance declined slightly in 2016 as a result of softer bookings, in particular field work, which traditionally carries higher margins. The industry was slow as companies deferred certain capital investments during the year, given the economic uncertainty surrounding the 2016 US Presidential election. Towards the end of 2016 the volume and quality of enquiries improved resulting in a material increase in the amount of booked orders, which has led to a strong backlog entering 2017.

Revenues for Overlanders saw a slight decline in 2016 as one of its major customers had higher inventory levels in 2015 which resulted in reduced spending in the first half of the current year. Ongoing efforts to add new customers continued throughout the year, with overall demand increasing in the final two quarters.

HEAD OFFICE

Year Ended December 31,	2016	2015	Variance	Variance %
Expenses	$ 15,456	$ 15,576	$ (120)	-1%

The head office costs of the Corporation decreased in the current year by $0.1 million or 1% from the comparative year. A decrease in professional fees was largely offset by an increase in personnel costs, driven by an increase in headcount at head office and higher participation levels in the Corporation's Employee Share Purchase Plan.

OTHER NON-EBITDA ITEMS

Year Ended December 31,	2016	2015	Variance	Variance %
Depreciation and amortization	$ 94,063	$ 84,576	$ 9,487	11%

The Corporation's depreciation and amortization for the year ended December 31, 2016 was $94.1 million, an increase of $9.5 million or 11% over the comparative year. The $94.1 million can be broken down into $82.3 million on the Corporation's capital assets and $11.8 million on the Corporation's intangible assets. Of the total increase, $7.0 million relates to capital asset depreciation for the Aerospace & Aviation segment as a result of capital assets purchased in the segment. In addition, the Aerospace & Aviation segment experienced increased amortization expenses associated with the intangible assets recognized in connection with the acquisition of CarteNav. The Manufacturing segment experienced an increase of $1.7 million, which is mainly attributable to the acquisition of Ben Machine. Ben Machine was acquired during the third quarter of 2015 and as such, there is no comparative depreciation and amortization for the first six months of 2016 in the prior year. Ben Machine's depreciation and amortization expense for the first six months of 2016 was $1.9 million, including $1.6 million relating to the amortization of intangible assets that were recognized as part of the purchase price allocation for which there is no comparative in the prior year.

Year Ended December 31,	2016	2015	Variance	Variance %
Finance costs – interest	$ 30,169	$ 30,041	$ 128	0%

The Corporation's interest incurred for the current year was $30.2 million, an increase of $0.1 million over the comparative year. Interest incurred on the Corporation's credit facility increased by $1.2 million during the current year and was mostly offset by a decrease of $1.1 million in interest incurred on the Corporation's convertible debentures.

The increase in credit facility interest relates to higher debt levels outstanding as the Corporation made draws to fund the growth capital expenditures at Regional One and an increase in interest rates on US denominated borrowings. The overall effective interest rate on the Corporation's credit facility is 3.47% for 2016 (2015 – 3.63%), which includes standby charges on the unused portion of the credit facility. The Corporation strategically chooses to have significant available credit, giving the Corporation the opportunity to act quickly when the right opportunity presents itself, resulting in higher standby charges.

The interest incurred on the Corporation's convertible debentures decreased by $1.1 million from the prior year. The decrease is a result of interest savings from the early redemption of the Series I convertible debentures at the end of the first quarter of 2015, the redemption of the Series H convertible debentures at the beginning of the third quarter of 2015 and the redemption of the Series J convertible debentures in the second quarter of 2016. This resulted in $4.7 million in interest savings. Offsetting these savings was increased non-cash interest accretion of $1.1 million as a result of the early redemption of the Series J convertible debentures that would not have been incurred during the year but for the early redemption. In addition, the savings were offset by the issuance of the June 2016 unsecured debentures offering which resulted in an increase in interest expense of $2.5 million.

Year Ended December 31,	2016	2015	Variance	Variance %
Acquisition Costs	$ 1,309	$ 5,064	$ (3,755)	-74%

The acquisition costs incurred by the Corporation during the 2016 year totaled $1.3 million compared to $5.1 million in the comparative year. The Corporation incurred external costs associated with the acquisition of CarteNav and Team J.A.S. during the current year, and development expenses associated with Provincial's Fixed Wing Search and Rescue bid. The costs expensed in the comparative year relate mainly to the external costs incurred for the Provincial and Ben Machine acquisitions and development expenses associated with to Provincial's Fixed Wing Search and Rescue bid.

Year Ended December 31,	2016	2015	Variance	Variance %
Current income tax expense	$ 25,888	$ 15,544	$ 10,344	67%
Deferred income tax expense (recovery)	(344)	3,781	(4,125)	-109%
Income tax expense	$ 25,544	$ 19,325	$ 6,219	32%

The Corporation's income tax expense for the year ended December 31, 2016 was $25.5 million, an increase of $6.2 million over the comparative year. The effective tax rate decreased to 29.3% from 32.4% in 2015. The effective tax rate for the current year reflects a $1.0 million charge to deferred income tax expense in 2016 arising from a change in the statutory tax rate in one of the jurisdictions in which the Corporation operates. The impact of this charge was more than offset by lower income tax expense in the year resulting from a smaller proportion of non-deductible permanent differences than in the 2015 comparative year which had included costs associated with the acquisition of Provincial and Ben Machine. Also contributing to a lower income tax expense in 2016 is the reduction of taxable income earned in a foreign jurisdiction through the use of previously unrecognized losses.

The deferred tax recovery in the current year resulted primarily from transactions between subsidiaries of the Corporation for which no profit is currently recognized in the financial statements but which would be taxable in the current year.

The Corporation is in the process of expanding its operations in the jurisdictions in which it operates, most notably in Ireland, and this is expected to proportionately reduce current taxes incurred in 2017 and beyond.

5. SUMMARY OF QUARTERLY RESULTS

The following summary of quarterly results reflects the continuing operations of the Corporation. During the fourth quarter of 2014, the Corporation closed the sale of WesTower US. As a result of the transaction, the Corporation's results for 2014 are presented with the financial results from WesTower US segregated in the Corporation's statement of income as discontinued operations. The discontinued operations are only included in the net earnings (loss) and related per share amounts in the bottom section of the table. There was no impact on results from discontinued operations for the 2016 and 2015 periods.

				2016				2015	2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
From continuing operations									
Total revenue	$ 221,657	$ 224,620	$ 226,851	$ 217,898	$ 224,504	$ 212,750	$ 196,214	$ 173,935	$ 138,726
EBITDA	51,304	60,012	56,928	44,331	46,055	54,052	48,053	31,080	26,151
Net earnings (loss) – continuing operations	13,822	20,581	17,214	9,873	9,923	15,983	13,394	934	(17,729)
Basic	0.48	0.72	0.62	0.36	0.36	0.64	0.58	0.04	(0.79)
Diluted	0.47	0.67	0.59	0.35	0.35	0.60	0.54	0.04	(0.79)
Adjusted net earnings (loss) – continuing operations [1]	16,571	23,127	20,388	12,008	12,636	18,811	16,516	4,299	5,915
Basic	0.58	0.81	0.74	0.43	0.46	0.76	0.71	0.19	0.26
Diluted	0.56	0.74	0.69	0.43	0.45	0.69	0.64	0.18	0.26
Free Cash Flow (FCF)	40,765	45,873	42,683	34,890	36,025	42,195	37,626	23,926	22,480
Basic	1.42	1.60	1.54	1.26	1.31	1.70	1.63	1.04	1.00
Diluted	1.25	1.37	1.34	1.10	1.14	1.43	1.33	0.88	0.84
FCF less maintenance capital expenditures	22,823	26,484	25,476	16,801	20,460	24,966	19,870	9,109	11,718
Basic	0.80	0.93	0.92	0.61	0.74	1.01	0.86	0.40	0.52
Diluted	0.74	0.84	0.84	0.58	0.69	0.89	0.75	0.39	0.50
From continuing & discontinued operations									
Net earnings (loss)	13,822	20,581	17,214	9,873	9,923	15,983	13,394	934	(1,580)
Basic	0.48	0.72	0.62	0.36	0.36	0.64	0.58	0.04	(0.07)
Diluted	0.47	0.67	0.59	0.35	0.35	0.60	0.54	0.04	(0.07)

(1) The Corporation's adjusted net earnings from continuing operations for the fourth quarter of 2014 includes an add-back for the non-cash deferred tax expense of $22.9 million as a result of the settlement that the Corporation made with the Canada Revenue Agency ("CRA") on certain deferred tax assets associated with the conversion of the Corporation to a corporation from an income trust in 2009.

6. REVIEW OF FOURTH QUARTER RESULTS

			Three months ended December 31, 2016	
	Aerospace & Aviation	Manufacturing	Head office [2]	Consolidated
Revenue	$ 173,945	$ 47,712	$ —	$ 221,657
Expenses [1]	125,346	41,492	3,515	170,353
EBITDA	$ 48,599	$ 6,220	$ (3,515)	$ 51,304

			Three months ended December 31, 2015	
	Aerospace & Aviation	Manufacturing	Head office [2]	Consolidated
Revenue	$ 174,170	$ 50,334	$ —	$ 224,504
Expenses [1]	130,130	43,576	4,743	178,449
EBITDA	$ 44,040	$ 6,758	$ (4,743)	$ 46,055

Note 1): Expenses include Aerospace & Aviation expenses (excluding depreciation and amortization), manufacturing expenses (excluding depreciation and amortization) and general and administrative expenses, but it excludes any unusual non-operating one-time items.

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.

The Corporation generated revenue of $221.7 million in the fourth quarter of 2016, a decrease of $2.8 million or 1% from the comparative period. EBITDA for the current period was $51.3 million, an increase of $5.2 million or 11% over the comparative period. The Aerospace & Aviation segment revenues were relatively flat compared to the prior period, but the Manufacturing segment experienced a $2.6 million decrease in revenues. The growth in EBITDA was driven by the Aerospace & Aviation segment, which increased EBITDA by $4.6 million or 10%.

The growth in EBITDA was primarily attributable to strong results at Regional One and the Legacy Airlines passenger and cargo operations in the Kivalliq region. Prior and ongoing investments in growth capital expenditures at Regional One accounted for most of Regional One's EBITDA growth. The EBITDA growth in the Kivalliq is largely driven by organic growth for both passenger and cargo operations and operational improvements. In the fourth quarter, Perimeter encountered the perfect storm which negatively impacted its performance. Prolonged foggy weather in many of the northern communities was followed by an onset of extreme cold weather, creating a backlog of customers and freight going into to the busy Christmas season that was compounded with aircraft equipment issues. To ensure appropriate servicing of customers at this critical time, Perimeter brought in third party chartered aircraft to supplement its capacity. The cost of these charters was significant but necessary to ensure Perimeter's customers and freight reached their destination for the holidays. To ensure a level of service and recognizing the continued trend of weather challenges beyond historic norms, Perimeter will be acquiring two Dash 8 aircraft. This will create internal redundant capacity and eliminate the cost and reliance on third-party charter aircraft.

The factors that impacted the Manufacturing segment throughout the year continued to influence fourth quarter results as Alberta Operations, Stainless, and WesTower all experienced a decline in revenue over the comparative period. However the rate of decline drastically improved. This is evidenced by the variance trending, as revenue decreased by only $2.6 million or 5% in the fourth quarter of 2016 versus the comparative period, while the third quarter of 2016 experienced a $9.6 million or 17% decline from the comparative period. The drastic improvement in the comparative variance trending is a result of conditions starting to improve at the end of 2016 in Stainless and stabilizing at Alberta Operations, as discussed in the Section 4 – *Analysis of Operations* and the Section 12 – *Outlook*. Ben Machine and Overlanders contributed slightly higher results over the comparative period.

A decrease in head office costs during the fourth quarter contributed to increased EBITDA compared to the prior year. The decrease is mainly as a result of lower performance based compensation in the fourth quarter of 2016.

7. LIQUIDITY AND CAPITAL RESOURCES

Our financial position continued to strengthen in 2016. This strengthening is attributable to continued strong operating performance and organic growth. The Corporation's working capital, Free Cash Flow and capital resources are strong and we have no long-term debt or debentures maturing before 2019. As a result, we have sufficient liquidity and access to capital to make further acquisitions, invest in our operating subsidiaries and meet our obligations.

As at December 31, 2016, the Corporation had a cash position of $26.5 million (December 31, 2015 of $15.5 million) and net working capital of $170.6 million (December 31, 2015 of $135.3 million), which represents a current ratio of 1.96 to 1 (December 31, 2015 of 1.74 to 1).

	December 31, 2016	December 31, 2015	Change
Cash and cash equivalents	$ 26,494	$ 15,497	$ 10,997
Accounts receivable	150,338	125,434	24,904
Costs incurred plus recognized profits in excess of billings	7,567	7,776	(209)
Inventory	129,854	118,645	11,209
Prepaid expenses and deposits	34,295	38,907	(4,612)
Income taxes receivable	—	10,955	(10,955)
Accounts payable and accrued expenses	(123,982)	(108,333)	(15,649)
Income taxes payable	(3,570)	—	(3,570)
Deferred revenue	(38,515)	(51,716)	13,201
Billings in excess of costs incurred plus recognized profits	(10,772)	(20,824)	10,052
Current portion of long-term debt and finance leases	(1,069)	(1,031)	(38)
Net working capital	$ 170,640	$ 135,310	$ 35,330

Working capital has increased by $35.3 million since December 31, 2015. Non-cash working capital increased by $14.5 million in the Aerospace & Aviation segment mainly as a result of growth at Regional One and Provincial. Included within the $14.5 million increase, the acquisitions of CarteNav and Team J.A.S. during the year contributed $5.9 million of working capital. In addition, the consolidated cash position increased by $11.0 million compared to the prior year primarily as a result of the sale of an operating aircraft by Regional One just prior to the end of the year.

The Corporation obtained additional cash through the means described in this section, and also generated $164.2 million of Free Cash Flow from operations during 2016, a 17% improvement over the comparative year. The Corporation used these funds for its dividends and capital expenditures. See Section 3 – Key Performance Indicators for more information on the capital expenditures made by the Corporation.

While payment of reliable and growing dividends is an objective of the Corporation, the Corporation does not have a formal dividend policy. The Corporation's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During 2016, the Corporation declared dividends totaling $56.3 million in comparison to $45.2 million during the comparative year. This was a result of an increased number of Shares outstanding and the $0.015 increase in the monthly dividend rate announced in August of 2015, the $0.0075 increase in the monthly dividend rate announced in May of 2016 and the $0.0075 increase in the dividend rate announced in November 2016. The monthly dividend declared in any given month is paid to shareholders on or about the 15th of the following month.

OVERVIEW OF CAPITAL STRUCTURE

The Corporation's capital structure is summarized below.

	December 31, 2016	December 31, 2015
Total senior debt outstanding (principal value)	$ 445,425	$ 304,799
Convertible debentures outstanding (par value)	230,082	219,965
Shares	463,603	425,561
Total capital	$ 1,139,110	$ 950,325

Subsequent to the end of the year, the Corporation completed its previously announced bought deal financing of common shares. The offering raised gross proceeds of $97.8 million and closed on January 4, 2017. On January 10, 2017, after the maturity of a Banker's Acceptances contract, the net proceeds of the offering were used to make a $93.8 million repayment against the Corporation's credit facility. The following table reflects the capital structure of the Corporation on January 10, 2017 after this repayment.

	January 10, 2017	December 31, 2015
Total senior debt outstanding (principal value)	$ 351,625	$ 304,799
Convertible debentures outstanding (par value)	230,082	219,965
Shares	557,403	425,561
Total capital	$ 1,139,110	$ 950,325

In addition to the liquidity obtained from the bought deal financing of common shares reflected in the table above, the Corporation secured additional liquidity in 2017 by amending its credit facility. The amendments included increasing the credit available by $200.0 million to $750.0 million.

CREDIT FACILITY

The Corporation's credit facility consists of $500.0 million allocated to the Corporation's Canadian head office and US$50.0 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. At December 31, 2016, the Corporation had drawn $217.3 million and US$169.9 million (December 31, 2015 – $248.0 million and US$41.0 million).

Subsequent to year-end, the Corporation reached an agreement to amend the terms of its credit facility. The amendments include increasing the credit available to US$55.0 million allocated to EIIF Management USA Inc. and $695.0 million allocated to the Corporation's Canadian head office, which is an aggregate increase of $200.0 million over the Corporation's current credit facility. Two new banks were added to the syndicate and the maturity was extended to March 2021.

During 2016, the Corporation made draws on the credit facility to support capital purchases, mainly relating to the addition of aircraft to Regional One's lease portfolio, and to fund the acquisitions of CarteNav and Team J.A.S.. In addition, the Corporation used the net proceeds from the issuance of the 2016 unsecured debenture series to pay down its credit facility. Partially offsetting this repayment was a draw on the credit facility to repay the unconverted potion of the Series J debenture series on June 30, 2016.

During the fourth quarter, the Corporation entered into a Cross Currency Basis Swap ("Swap") with a member of the Corporation's lending syndicate ("lender"). At inception of the Swap, the Corporation drew US$37.8 million from its credit facility and exchanged the US funds for $51.0 million with the lender. The $51.0 million was used to pay down the Corporation's Canadian denominated borrowings. The agreement requires that funds are exchanged back in 30 days unless both parties agree to extend the Swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates on US dollar LIBOR denominated borrowings. The Swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days.

CONVERTIBLE DEBENTURES

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

The unconverted Series J debentures with a face value of $30.4 million and a conversion price of $30.60, would have resulted in the issuance of 992,059 Shares of the Corporation at that time had the in-the-money debentures all converted. While the unconverted debentures resulted in a cash outlay for the Corporation on June 30, 2016, the Corporation was able to issue equity in January 2017 at $42.45 per Share, a significant reduction in dilution for Shareholders on a per dollar raised basis.

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

In addition, the conversions of the Series J convertible debentures identified above, debenture holders converted debentures with a face value of $1.4 million during 2016, resulting in the issuance of 41,892 Shares of the Corporation.

The following summarizes the convertible debentures outstanding as at December 31, 2016 and the changes in the amount of convertible debentures outstanding during the year ended December 31, 2016:

Series – Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures – 2012	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures – 2013	EIF.DB.F	March 31, 2020	5.35%	$ 41.60
Unsecured Debentures – 2014	EIF.DB.G	March 31, 2021	6.0%	$ 31.70
Unsecured Debentures – 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75

Par value	Balance, beginning of year	Issued	Converted	Redeemed / Matured	Balance, end of year
Series J	$ 57,477	$ —	$ (27,120)	$ (30,357)	$ —
Unsecured Debentures – September 2012	57,500	—	(560)	—	56,940
Unsecured Debentures – March 2013	65,000	—	—	—	65,000
Unsecured Debentures – March 2014	39,988	—	(846)	—	39,142
Unsecured Debentures – June 2016	—	69,000	—	—	69,000
Total	$ 219,965	$ 69,000	$ (28,526)	$ (30,357)	$ 230,082

SHARE CAPITAL

The following summarizes the changes in the Shares outstanding of the Corporation during the year ended December 31, 2016:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of year		27,633,217
Issued upon conversion of convertible debentures	various	928,156
Issued under dividend reinvestment plan (DRIP)	various	176,522
Issued under deferred share plan	various	5,622
Shares cancelled under NCIB	February 2, 2016	(57,710)
Issued to Team J.A.S. vendors on closing	November 4, 2016	50,765
Issued under employee share purchase plan (ESPP)	November 21, 2016	56,782
Shares outstanding, end of year		28,793,354

The Corporation's dividend reinvestment plan ("DRIP") continued during 2016 and the Corporation received $5.3 million throughout the year for an aggregate 176,522 Shares being issued in accordance with the DRIP.

The Corporation raised funds through a $75.0 million bought deal equity offering in the third quarter of 2015, resulting in 3,019,000 Shares issued at that time. This increase late in the year in 2015 is impacting all of the per share calculations during the 2016, with only a small impact on 2015 per share amounts.

In November 2016, the Corporation completed its purchase of Team J.A.S. for US$9.4 million ($12.6 million), of which approximately 14% was paid through the issuance of 50,765 Shares of the Corporation having a value of US$1.4 million ($1.8 million).

The average Shares outstanding for three and twelve months ended December 31, 2016 increased 4% and 14%, respectively, over the comparative year. This increase for both periods is mainly as a result of the Series J convertible debentures conversions and the bought deal equity offering in September of 2015. The increase in the average Shares outstanding is impacting all of the per share calculations in the current year.

In December 2016, the Corporation announced its $85.0 million bought deal financing of common shares, representing 2,003,000 Shares of the Corporation at $42.45 per Share. The underwriters were also granted an overallotment option to purchase 300,450 additional Shares, representing 15% of the size of the offering. On January 4, 2017, subsequent to the current year, the Corporation closed the offering. The entire overallotment option was exercised, resulting in the issuance of 2,303,450 Shares of the Corporation. The net proceeds from the offering were used to make a $93.8 million repayment against the Corporation's outstanding credit facility in 2017.

NORMAL COURSE ISSUERS BID

During 2016, the Corporation purchased a total of 57,710 Shares through its NCIB over several days of trading. The Corporation paid $1.3 million to purchase these Shares, with an average purchase price of $22.25. All of these purchased Shares under the current NCIB were cancelled on February 2, 2016.

On December 31, 2015, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,381,659 Shares, representing 5% of the issued and outstanding Shares as at December 16, 2015. Purchases of Shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on January 5, 2016 and ending on January 4, 2017, or an earlier date in the event that the Corporation purchases the maximum number of the Shares available under the NCIB. The maximum number of Shares that may be purchased by the Corporation on a daily basis is 19,810 Shares, other than block purchase exemptions. As of January 4, 2017, there were 1,323,949 Shares remaining available for purchase.

On January 12, 2017, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,554,884 Shares, representing 5% of the issued and outstanding Shares as at January 9, 2017. Purchases of Shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on January 23, 2017 and ending on January 22, 2018, or an earlier date in the event that the Corporation purchases the maximum number of the Shares available under the NCIB. The maximum number of Shares that may be purchased by the Corporation on a daily basis is 30,390 Shares, other than block purchase exemptions. As of the date of this report, there are 1,554,884 Shares available for purchase under the NCIB ending January 22, 2018.

The Corporation sought renewal of the NCIB because it believes that, from time to time, the market price of the Shares may not fully reflect the value of the Shares. The Corporation believes that, in such circumstances, the purchase of Shares represents an attractive investment for the Corporation.

SCHEDULE OF CONTRACTUAL OBLIGATIONS

The following are the contractual obligations of the Corporation and its subsidiaries at December 31, 2016:

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	$ 445,425	$ —	$ 445,425	$ —
Convertible debentures (par value)	230,082	—	161,082	69,000
Operating leases	122,090	20,681	57,782	43,627
Finance leases	2,154	1,069	1,085	—
	$ 799,751	$ 21,750	$ 665,374	$ 112,627

8. RELATED PARTY TRANSACTIONS

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

PROPERTY LEASES

Various entities lease several buildings from related parties who were vendors of the entity that the Corporation purchased the business from originally. These vendors are considered related parties because of their continued involvement in the management of those businesses. In addition, EIC leases office space for its head office from a company controlled by a director of the Corporation. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2016 under these leases was $3.4 million (2015 – $3.1 million) and the lease term maturities range from 2017 to 2020. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Corporation's statement of financial position (2015 – 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 awarded to key management for the 2016 year and the comparative 2015 year is as follows:

Year ended December 31,	2016	2015
Salaries and short-term benefits	$ 5,118	$ 5,865
Share-based payments	2,447	1,902
	$ 7,565	$ 7,767

9. CRITICAL ACCOUNTING ESTIMATES

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 COMBINATION

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 acquiree 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 that is deemed to be an asset or liability is 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, certifications, software intellectual property ("IP"), and trade names. To determine the fair value of these customer based intangible assets (excluding trade 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 trade name and software IP intangible assets, the Corporation adopted 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.

LONG-TERM CONTRACT REVENUE RECOGNITION

Revenue and income from fixed price construction contracts are determined on the percentage-of-completion method, based on the ratio of actual costs incurred to date over estimated total costs. The Corporation has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance factors, contract profit can differ significantly from earlier estimates. Management believes, based on its experience, that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labour, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions and the accuracy of the original bid estimate. Fixed price contracts exist in the Corporation's Aerospace & Aviation and Manufacturing segments, and specifically within the operations of WesTower CDA, Stainless, and Provincial.

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.

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, contract revenue is recognized to the extent of costs incurred or, if lower, to the extent to which recovery is probable. Therefore, to the extent that actual costs recovered are different from expected cost recoveries, significant changes in revenue and profitability can occur from one reporting period to another.

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. In accordance with the Corporation's accounting policy, claims are recognized in revenue only when resolution is probable. Therefore, it is possible for the Corporation to have substantial contract costs recognized in one accounting period with associated revenue recognized in a later period. Given the above-noted critical accounting estimates associated with the accounting for construction contracts, including change orders and claims, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year or later could be different from the estimates and assumptions adopted and could require a material adjustment to revenue and/or the carrying amount of the asset or liability affected. The Corporation is unable to quantify the potential impact to the consolidated financial results from a change in estimate in calculating revenue.

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 and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2016 would result in an increase of approximately $8.0 million (2015 – $5.9 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 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. 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.

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

Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 2.5% and 5.0%, and discount rates (pre-tax) ranging between 16% and 18%.

The Corporation has concluded that no impairments of its indefinite lived intangible assets existed as a result of this assessment as at December 31, 2016. However, the assessment identified two cash generating units, with indefinite life intangible assets of $6.0 million and $2.1 million, respectively, which would not be able to generate a fair value less costs of disposal recoverable amount in excess of their carrying value if certain management assumptions were to change within a reasonable range. Based on the high end of management's range of the estimated fair value less costs of disposal of the two cash generating units, the value in use was greater than their carrying value by approximately $5.0 million (or 17%) and $4.0 million (or 15%), respectively. If a change in the assumptions of long-term growth rates decreased by approximately 2.5 percentage points, the carrying amounts of each of the two cash generating units would exceed the reasonable range of the estimated fair value less costs of disposal. If a change in the assumptions of discount rates (pre-tax) increased by approximately 1.5 percentage points, the carrying amounts of each of the two cash generating units would exceed the reasonable range of the estimated fair value less costs of disposal. These changes in assumptions have been assessed independently of one another.

GOODWILL

The recoverable amount of the goodwill CGUs was calculated based on the fair value less costs of disposal, using an EBITDA multiple approach 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 7.5× (2015 – 6.5×) and was 7.0× (2015 – 7.0×) for the Manufacturing segment.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2016.

DEFERRED INCOME TAXES

The Corporation recognizes deferred tax assets related to tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

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. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. 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.

During 2016, the Corporation recognized an out of period adjustment in relation to the determination of goodwill associated with the acquisition of Provincial Aerospace Ltd. The Corporation incorrectly recorded a deferred tax benefit related to a provision for a non-deductible payment to the vendors. The out of period adjustment resulted in an increase to goodwill and deferred tax liabilities of $3.1 million and had no impact on net income.

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 when 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 and the related accounting implications.

The normal operations of Regional One within the Aerospace & Aviation segment include it acting as a provider of aircraft and engine aftermarket parts. In the course of its business, it may acquire entire aircraft or components of an aircraft for breakdown into saleable parts. Regional One determines the carrying value of its inventory using the average cost to sales percentage based on the expected selling price. Accordingly, the carrying value of inventory and recognition of the related cost of sale requires estimates related to the average cost to sales percentage. The Corporation has a process whereby such estimates are reviewed on a regular basis and based on historical experience and changes in market conditions. However, due to unforeseen changes in market conditions or other factors, 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 percentages. Some of the factors that can change include significant changes in worldwide utilization of certain aircraft types which the parts support, 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, 2016 and 2015 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2016 consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017 and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 15 – REVENUE

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – LEASES

IFRS 16 replaces IAS 17, Leases, and related interpretations. The core principle is that a lessee recognizes assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, Revenue from Contracts with Customers. The Corporation is assessing the impact of adopting this standard on its financial statements.

11. CONTROLS AND PROCEDURES

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management has evaluated the design and operating effectiveness of the Corporation's internal controls over financial reporting as at December 31, 2016, and has concluded that the internal controls over financial reporting are effective.

There have been no other material changes to the Corporation's internal controls during the 2016 year that would have materially affected or are likely to materially affect the internal controls over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were effective as at December 31, 2016.

12. RISK FACTORS

The Corporation and its subsidiaries ("Subsidiary" or "Subsidiaries") are subject to a number of risks. These risks relate to the structure of the Corporation and to 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 operates 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.

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

EXTERNAL

- Economic and Geopolitical Conditions
- Competition
- Government Funding for First Nations Health Care
- Access to Capital
- Market Trends and Innovation
- General Uninsured Loss
- Climate
- Acts of Terrorism
- Pandemic
- Level and Timing of Defence Spending
- Government-Funded Defence and Security Programs

FINANCIAL

- Availability of Future Financing
- Income Tax Matters
- Commodity Risk
- Foreign Exchange
- Interest Rates
- Credit Facility and the Trust Indentures
- Dividends
- Unpredictability and Volatility of Share Prices
- Dilution Risk
- Credit Risk

OPERATIONAL

- Significant Contracts and Customers
- Operational Performance and Growth
- Laws, Regulations and Standards
- Acquisition Risk
- Concentration and Diversification Risk
- Maintenance Costs
- Access to Parts and Relationships with Key Suppliers
- Casualty Losses
- Environmental Liability Risks
- Dependence on Information Systems and Technology
- International Operations Risks
- Fluctuations in Prices of Aviation Related Assets
- Aviation Related Asset Acquisitions Price Volatility
- Warranty Risk
- UAE Offset Risk
- Intellectual Property Risk

HUMAN CAPITAL

- Reliance on Key Personnel
- Employees and Labour Relations
- Conflicts of Interest

EXTERNAL RISKS:

ECONOMIC AND GEOPOLITICAL CONDITIONS

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

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 will have a greater impact on some regions, like Alberta and North Dakota, whose economies are driven by oil and gas more than others. A US economy downturn impacts the operations of Stainless more than our other operations as its products are provided to a wide variety of US industries. WesTower is more specifically impacted by the telecommunication industry which is driven 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. This segment historically has some time lag between the economy weakening and the reduced demand for their 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 them a buffer to prepare for the reduction in demand.

In our 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 safeguards; therefore, even as such events and conditions change, there is a certain level maintained as a necessity in many instances to 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. A result of these economic conditions is that a number of customers of Regional One have ceased operations or filed for bankruptcy or other reorganization in the past. In addition, any reduction in the global operating fleet of aircraft will result in reduced demand for parts support and maintenance activities for the type of aircraft affected. Further, tight credit conditions may negatively impact the amount of liquidity available to buy parts, services, engines, and aircraft. A deteriorating airline environment may also result in additional airline bankruptcies, and Regional One may not be able to fully collect outstanding accounts receivable. It may also result in Regional One not being able to deploy aircraft that are part of a 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.

COMPETITION

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

The airline Subsidiaries currently focus on niche markets in Manitoba, Ontario, Nunavut, Newfoundland and Labrador, Quebec, Nova Scotia and New Brunswick and experience different levels of competition depending on the geography and the nature of service provided. These companies focus on providing the best service through efficient management of operations, fleet of appropriately sized owned aircraft, significant ground infrastructure and their relationships with their customers. However, 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 entity make the appropriate changes to its business 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. As the original equipment manufacturers ("OEM") of such systems enter the aerospace market, the integration aspect of these systems could lessen, resulting in a decreased need for customization and therefore less revenue.

The markets for the products and services of Regional One are highly competitive and it 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 aftermarket service providers. Some of Regional One's competitors 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 manufacturing Subsidiaries face competition on their products, but this competition is lower on some of their custom projects given 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 they continuously look to differentiate themselves from their competitors by providing value-added services that their competitors may otherwise not be able to provide.

The competitive environment in the manufacturing industry has intensified as customers seek to take advantage of low wage costs in Mexico, China, Korea, Thailand, India, Brazil and other low cost countries. As a result, there is potentially increased competition from suppliers that have manufacturing operations in low cost 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.

GOVERNMENT FUNDING FOR FIRST NATIONS HEALTH CARE

Many of the communities which Perimeter, Keewatin, Calm Air and to a lesser degree Bearskin, Custom Helicopters, and Provincial provide services to, have very limited medical resources and, as a result, trips to medical facilities are required to seek adequate medical care. First Nations people with a medical condition which cannot be adequately treated on site are provided travel warrants by the local medical authorities. These warrants are then exchanged by the person for an airline ticket. Perimeter, Keewatin, Calm Air and to a lesser degree Bearskin and Custom Helicopters receive a travel warrant from the traveler and then bill the federal government of Canada for the cost of the ticket. Provincial invoices the government directly for these costs. Medevac flights are utilized when a patient requires urgent care at a larger medical facility and cannot wait for a scheduled flight, or is in such a condition that would make travel on a regular flight impossible. If any or all of the government agencies that are serviced by Perimeter, Keewatin, Calm Air, and to a lesser degree Provincial, Bearskin and Custom Helicopters decide to reduce or eliminate funding for medical-related transportation services, this would have a significant negative impact on Perimeter, Keewatin, Calm Air and to a lesser degree Provincial, Bearskin, and Custom Helicopters as applicable.

ACCESS TO CAPITAL

One of the objectives of the Corporation is to continue to acquire additional companies or interests therein in order to expand and diversify the Corporation's investments. The ability to execute 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, were to significantly decrease, the Corporation would have difficulty in executing its acquisition objectives. The Corporation's current level of leverage is considered reasonable, which gives the Corporation the ability to undertake acquisitions, up to a given size, in the short term without being dependent on the capital markets.

MARKET TRENDS AND INNOVATION

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

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

GENERAL UNINSURED LOSS

Each of the Subsidiaries carries comprehensive general liability, fire, flood and extended coverage insurance with policy specifications, limits and deductibles customarily carried for similar businesses. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not 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. In addition, increases in frequency, severity or duration of severe weather events, including changes in the global climate, could result in increases in fuel consumption to avoid such weather, turbulence-related injuries, delays and cancellations, any of which would increase the potential for loss of revenue and higher costs. Certain of our airline subsidiaries are impacted by the length of winter road season, which is impacted by the weather during the first few months of the calendar year. The colder the winter season, the longer the winter roads are available for customers to use as an alternative to flying with the airlines of the Corporation.

ACTS OF TERRORISM

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

PANDEMIC

The spread of contagious disease could have a significant impact on passenger demand for air travel and the ability to continue full operations. The Corporation cannot predict the likelihood of such an event occurring nor the impact it could have on operations. Such event could have an adverse effect on the Corporation's business, results from operations and financial condition.

LEVEL AND TIMING OF DEFENCE SPENDING

A significant portion of the revenues of Provincial and Ben Machine come from sales to aerospace and defence customers, including sales to governments, directly and indirectly, from various countries. If defence spending on their products and services decrease, these Subsidiaries will experience the effects of program restructures, reductions and cancellations. These events could have a material negative impact on the Corporation's Subsidiaries' future revenue, earnings and operations. The defence industry continues to experience delayed procurement processes, and potentially a smaller pipeline of opportunities across the globe.

In order to minimize these impacts, management continuously reviews the Corporation's Subsidiaries current and future programs, developing risk mitigation strategies to address any potential change to each program.

GOVERNMENT-FUNDED DEFENCE AND SECURITY PROGRAMS

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

OPERATIONAL RISKS:

SIGNIFICANT CONTRACTS AND CUSTOMERS

The Corporation and its Subsidiaries are currently party to a number of significant contracts with key customers, including governments. Within the Aerospace & Aviation segment, these significant contracts are for a variety of services but primarily relate to charter work, cargo, medevacs, medical related passenger travel, aircraft modifications, airborne maritime surveillance operations and the maintenance of certain specialized surveillance aircraft, including the recently awarded Fixed Wing Search and Rescue (FWSAR) Aircraft Replacement Program with the Government of Canada. Within the Manufacturing segment, these significant contracts are for the production 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. It is expected that funds from these sources will provide it with sufficient liquidity and capital resources to meet its current and future financial obligations at existing business levels. In the event that additional capital and operating expenditures dependent on increased cash flow or additional financing arise in the future, lack of those funds could limit or delay the future growth of the Subsidiaries and their cash flow. Furthermore, 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 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, the Federal Aviation Administration and other government entities may implement new laws or regulatory schemes, or render decisions, rulings or changes in policy that could have a material adverse effect on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations, increasing airport and/or user fees, or reducing the demand for air travel. With 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 aviation Subsidiaries of the Corporation.

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

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

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

Ben Machine and Provincial are parties to non-disclosure agreements relating to technical assistance agreements and manufacturing licensing agreements involving U.S. International Traffic in Arms Regulations ("ITAR") controlled defence articles and technical data, and therefore assumes all rights, responsibilities, liabilities and obligations that may exist regarding the transfer of such information. In the event that Ben Machine or Provincial are 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 and results from operations and financial condition.

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 entities, 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, failing to integrate the operations and personnel of the acquired businesses, 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 in management, 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 businesses 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 entity 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 in its due diligence investigations, that the representations and warranties given by such vendors will adequately protect against such risks or of recovery by the Corporation in the event of a breach of a representation or warranty.

CONCENTRATION AND DIVERSIFICATION RISK

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

Similarly, becoming economically dependent on one Subsidiary or customer could result in an imbalance in the diversification level of the Corporation. This could have either an adverse or favourable effect on the Corporation's financial condition, but in such a manner that it may directly drive overall results. Furthermore, considerable pressure may be placed on resources and systems to manage the imbalance.

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

MAINTENANCE COSTS

The Corporation's airline Subsidiaries rely on aircraft tailored to operate in extreme and remote environments. Many 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 oversees the airframe, engines and components of each aircraft in the fleet. The ongoing maintenance costs, as well as the fleet renewal costs, may be significantly higher than anticipated, adversely impacting the Corporation's business, results from operations and financial condition.

ACCESS TO PARTS AND RELATIONSHIPS WITH KEY SUPPLIERS

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

CASUALTY LOSSES

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

ENVIRONMENTAL LIABILITY RISKS

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

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

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

DEPENDENCE ON INFORMATION SYSTEMS AND TECHNOLOGY

Information systems are an important part of the business process of the Subsidiaries, including marketing their products and services, managing inventory, co-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.

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

The Corporation's reliance on information technology to manage its business exposes the Corporation to potential risks related to cybersecurity attacks and unauthorized access to the Corporation's, customers', suppliers', counterparties' and employees' sensitive or confidential information (which may include personally identifiable information and credit information) through hacking, viruses or otherwise (collectively "cybersecurity threats"). The Corporation uses information technology systems and network infrastructure, which include controls for interconnected systems of generation, distribution, and transmission, some of which is 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. Despite security measures in place, the Corporation's 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, expenses, 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 and Provincial conduct business in 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 and Provincial 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; and
- uncertainties arising from foreign local business practices and cultural considerations.

While Regional One and Provincial 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 and Provincial operate will continue to be stable enough to allow it to operate profitably or at all.

FLUCTUATIONS IN PRICES OF AVIATION RELATED ASSETS

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

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

AVIATION RELATED ASSET ACQUISITIONS PRICE VOLATILITY

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

The other entities within the Aerospace & Aviation segment also are 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 to stringent certification or approval requirements. Similarly, software sales incorporate a standard practice 12-month warranty from 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.

UAE OFFSET RISK

Provincial has significant business operations in the UAE. Offset obligations are common in numerous countries in the global aerospace market. All government defence and aerospace supply contracts in the UAE are subject to offset obligations, calculated as a percentage of the value of the supply contract. A profitable business within the UAE is required to generate offset credits within a certain time period. In the event that sufficient offset credits are not generated, Provincial may be subject to financial penalties which could have a material adverse effect on its business, results from operations and financial condition.

INTELLECTUAL PROPERTY RISK

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

FINANCIAL RISKS:

AVAILABILITY OF FUTURE FINANCING

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

INCOME TAX MATTERS

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

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 position.

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 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/U.S. dollar exchange rate. The Corporation cannot predict future fuel prices. Management estimates that a $0.01 per litre change in the price of fuel has an approximately $0.5 million impact on the profitability of the Aerospace & Aviation segment. The timing of this estimated impact being realized by the Corporation is affected by various factors including the diverse regions serviced, certain customer and contractual arrangements, and existing fuel inventory levels of the Corporation at any given time. 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 act somewhat as a hedge to changes in fuel prices. When oil prices are low, the Aerospace & Aviation segment benefits from lower input costs but 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, fuel costs increase for the Aviation segment but this will increase demand for products manufactured by the Alberta Operations in the Manufacturing segment.

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. In particular, the Corporation's Canadian airline Subsidiaries have significant annual net outflows of US dollars and are affected by fluctuations in the Canada/US dollar exchange rate. Outflows for expenses include items such as aircraft related maintenance costs and related parts purchased for the Aerospace & Aviation segment, purchased aircraft, and Hotsy machines and parts purchased by the Manufacturing segment. A significant deterioration of the Canadian dollar relative to the US dollar results in increased costs and adversely affects the profitability of the Corporation's Canadian aviation businesses and the Alberta Operations.

Certain of the Corporation's Subsidiaries generate US dollars through their operations, primarily Regional One, Stainless and Provincial. The Corporation reports in Canadian dollars and therefore a strengthening of the Canadian dollar will result in a decline in the Canadian equivalent reported from the Corporation's US Subsidiaries in its consolidated financial statements.

The Corporation does not regularly use derivative instruments to mitigate this risk but in certain circumstances the Corporation may utilize short-term forward contracts or other similar derivative instruments to lock in a currency position for an upcoming transaction. The Corporation has entered into a Cross Currency Basis Swap during the period to mitigate the risk of foreign exchange fluctuations on a portion of US debt outstanding. The Corporation also applies hedge accounting for its exposure on the US dollar debt outstanding in the Canadian portion of the credit facility.

INTEREST RATES

As at December 31, 2016, 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 $3.6 million (ignoring the impact of foreign exchange) per annum for the credit facility based on the amounts outstanding as at that time. 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 in order to manage this risk in the past. The Corporation's outstanding debentures have fixed interest rates which are not affected by changes in rates.

CREDIT FACILITY AND THE TRUST INDENTURES

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

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

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

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

DIVIDENDS

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

UNPREDICTABILITY AND VOLATILITY OF SHARE PRICES

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

DILUTION RISK

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

CREDIT RISK

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

HUMAN CAPITAL RISKS:

RELIANCE ON KEY PERSONNEL

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

EMPLOYEES AND LABOUR RELATIONS

The success of the Subsidiaries is dependent in large part upon their ability to attract and retain key management and employees. Recruiting and maintaining personnel in the industries in which the Subsidiaries are involved is highly competitive and it cannot be guaranteed that these entities will be able to attract and retain the qualified personnel needed for their businesses. In particular, skilled labour for the WesTower operations of tower maintenance and erection, engineers in Provincial's modification operations, software developers, and certain specialized metal fabricators are specialized and it can be difficult to find qualified personnel and retain them given the competitive environments that these businesses operate in. As well, the pilots, nurses and maintenance personnel within the Aerospace & Aviation segment's operations are in high demand within the aviation industry. 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 within the Aerospace & Aviation segment 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 the foregoing. The directors and management of the Corporation and associates or affiliates of the foregoing 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. OUTLOOK

ACQUISITION STRATEGY

Historically high valuation multiples have dominated the acquisition market, especially in the US. This will likely continue in the near-term given the availability of inexpensive capital and the willingness of financial institutions to extend significant leverage.

Given the current environment it is more imperative than ever for EIC to maintain its acquisition discipline and not chase transactions at multiples that exceed our model. This by no means implies that EIC is standing still. Instead we continue to focus on strategic acquisitions and organic growth. This was exemplified in 2016 as EIC completed two strategic tuck-in acquisitions and invested $159.0 million in organic growth opportunities.

The tuck-in acquisitions were CarteNav and Team J.A.S.. CarteNav, a leading software developer providing intelligence, surveillance, reconnaissance ("ISR") and situational awareness software solutions, is strategic to the continued growth of Provincial's surveillance applications, while Team J.A.S., a Florida-based parts and maintenance repair services company that specializes in Twin Otter aircraft, adds further diversification and platform expertise to Regional One.

The Corporation remains well positioned and well capitalized to move quickly when investment opportunities are identified. As of the end of the year, the Corporation has approximately $120.0 million of undrawn credit facility to fund investment opportunities. After the repayment of debt using funds from the equity offering completed on January 4, 2017 and the increase to the Corporation's credit facility subsequent to year end, the Corporation has approximately $415.0 million of undrawn credit facility available to fund investment opportunities. The Corporation intends to continue acquiring operating companies and investing organically provided the investments meet its strict criteria and can enhance shareholder value.

AEROSPACE & AVIATION SEGMENT

In 2016, significant operational changes, new investments, and partnerships were made to further grow our Aerospace & Aviation segment. These steps, investments, and achievements have established a solid base for this segment to grow moving into 2017 and beyond.

The largest growth within this segment was the significant investments made into Regional One's aircraft portfolio. During 2016, Regional One invested $140.0 million in growth capital expenditures, added additional platform expertise with the addition of Team J.A.S., and committed to purchase five more CRJ900 aircraft in 2017 through their relationship with Bombardier Commercial Aircraft Asset Management ("Bombardier"). The relationship with Bombardier is a significant milestone for Regional One. Not only did it provide Regional One access to purchase 13 CRJ900 aircraft commencing in 2016 and continuing in 2017, but it also established a relationship with Bombardier whereby Regional One will, pursuant to a contractual arrangement with Bombardier, be provided the opportunity to acquire additional aircraft in the future. Regional One will place these aircraft on longer term leases. As is customary for Regional One's asset additions, these aircraft often take approximately 6 months to begin contributing to EBITDA.

The Corporation's growth in aircraft leasing is expected to continue into 2017, with the expansion of the Corporation's lease business in Ireland. Ireland is a key world centre for aircraft leasing operations, which will provide the Corporation with a very experienced workforce and contacts within the industry to further grow its leasing business. The Corporation will also benefit from lower tax rates on its operations in Ireland. The Corporation has already begun to experience the operational benefits expected with the expansion in Ireland in the first quarter of 2017 and expects the tax benefits to be realized in the second half of 2017.

Provincial also took significant steps in 2016 to solidify its business and further establish themselves as a world leader in the ISR industry. First, Provincial started to execute on its multi-year $150 million contract with a customer in the Middle East that was signed in the fourth quarter of 2015. Second, Provincial added a leading ISR software company in CarteNav to further enhance their ISR capabilities. Third, they began the internal development of a Provincial-owned maritime surveillance aircraft to lease to third parties and to be used as a capability demonstrator aircraft. Lastly, on December 8, 2016, the Government of Canada announced that the FWSAR Aircraft Replacement Program was awarded to the C295 team, comprised of Provincial and Airbus Defence and Space. Under the FWSAR contract, Provincial will be responsible for the In-Service Support which covers all aspects of the maintenance work not undertaken by the Royal Canadian Air Force for up to 20 years. It will include high value work such as repairs, second and third level maintenance, future modification work and deep level inspection of the aircraft.

It is important to note that some of the benefits from these projects, especially the demonstrator surveillance aircraft and FWSAR, will not be seen in the immediate financial results. The demonstrator surveillance aircraft will not contribute financially until the aircraft is completed near the end of 2017. Likewise, Provincial will not commence experiencing any material revenues under the FWSAR contract until the C295 aircraft are delivered, which is expected to occur in phases over three years beginning in 2019 such that it will take approximately 6 years before Provincial is in steady state operations for this project.

Any of these developments in and of themselves would have been significant but the combination of all of them lays the foundation for the future growth of Provincial's ISR platform and continues to cement their leading place in the aerospace industry. Additionally, the relationship forged with Airbus has the potential to lead to new global opportunities by leveraging the strengths of both companies.

There were also significant developments, both opportunities and challenges, in Perimeters' northern Manitoba business in 2016. The challenge began in the fourth quarter as Perimeter encountered both weather and aircraft equipment issues, as discussed in Section 6 – *Review of Fourth Quarter Results*. These issues led to both lower revenue and increased costs in the fourth quarter. To ensure a level of service and recognizing the continued trend of weather challenges beyond historic norms, Perimeter will be acquiring two Dash 8 aircraft in 2017. This will create internal redundant capacity and eliminate the cost and reliance of third party charter aircraft. However, until these aircraft are acquired and brought into service later in 2017, Perimeter is expected to continue to charter third party aircraft to provide the level of service this region has come to expect. This will create downward pressure on Perimeter's results for the first half of 2017.

Towards the end of 2016, Perimeter and Bearskin started to provide increased service in the northern territory of Northwestern Ontario ("NWO"). This is a new territory for the airlines, where they will be competing against the two incumbent service providers. The geography and needs of the communities in NWO are similar to Perimeter's traditional Manitoba market where their model has been very successful. As such, EIC is confident that Perimeter will enjoy similar success in NWO in due time. However, as they establish their presence in this territory, the initial period will likely result in higher revenues albeit likely at low margins. Also on the competition front, one of the incumbents has announced on multiple occasions that they will start service into a segment of Perimeter's Manitoba territory. To date there has been no evidence of when or even if this service will start. However, if and when the service starts, EIC is more than confident that Perimeter, with its 60 years of operating experience in the north, will continue its dominance in the market due to its service level and the competitive advantages it enjoys from its efficient operating model.

Calm Air also made strides to further strengthen and expand their business. Building on the operational improvements made over the last couple of years and the addition of First Air's Kivalliq assets in 2015, Calm Air signed a long-term contract with a major northern retailer cargo customer at the end of 2016. In addition to the long-term commitment that enabled Calm Air to appropriately structure its operations, the agreement also added three more stores to its cargo contract.

It is important to keep in mind that unlike North American and global players, a significant percentage of the business and revenue generated by the Legacy Airlines and Provincial's airline operations are derived from northern and isolated communities, where consumer demand is relatively inelastic, insulating them somewhat from Canada's sputtering economy. Likewise, the Legacy Airlines have not had exposure to the Alberta market since 2015, when limited charter operations were stopped.

The airlines benefited from fuel costs savings, particularly in the first half of 2016. Based on the current fuel prices, the airlines will not experience the same fuel costs as 2016 resulting in margin pressure. The airlines continue to implement operational changes which will help to offset some of the increased cost of fuel. Additionally, the portion of revenue that is contracted contains automatic fuel price adjustments. If fuel prices continue to increase, the airlines will look to implement price increases on their non-contracted revenue where appropriate.

As discussed in Section 3 – *Key Performance Indicators*, the vast majority of the Corporation's maintenance capital expenditures are driven by the Aerospace & Aviation Segment. The expenditures for the airlines can vary significantly from period to period depending on the number of maintenance events that fall into a given period. The 2017 year will be a higher year for this segment's maintenance capital expenditures, as the two key drivers, scheduled aircraft heavy checks and engine overhauls, are expected to be higher. Additionally, the maintenance departments schedule the events to maximize the utilization of the fleets, resulting in the majority of these events occurring in the first four months of 2017 to match the airlines' lower capacity requirements. This will result in unusually high maintenance capital expenditures in the first and second quarters of 2017. After these first two quarters, the maintenance capital expenditures are expected to return to the historical norms experienced by the airlines. Outside of the airlines, Regional One's maintenance capital expenditures will also be higher as they have expanded their leasing fleet in 2016 and into 2017. The depreciation on these aircraft will be charged as maintenance capital expenditures to account for the portion of the aircraft that is "used up" as it is leased. This is further explained in Section 3 – *Key Performance Indicators*.

MANUFACTURING SEGMENT

Moving into 2017, the Corporation does not expect major changes in its Manufacturing segment as most companies are expected to have steady to slightly increasing performance.

Stainless' market has been soft in 2016 as its industry has shown tentativeness to move forward on capital projects. However, towards the end of 2016 the level and quality of enquiries have increased in a number of the industries it services. This has led to a materially increased order book to start 2017 for both shop and field work. While the renewed level of capital project spending is in its infancy, Stainless is encouraged by this increased level of demand.

Continuing low commodity prices, most notably for oil and gas, have continued to provide a strong headwind for our Alberta Operations. While a return to the hypermarket of a few years ago is not imminent, the good news is the Alberta economy appears to have bottomed out as prices have shown a modest recovery recently. The Corporation believes its Alberta Operations are well positioned to benefit once the energy sector returns to more traditional pricing levels.

WesTower remains the leader in communication infrastructure construction and support services in Canada and retains a significant competitive advantage over regional players because of its size. The major telecom companies are nearing the end of their current technology cycle resulting in lower levels of capital spending from the telecoms for tower infrastructure. WesTower is broadening the scope of its services to prepare itself for its customers' demand as the next technology is rolled out into the Canadian marketplace. In the interim, WesTower is increasing its footprint on the technical side, which is more labour-intensive but higher-margin work.

Ben Machine and Overlanders are expected to continue with steady performance into 2017. Both companies continue to work with their key customers to meet their procurement needs while broadening their customer base by targeting new customers. This effort has been successful and is laying the foundation for future growth of these companies.

14. NON-IFRS FINANCIAL MEASURES

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

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

Adjusted Net Earnings: is defined as net earnings adjusted for acquisition costs expensed, impairment and restructuring charges (including accelerated depreciation charges), gains or losses recognized on the fair value of contingent consideration items, amortization of intangible assets that are purchased at the time of acquisition, one-time non-cash accelerated accretion charges as a result of convertible debenture redemptions, and the non-cash charge to deferred income taxes incurred as a result of the Corporation's settlement with the CRA on certain tax loss carryforwards associated with the conversion of the Corporation from an income trust to a corporation.

					2016
Adjusted net earnings	Fiscal 2016	Q4	Q3	Q2	Q1
Net earnings	$ 61,490	$ 13,822	$ 20,581	$ 17,214	$ 9,873
Adjusting items, net of tax					
Acquisition costs	1,201	377	482	293	49
Intangible asset amortization	8,576	2,372	2,064	2,054	2,086
Interest accretion on matured debentures	827	—	—	827	—
Adjusted net earnings	$ 72,094	$ 16,571	$ 23,127	$ 20,388	$ 12,008

					2015
	Fiscal 2015	Q4	Q3	Q2	Q1
Net earnings	$ 40,234	$ 9,923	$ 15,983	$ 13,394	$ 934
Adjusting items, net of tax					
Acquisition costs	4,492	547	757	994	2,194
Intangible asset amortization	6,888	2,166	2,071	2,128	523
Interest accretion on matured debentures	648	—	—	—	648
Adjusted net earnings	$ 52,262	$ 12,636	$ 18,811	$ 16,516	$ 4,299

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 and any unusual non-operating one-time items. Free Cash Flow is a performance measure used by management and investors to analyze the cash generated from operations before the seasonal impact of changes in working capital items or other unusual items.

Maintenance and Growth Capital Expenditures: are the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and includes the principal payments made by the Corporation on its finance leases. Other capital expenditures are classified as growth capital expenditures and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

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

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

ADDITIONAL INFORMATION

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

15. SELECTED ANNUAL INFORMATION

The following table provides selected annual information for the Corporation for the years ended 2014 through to 2016.

From continuing operations	2016	2015	2014
Revenues	$ 891,026	$ 807,403	$ 542,503
Expenses [1]	678,451	628,163	448,225
EBITDA	$ 212,575	$ 179,240	$ 94,278
Total non-operating expense	151,085	139,006	105,903
Net earnings (loss) from continuing operations	$ 61,490	$ 40,234	$ (11,625)
Earnings per share			
Basic	$ 2.18	$ 1.63	$ (0.53)
Diluted	2.12	1.60	(0.53)
Adjusted net earnings	$ 72,094	$ 52,262	$ 14,797
Basic	2.56	2.12	0.67
Diluted	2.43	2.07	0.66
Dividends declared	$ 56,331	$ 45,227	$ 37,424
Per share	1.995	1.815	1.69
Free Cash Flow	$ 164,211	$ 139,772	$ 76,980
Per share basic	5.83	5.67	3.48
Per share fully diluted	5.08	4.76	2.96
Free Cash Flow less maintenance capital expenditures	$ 91,584	$ 74,405	$ 35,119
Per share basic	3.25	3.02	1.59
Per share fully diluted	3.00	2.73	1.55
Financial Position			
Working capital	$ 170,640	$ 135,310	$ 95,784
Total assets	1,424,532	1,229,056	715,103
Total long-term liabilities [2]	679,444	524,553	272,164
Total liabilities	938,395	782,438	415,510
Share Information			
Common shares outstanding as at December 31,	28,793,354	27,633,217	22,507,341
Weighted average common shares outstanding during the year – basic	28,151,807	24,656,755	22,127,189

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

Note 2): Long-term liabilities include the non-current portions of long-term debt and finance leases, convertible debentures, and other long-term liabilities.

INDEPENDENT AUDITOR'S REPORT

February 22, 2017

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EXCHANGE INCOME CORPORATION

We have audited the accompanying consolidated financial statements of Exchange Income Corporation and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Exchange Income Corporation and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	As at December 31, 2016	As at December 31, 2015
Assets		
Current		
Cash and cash equivalents	$ 26,494	$ 15,497
Accounts receivable	150,338	125,434
Costs incurred plus recognized profits in excess of billings (Note 16)	7,567	7,776
Inventory (Note 7)	129,854	118,645
Prepaid expenses and deposits	34,295	38,907
Income taxes receivable	—	10,955
	348,548	317,214
Other assets (Note 8)	14,589	10,100
Capital assets (Note 9)	693,993	542,629
Intangible assets (Note 10)	107,277	112,813
Deferred income tax assets (Note 25)	238	226
Goodwill (Note 10)	259,887	246,074
	$ 1,424,532	$ 1,229,056
Liabilities		
Current		
Accounts payable and accrued expenses	$ 123,982	$ 108,333
Income taxes payable	3,570	—
Deferred revenue	38,515	51,716
Billings in excess of costs incurred plus recognized profits (Note 16)	10,772	20,824
Current portion of long-term debt and finance leases (Note 11)	1,069	1,031
	177,908	181,904
Long-term debt and finance leases (Note 11)	445,260	303,855
Other long-term liabilities	21,840	16,779
Convertible debentures (Note 12)	212,344	203,919
Deferred income tax liability (Note 25)	81,043	75,981
	938,395	782,438
Equity		
Share capital (Note 13)	463,603	425,561
Convertible debentures – Equity Component (Note 12)	11,245	11,200
Contributed surplus	3,478	1,788
Deferred share plan	7,207	5,123
Retained earnings		
Cumulative Earnings	247,586	186,491
Cumulative Dividends (Note 14)	(290,631)	(234,300)
	(43,045)	(47,809)
Accumulated other comprehensive income	43,649	50,755
	486,137	446,618
	$ 1,424,532	$ 1,229,056

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

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars, except for per share amounts)	For the years ended December 31, 2016	2015
Revenue		
Aerospace & Aviation	$ 703,327	$ 614,773
Manufacturing	187,699	192,630
	891,026	807,403
Expenses		
Aerospace & Aviation expenses – excluding depreciation and amortization	414,638	374,707
Manufacturing expenses – excluding depreciation and amortization	140,522	146,519
General and administrative	123,291	106,937
	678,451	628,163
Operating profit before depreciation, amortization, finance costs and other (Note 4)	212,575	179,240
Depreciation and amortization	94,063	84,576
Finance costs – interest	30,169	30,041
Acquisition costs	1,309	5,064
Earnings before income taxes	87,034	59,559
Income tax expense (recovery) (Note 25)		
Current	25,888	15,544
Deferred	(344)	3,781
	25,544	19,325
Net earnings	$ 61,490	$ 40,234
Earnings per share (Note 17)		
Basic	$ 2.18	$ 1.63
Diluted	$ 2.12	$ 1.60

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Attributable to common shareholders (in thousands of Canadian dollars)	For the years ended December 31 2016	2015
Net earnings	$ 61,490	$ 40,234
Other comprehensive income (loss)		
Items that are or may be reclassified to the statement of income		
Cumulative translation adjustment, net of tax expense of $209 and tax recovery of $419, respectively	(7,763)	42,853
Net gain (loss) on hedge of net investment in foreign operation	657	(7,785)
	(7,106)	35,068
Comprehensive income	$ 54,384	$ 75,302

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Share Capital	Convertible Debentures – Equity Component
Balance, January 1, 2015	$ 308,919	$ 13,877
Shares issued to acquisition vendors	18,802	—
Convertible debentures		
Converted into shares	20,348	(1,047)
Matured	—	(1,630)
Shares issued under dividend reinvestment plan	3,987	—
Shares issued under First Nations community partnership agreements	98	—
Deferred share plan vesting	—	—
Shares issued under ESPP	1,554	—
Deferred share plan issuance	482	—
Prospectus offering, September 2015	71,371	—
Comprehensive income	—	—
Dividends declared	—	—
Balance, December 31, 2015	$ 425,561	$ 11,200
Balance, January 1, 2016	$ 425,561	$ 11,200
Shares issued to acquisition vendors (Note 6)	1,809	—
Convertible debentures		
Converted into shares (Note 13)	29,310	(1,527)
Issued	—	3,262
Matured/Redeemed	—	(1,690)
Shares issued under dividend reinvestment plan (Note 13)	5,345	—
Deferred share plan vesting	—	—
Deferred share plan issuance (Note 13)	98	—
Shares issued under ESPP (Note 13)	2,369	—
Shares cancelled under NCIB (Note 13)	(889)	—
Comprehensive income	—	—
Dividends declared (Note 14)	—	—
Balance, December 31, 2016	$ 463,603	$ 11,245

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

Contributed Surplus – Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Total
$ 124	$ 3,802	$ 146,257	$ (189,073)	$ 15,687	$ 299,593
—	—	—	—	—	18,802
—	—	—	—	—	19,301
1,664	—	—	—	—	34
—	—	—	—	—	3,987
—	—	—	—	—	98
—	1,803	—	—	—	1,803
—	—	—	—	—	1,554
—	(482)	—	—	—	—
—	—	—	—	—	71,371
—	—	40,234	—	35,068	75,302
—	—	—	(45,227)	—	(45,227)
$ 1,788	$ 5,123	$ 186,491	$ (234,300)	$ 50,755	$ 446,618
$ 1,788	$ 5,123	$ 186,491	$ (234,300)	$ 50,755	$ 446,618
—	—	—	—	—	1,809
—	—	—	—	—	27,783
—	—	—	—	—	3,262
1,690	—	—	—	—	—
—	—	—	—	—	5,345
—	2,182	—	—	—	2,182
—	(98)	—	—	—	—
—	—	—	—	—	2,369
—	—	(395)	—	—	(1,284)
—	—	61,490	—	(7,106)	54,384
—	—	—	(56,331)	—	(56,331)
$ 3,478	$ 7,207	$ 247,586	$ (290,631)	$ 43,649	$ 486,137

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)	For the years ended December 31, 2016	2015
Operating activities		
Net earnings for the year	$ 61,490	$ 40,234
Items not affecting cash:		
Depreciation and amortization	94,063	84,576
Accretion of interest	5,687	5,515
Long-term debt discount	192	(355)
Gain on sale of disposal of capital assets	(368)	(847)
Deferred income tax expense	(344)	3,781
Deferred share program share-based vesting (Note 19)	2,182	1,804
	162,902	134,708
Changes in non-cash operating working capital items (Note 23)	(26,055)	(27,266)
	136,847	107,442
Financing activities		
Net proceeds from (repayment of) long-term debt & finance leases, net of issuance costs (Note 11)	139,392	273,989
Proceeds from issuance of convertible debentures, net of issuance costs	65,623	—
Redemption of convertible debentures	(30,357)	(37,108)
Issuance of shares, net of issuance costs	7,714	77,010
Payment for repurchase of Shares under NCIB (Note 13)	(1,284)	—
Cash dividends (Note 14)	(56,331)	(45,227)
	124,757	268,664
Investing activities		
Purchase of capital assets	(264,702)	(153,922)
Proceeds from disposal of capital assets	35,075	29,777
Purchase of intangible assets	(1,361)	(1,043)
Investment in other assets	(4,328)	(472)
Cash outflow for acquisitions, net of cash acquired of $4,228 and $23,797, respectively	(17,915)	(254,093)
Finance lease receivable payments, net of reserves	2,624	4,176
	(250,607)	(375,577)
Net increase in cash and cash equivalents	10,997	529
Cash and cash equivalents, beginning of year	15,497	14,968
Cash and cash equivalents, end of year	$ 26,494	$ 15,497
Supplementary cash flow information		
Interest paid	$ 24,333	$ 25,759
Income taxes paid	$ 11,313	$ 30,799

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015
(in thousands of Canadian dollars, unless otherwise noted and except per share information and share data)

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Corporation") is a diversified, acquisition-oriented corporation focused on opportunities in aerospace & aviation services and equipment, and manufacturing. In particular, the Corporation is focused on businesses that are suited for public markets, except, in certain circumstances, for their size. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at December 31, 2016, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom Helicopters"), Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA"), R1 Canada LP ("Regional One Canada"), Provincial Aerospace Ltd. ("Provincial"), Ben Machine Products Company Inc. ("Ben Machine"), and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless"), Dallas Sailer Enterprises, Inc. ("Water Blast Dakota"), and Regional One, Inc. ("Regional One") are wholly owned subsidiaries of EIIF USA. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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 22, 2017.

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 to fair value.

B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, including those identified in Note 1. All significant inter-company transactions have been eliminated for purposes 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 effect 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 on various types of transactions. The Aerospace & Aviation segment recognizes revenue on the provision of flight, flight ancillary services, and the sale and/or lease of aircraft and aftermarket parts. The Manufacturing segment recognizes revenue on the sales of manufacturing products and services.

AEROSPACE & AVIATION REVENUES

The Corporation records flight revenue at the time when the flight has been completed. Tickets sold but for which the customer has not flown are reflected on the consolidated statement of financial position as deferred revenue and recognized as flight revenue when the service is provided or when the ticket expires. Perimeter offers a customer loyalty program where a customer receives a loyalty point as a percentage of each ticket purchased. The award points are recognized as a separately identifiable component of the initial sale of the ticket, by allocating the fair value of the consideration received between the award points and the sale of the ticket. The fair value of the award points is deferred and is recognized as revenue on redemption of the award by the participant to whom the award is issued. The Corporation performs regular evaluations on the deferred revenue liability for passenger tickets purchased in advance within the Aerospace & Aviation segment's operating entities. These evaluations may result in adjustments being recognized as revenue. Due to the complexity of the pricing and systems, historical experience, and other factors including refunds, exchanges and unused tickets, certain amounts are recognized as revenue based on estimates. Events and circumstances may result in actual results that are different from estimates.

The Corporation recognizes aviation part sales revenue when the title has been passed to the customer, at the time the effective control of the product and the risks and rewards of ownership have been passed to the customer. Payments received in advance are recorded as deferred revenue until the product has been delivered to the customer. In addition, the Corporation recognizes revenue from consignment sales in the same manner as discussed above. These sales have the characteristics of principal sales and are therefore recorded at the gross amount in revenue, with the payment to the consignor recorded as cost of sales.

Revenue from leasing of aircraft and aircraft equipment is recognized as revenue straight-line over the terms of the applicable lease agreements. Certain of the Corporation's lease contracts call for billings in advance. Rentals received, but unearned are deferred and recorded as deferred revenue on the statement of financial position. As part of terms of applicable lease agreements, customers are often required to make security deposits. These deposits are generally recorded as a liability on the statement of financial position within "Other Long-Term Liabilities".

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. Discounted 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".

Certain fuel sales transactions within the Aerospace & Aviation segment's aviation support entities have the characteristics of agent sales and as a result revenues are recorded based on the net amount retained which is the difference between the amount billed to a customer less the amount paid to the supplier. The amount receivable from the customer and the amount owing to the fuel supplier are not reported on a net basis as a right of offset does not exist.

In Provincial, revenue from aircraft modification contracts and long-term contracts developing software for customers are recognized on a percentage-of-completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

MANUFACTURING REVENUES

The Corporation recognizes manufacturing product revenue when the title has been passed to the customer, at the time the effective control of the product and the risks and rewards of ownership have been passed to the customer, excluding revenues recognized by Stainless and WesTower CDA as described below on long-term contracts. Payments received in advance are recorded as deferred revenue until the product has been delivered to the customer.

Revenues from long-term contracts associated with manufacturing products are recognized on a percentage-of-completion basis. The operations of Stainless and WesTower CDA within the Manufacturing segment include these contracts. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs.

The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

The Corporation presents two lines on the statement of financial position pertaining to long-term contracts revenue recognition. A current asset and current liability are recorded that represent the difference between the revenues recognized and the amounts billed to the customers of these long-term contracts. The current asset is called "Costs incurred plus recognized profits in excess of billings" and the current liability is called "Billings in excess of costs incurred plus recognized profits". Amounts billed to customers are presented as Accounts Receivable.

D) EXPENSES

AEROSPACE & AVIATION EXPENSES – EXCLUDING DEPRECIATION AND AMORTIZATION

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

E) FOREIGN CURRENCY TRANSLATION

FUNCTIONAL AND PRESENTATION CURRENCY

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

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

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

TRANSACTIONS AND BALANCES

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

F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments having a maturity of three months or less. Interest is recorded on an accrual basis. As at December 31, 2016, cash equivalents was nil (December 31, 2015 – nil).

G) FINANCIAL INSTRUMENTS

ADOPTION OF IFRS 9 – FINANCIAL INSTRUMENTS

The Corporation has early adopted IFRS 9, Financial Instruments, with a date of initial application of January 1, 2016. IFRS 9 introduces a principles-based approach to the classification and measurement of financial assets based on an entity's business model and the nature of a financial asset's cash flows. All financial assets, including hybrid contracts, are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. IFRS 9 introduces an expected loss impairment model for all financial assets not carried at FVTPL. IFRS 9 also introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.

All financial assets previously classified as Loans and Receivables are now classified at amortized cost. There were no changes to the measurement category for financial liabilities at amortized cost.

At the date of adoption, the application of IFRS 9 had no material impact on the Corporation's consolidated financial statements.

RECOGNITION

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

CLASSIFICATION

Effective the date of adoption, the Corporation classifies its financial assets and liabilities into the following measurement categories:

- those measured subsequently at fair value, either through profit or loss or through OCI
- those measured at amortized cost

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

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

MEASUREMENT

IFRS requires that an entity measure a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, the entity shall measure a financial asset at one of amortized cost, fair value through OCI, or fair value through profit or loss. Measurement of financial liabilities is chosen at the time of initial recognition and unless specifically identified as FVTPL at the time of adoption, are subsequently measured at amortized cost. The requirements of IFRS 9 in relation to classification and measurement of financial liabilities are consistent with the requirements previously included under IAS 39, except that changes in fair value due to credit risk for liabilities designated as FVTPL under IFRS 9 are recorded in other comprehensive income.

IMPAIRMENT

IFRS substitutes the incurred loss model under IAS 39 with the expected losses model. Expected credit losses are to be recognized at all times in a forward-looking approach that reflects changes in credit risk of the financial instruments.

For trade receivables or contract assets that do not contain a significant financing component, the loss allowance should be 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.

HEDGE ACCOUNTING AND DERIVATIVES

On the date a derivative is entered into, the instrument is recognized at fair value and re-measured at the end of each reporting period. The accounting for a derivative contract depends on whether the derivative is designated as a hedging instrument. If it is designated as a hedging instrument, the accounting treatment is dependent on the nature of the hedged item and the hedging relationship. At the date of adoption, the Corporation was not party to any derivatives and therefore there was no impact to the financial statements of the Corporation.

IFRS 9 changed the requirements for hedge effectiveness and consequently for the application of hedge accounting. The IAS 39 required effectiveness test was replaced with the requirement for an economic relationship between the hedged item and the hedging instrument, and for the hedge ratio to be the same as that used by the entity for risk-management purposes. Certain restrictions that prevented some hedging strategies and hedging instruments from qualifying for hedge accounting were removed under IFRS 9. Generally, the mechanics of hedge accounting remain unchanged.

ACCOUNTING POLICY PRIOR TO JANUARY 1, 2015

The Corporation has applied IFRS 9 retrospectively, but has not adjusted the comparative figures in accordance with the transition requirements. As a result, the comparative figures provided are accounted for in accordance with IAS 39.

H) HEDGES OF A NET INVESTMENT IN 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.

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.

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 and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk. 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.

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 back up to the original cost with an increase in the value of the inventory items.

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.

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. Inventory carrying value is determined using the average cost to sales percentage to Regional One inventory at expected selling prices. The average cost to sales percentage is based on historical profitability or from contracted rates under certain procurement arrangements. Remanufactured inventory cost is based upon the price paid for the cores and also includes expenses incurred for freight, direct manufacturing costs, third party repair costs and overhead, as applicable.

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 labour, an appropriated proportion of production overheads and borrowing costs to construct. When an asset includes major components that have different useful lives, they are accounted for as separate items.

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

In regards to the maintenance of the Corporation's aircraft, costs for routine aircraft maintenance as well as repair costs are charged as maintenance expense as incurred. Costs for major aircraft frame, engine overhauls and other major aircraft components incurred on owned 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 – 25 years
Aircraft frames and rotables	5 – 13 years
Aircraft engines	2 – 20 years
Aircraft propellers	2 – 7 years
Aircraft landing gear	5 – 15 years
Equipment	5 – 10 years
Other	3 – 4 years

Leasehold improvements over the term of 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 5 years
Operating certificates	Straight-line over 2 – 30 years or until expiry
Information technology systems	Straight-line over 3 – 5 years

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

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

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 units ("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.

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 their 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. 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 or 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.

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 19). 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 – EMPLOYEE SHARE PURCHASE PLAN

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

PENSION PLAN

The Corporation has pension-related costs associated with the defined contribution pension plans to which certain Calm Air, Bearskin, Custom and Provincial personnel are entitled. The Corporation's accounting policy is to expense contributions as earned during the period when the contributions become payable and are recorded within general and administrative expenses of the Aerospace & Aviation segment. During 2016, the Corporation recorded defined contribution pension plan costs of $3,033 (2015 – $2,782).

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.

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

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

Gains and losses on sale and operating leaseback transactions are recognized immediately in the statement of income when it is clear that the transactions are established at fair value. If the sale price is below fair value, any loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the gain shall be deferred and amortized over the period for which the asset is expected to be used. In the context of sale and finance leaseback transactions, any gain on the sale is deferred and recognized as interest income over the lease term.

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.

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 common shares comprise of 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.

V) ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2017 and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 15 – REVENUE

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – LEASES

IFRS 16 replaces IAS 17, Leases and related interpretations. The core principle is that a lessee recognizes assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15, Revenue from Contracts, with Customers. The Corporation is assessing the impact of adopting this standard on its financial statements.

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND 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 COMBINATION

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 acquiree 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 that is deemed to be an asset or liability is 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, certifications, software intellectual property ("IP"), and trade names. To determine the fair value of these customer based intangible assets (excluding trade 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 trade name and software IP intangible assets, the Corporation adopted 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.

LONG-TERM CONTRACT REVENUE RECOGNITION

Revenue and income from fixed price construction contracts are determined on the percentage-of-completion method, based on the ratio of actual costs incurred to date over estimated total costs. The Corporation has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance factors, contract profit can differ significantly from earlier estimates. Management believes, based on its experience, that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labour, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions and the accuracy of the original bid estimate. Fixed price contracts exist in the Corporation's Aerospace & Aviation and Manufacturing segments, and specifically within the operations of WesTower CDA, Stainless, and Provincial.

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.

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, contract revenue is recognized to the extent of costs incurred or, if lower, to the extent to which recovery is probable. Therefore, to the extent that actual costs recovered are different from expected cost recoveries, significant changes in revenue and profitability can occur from one reporting period to another.

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. In accordance with the Corporation's accounting policy, claims are recognized in revenue only when resolution is probable. Therefore, it is possible for the Corporation to have substantial contract costs recognized in one accounting period with associated revenue recognized in a later period. Given the above-noted critical accounting estimates associated with the accounting for construction contracts, including change orders and claims, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year or later could be different from the estimates and assumptions adopted and could require a material adjustment to revenue and/or the carrying amount of the asset or liability affected. The Corporation is unable to quantify the potential impact to the consolidated financial results from a change in estimate in calculating revenue.

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 and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2016 would result in an increase of approximately $8,010 (2015 – $5,872) 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 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. 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.

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

Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 2.5% and 5.0%, and discount rates (pre-tax) ranging between 16% and 18%.

The Corporation has concluded that no impairments of its indefinite lived intangible assets existed as a result of this assessment as at December 31, 2016. However, the assessment identified two cash generating units, with indefinite life intangible assets of $6.0 million and $2.1 million, respectively, which would not be able to generate a fair value less costs of disposal recoverable amount in excess of their carrying value if certain management assumptions were to change within a reasonable range. Based on the high end of management's range of the estimated fair value less costs of disposal of the two cash generating units, the value in use was greater than their carrying value by approximately $5.0 million (or 17%) and $4.0 million (or 15%), respectively. If a change in the assumptions of long-term growth rates decreased by approximately 2.5 percentage points, the carrying amounts of each of the two cash generating units would exceed the reasonable range of the estimated fair value less costs of disposal. If a change in the assumptions of discount rates (pre-tax) increased by approximately 1.5 percentage points, the carrying amounts of each of the two cash generating units would exceed the reasonable range of the estimated fair value less costs of disposal. These changes in assumptions have been assessed independently of one another.

GOODWILL

The recoverable amount of the goodwill CGUs was calculated based on the fair value less costs of disposal, using an EBITDA multiple approach 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 7.5× (2015 – 6.5×) and was 7.0× (2015 – 7.0×) for the Manufacturing segment.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2016.

DEFERRED INCOME TAXES

The Corporation recognizes deferred tax assets related to tax-loss carryforwards and other deductible temporary differences where it is probable that sufficient future taxable income can be generated in order to fully utilize such losses and deductions. This requires significant estimates and assumptions regarding future earnings, and the ability to implement certain tax planning opportunities in order to assess the likelihood of utilizing such losses and deductions. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the ability to fully realize the benefit of the deferred tax assets.

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. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. 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.

During 2016, the Corporation recognized an out-of-period adjustment in relation to the determination of goodwill associated with the acquisition of Provincial Aerospace Ltd. The Corporation incorrectly recorded a deferred tax benefit related to a provision for a non-deductible payment to the vendors. The out of period adjustment resulted in an increase to goodwill and deferred tax liabilities of $3,139 and had no impact on net income.

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 when 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 and the related accounting implications.

The normal operations of Regional One within the Aerospace & Aviation segment include it acting as a provider of aircraft and engine aftermarket parts. In the course of its business, it may acquire entire aircraft or components of an aircraft for breakdown into salable parts. Regional One determines the carrying value of its inventory using the average cost to sales percentage based on the expected selling price. Accordingly, the carrying value of inventory and recognition of the related cost of sale requires estimates related to the average cost to sales percentage. The Corporation has a process whereby such estimates are reviewed on a regular basis and based on historical experience and changes in market conditions. However, due to unforeseen changes in market conditions or other factors, 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 percentages. Some of the factors that can change include significant changes in worldwide utilization of certain aircraft types which the parts support, 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

ACQUISITION OF CARTENAV

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

Consideration given:	
Cash	$ 11,334
Estimated working capital adjustment	338
Contingent consideration – earnout	2,166
Total purchase consideration	$ 13,838

Total purchase consideration, including the fair value of an earnout, was $13,838. Purchase consideration includes $11,334 of cash paid on closing, the fair value of the earnout of $2,166 that is payable to the vendors, plus an estimate for the final working capital settlement of $338. The final working capital settlement is expected to occur in the first quarter of 2017. The acquisition balance sheet includes the fair value of the earnout liability of $910 to CarteNav's previous option holders whose equity interest was terminated prior to the close of the acquisition. The maximum earnout is $900 per annum for five years and is only paid out to the vendors and previous option holders if certain EBITDA thresholds are exceeded. The aggregate goodwill recognized for CarteNav was $11,577 and acquired intangible assets totalling $5,540.

Of the $5,540 acquired intangible assets, $2,900 was assigned to customer relationships, $1,400 was assigned to software IP, $1,000 was assigned to trade name, and $240 was assigned to backlog. The customer relationships, backlog and software IP intangible assets are subject to amortization while the trade name is considered to have an indefinite life.

ACQUISITION OF TEAM J.A.S.

On November 4, 2016, the Corporation acquired all of the issued and outstanding shares of Team J.A.S., Inc. ("Team J.A.S."), a US corporation based in Jacksonville, Florida. Team J.A.S. is a leading provider of parts, services and MRO capabilities to Twin Otter operators throughout the world. Team J.A.S. is strategically complementary to Regional One's business offering a new product platform in the Twin Otter and new capabilities as a Federal Aviation Administration Part 145 Repair Station and Parts Manufacturer Approval.

Consideration given:	
Cash	$ 10,809
Estimated working capital consideration	9
Issue of 50,765 shares of the Corporation at a price of $35.64 per share	1,809
Total purchase consideration	$ 12,627

The total purchase price is US$9,433 ($12,627), and is subject to customary post-closing adjustments. The final working capital settlement is expected to occur in the first quarter of 2017. The purchase price included cash paid on closing of US$8,075 ($10,809), US$1,352 ($1,809) of Shares of the Corporation, and US$6 ($9) estimated working capital settlement. The aggregate goodwill recognized for Team J.A.S. was US$720 ($964).

Details of the preliminary fair values of the net assets acquired at the time of the transaction for both CarteNav and Team J.A.S. are summarized in the chart below. The amounts will be finalized in the first quarter of 2017 with the final settlement of working capital for both CarteNav and Team J.A.S..

Fair value of assets acquired (CarteNav and Team J.A.S.):	
Cash	$ 4,228
Accounts receivable	2,816
Inventory	4,897
Prepaid expenses	181
Capital assets	4,355
Intangible assets	5,540
	22,017
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	4,700
Taxes payable	534
Deferred revenue	1,948
Deferred taxes	911
Fair value of identifiable net assets acquired	13,924
Goodwill	12,541
Total purchase consideration	$ 26,465

7. INVENTORIES

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

	December 31, 2016	December 31, 2015
Parts and other consumables	$ 100,734	$ 89,760
Raw materials	21,091	18,552
Work in process	3,628	2,278
Finished goods	4,401	8,055
Total inventory	$ 129,854	$ 118,645

During 2016, inventory from the Aerospace & Aviation segment with a value of $64,125 (2015 – $52,882) was recorded as a direct operating expense and inventory from the Manufacturing segment with a value of $39,684 (2015 – $45,520) was recorded as a cost of goods sold expense.

8. OTHER ASSETS

The other assets of the Corporation consist of the following:

	December 31, 2016	December 31, 2015
Long-term security deposits and long-term finance lease receivables	$ 3,762	$ 3,335
Other investments	10,827	6,765
Total other assets	$ 14,589	$ 10,100

The Corporation is invested in two equity accounted investments in non-trading entities. The Corporation's ownership percentages in both entities is 49% and the carrying values at December 31, 2016 are $2,766 (2015 – $2,021) and $3,583 (2015 – nil), respectively. The reporting period end for both of these entities is December 31. These two entities have total assets of $17,470 and total liabilities of $5,392 at December 31, 2016. The entities had revenues of $42,818 and net income of $9,088 for the year ended December 31, 2016. These investments, for which fair market value is not available, have been included within the other investments line above.

The Corporation is invested in a non-trading entity which is accounted for at fair value through OCI (Available for sale under IAS 39). The Corporation's ownership percentage is 14.29%. The entity has a carrying value of $4,478 (2015 – $4,744) at December 31, 2016, and holds several aviation assets.

9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

			December 31, 2016
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 8,313	$ —	$ 8,313
Buildings	114,604	22,303	92,301
Aircraft frames	456,425	92,445	363,980
Aircraft engines	187,798	64,169	123,629
Aircraft propellers and rotors	31,976	11,463	20,513
Aircraft landing gear	23,330	5,749	17,581
Aircraft rotable parts	35,642	8,519	27,123
Equipment	99,836	66,576	33,260
Other	9,182	6,665	2,517
Leasehold improvements	9,882	5,106	4,776
Total	$ 976,988	$ 282,995	$ 693,993

							Year Ended December 31, 2016
Net Book Value	Opening	Acquisition (Note 6)	Additions	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 7,425	$ 885	$ —	$ —	$ —	$ 3	$ 8,313
Buildings	91,861	3,094	1,035	(169)	(3,530)	10	92,301
Aircraft frames	228,593	—	199,662	(31,076)	(32,334)	(865)	363,980
Aircraft engines	106,265	—	42,415	(2,455)	(21,811)	(785)	123,629
Aircraft propellers and rotors	17,676	—	7,694	(236)	(4,621)	—	20,513
Aircraft landing gear	18,328	—	2,310	(3)	(3,054)	—	17,581
Aircraft rotable parts	30,579	—	2,535	(388)	(5,603)	—	27,123
Equipment	35,578	325	7,824	(380)	(10,028)	(59)	33,260
Other	1,927	46	1,195	—	(710)	59	2,517
Leasehold improvements	4,397	5	1,033	—	(625)	(34)	4,776
Total	$ 542,629	$ 4,355	$ 265,703	$ (34,707)	$ (82,316)	$ (1,671)	$ 693,993

During 2016, the Corporation completed the acquisitions of CarteNav and Team J.A.S.. The fair value of assets acquired on the date of acquisition for each has been included in the acquisition column above.

	December 31, 2015		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 7,425	$ —	$ 7,425
Buildings	109,828	17,967	91,861
Aircraft frames	299,097	70,504	228,593
Aircraft engines	161,809	55,544	106,265
Aircraft propellers and rotors	30,268	12,592	17,676
Aircraft landing gear	23,665	5,337	18,328
Aircraft rotable parts	37,520	6,941	30,579
Equipment	92,364	56,786	35,578
Other	7,732	5,805	1,927
Leasehold improvements	8,793	4,396	4,397
Total	$ 778,501	$ 235,872	$ 542,629

	Year Ended December 31, 2015						
Net Book Value	Opening	Acquisition	Additions	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 7,390	$ —	$ 35	$ —	$ —	$ —	$ 7,425
Buildings	67,048	26,682	1,981	—	(3,850)	—	91,861
Aircraft frames	138,927	26,111	103,421	(15,012)	(25,899)	1,045	228,593
Aircraft engines	82,519	17,963	25,905	(13,304)	(22,466)	15,648	106,265
Aircraft propellers and rotors	12,625	7,102	3,329	(24)	(5,356)	—	17,676
Aircraft landing gear	10,280	8,252	2,753	(245)	(2,712)	—	18,328
Aircraft rotable parts	21,260	3,526	9,157	(228)	(3,136)	—	30,579
Equipment	21,422	17,491	6,576	(123)	(10,384)	596	35,578
Other	1,743	61	762	—	(696)	57	1,927
Leasehold improvements	1,700	2,212	923	—	(641)	203	4,397
Total	$ 364,914	$ 109,400	$ 154,842	$ (28,936)	$ (75,140)	$ 17,549	$ 542,629

10. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2016 and 2015:

			December 31, 2016
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 60,166	$ —	$ 60,166
Finite Life Assets			
Customer contracts	33,944	7,635	26,309
Customer relationships	17,491	16,731	760
Non-compete agreements	808	796	12
Certifications	9,420	887	8,533
Information technology systems	4,527	2,061	2,466
Other	14,043	5,012	9,031
Total	$ 140,399	$ 33,122	$ 107,277

							Year Ended December 31, 2016
Net Book Value	Opening	Acquisition (Note 6)	Additions	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 59,840	$ 1,000	$ —	$ —	$ —	$ (674)	$ 60,166
Finite Life Assets							
Customer contracts	29,703	—	—	—	(3,394)	—	26,309
Customer relationships	3,170	2,900	—	—	(5,298)	(12)	760
Non-compete agreements	79	—	—	—	(66)	(1)	12
Certifications	8,610	—	—	—	(74)	(3)	8,533
Information technology systems	526	1,400	1,282	—	(742)	—	2,466
Other	10,885	240	79	—	(2,173)	—	9,031
Total	$ 112,813	$ 5,540	$ 1,361	$ —	$ (11,747)	$ (690)	$ 107,277

During 2016, the Corporation completed the acquisition of CarteNav. The fair value of intangible assets acquired on the date of acquisition has been included in the acquisition column above.

	Cost	Accumulated Amortization	December 31, 2015 Net Book Value
Indefinite Life Assets			
Brand name	$ 59,840	$ —	$ 59,840
Finite Life Assets			
Customer contracts	33,944	4,241	29,703
Customer relationships	14,603	11,433	3,170
Non-compete agreements	809	730	79
Certifications	9,422	812	8,610
Information technology systems	1,845	1,319	526
Other	13,724	2,839	10,885
Total	$ 134,187	$ 21,374	$ 112,813

Net Book Value	Opening	Acquisition	Additions	Disposals	Amortization	Exchange Differences	Year Ended December 31, 2015 Ending
Indefinite Life Assets							
Brand name	$ 32,756	$ 24,300	$ —	$ —	$ —	$ 2,784	$ 59,840
Finite Life Assets							
Customer contracts	385	32,577	—	—	(3,259)	—	29,703
Customer relationships	5,866	—	—	—	(3,669)	973	3,170
Non-compete agreements	202	—	—	—	(128)	5	79
Certifications	861	7,810	—	—	(73)	12	8,610
Information technology systems	508	—	136	—	(118)	—	526
Other	2,182	9,985	907	—	(2,189)	—	10,885
Total	$ 42,760	$ 74,672	$ 1,043	$ —	$ (9,436)	$ 3,774	112,813

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

Goodwill	2016	2015
Balance, beginning of year	$ 246,074	$ 98,603
Goodwill from business acquisitions (Note 6)	12,541	137,322
Prior period adjustment (Note 5)	3,139	—
Translation of goodwill of foreign operations (Stainless, Regional One, Water Blast Dakota, and Team J.A.S.)	(1,867)	10,149
Balance, end of year	259,887	246,074

As a result of the foreign currency translation policy for the consolidation of Stainless, Water Blast Dakota, Regional One, and Team J.A.S. as described in Note 3(e), the goodwill recorded in Stainless (US$14,751), in Water Blast Dakota (US$476), in Regional One (US$30,105), and Team J.A.S. (US$720) 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, 2016 based on management's best estimates of market participant assumptions including weighted average cost of capital. The forecasts are based on 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 CGUs operate.

As at December 31, 2016, there was no impairment of goodwill or indefinite life intangible assets based on management's assessment (Note 5).

11. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Revolving term facility:		
Canadian dollar amounts drawn	$ 217,300	$ 248,000
United States dollar amounts drawn (US$169,900 and US$41,040, respectively)	228,125	56,799
Total credit facility debt outstanding, principal value	445,425	304,799
less: unamortized transaction costs	(1,087)	(1,789)
less: unamortized discount on outstanding Banker's Acceptances	(163)	(355)
Net credit facility debt	444,175	302,655
Finance leases	2,154	2,231
Total net credit facility debt and finance leases	446,329	304,886
less: current portion of finance leases	(1,069)	(1,031)
Long-term debt and finance leases	$ 445,260	$ 303,855

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, 2016.

The Corporation's credit facility consists of $500,000 allocated to the Corporation's Canadian head office and US$50,000 allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds.

Interest expense recorded by the Corporation during the year ended December 31, 2016 for the long-term debt and finance leases was $12,549 (2015 – $11,292).

CREDIT FACILITY

The following is the continuity of long-term debt for the year ended December 31, 2016:

	Year Ended December 31, 2016				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 248,000	$ 118,300	$ (149,000)	$ —	$ 217,300
United States dollar portion	56,799	206,767	(35,614)	173	228,125
	$ 304,799				$ 445,425

				Year Ended December 31, 2015	
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ —	$ 367,100	$ (119,100)	$ —	$ 248,000
United States dollar portion	16,125	123,806	(94,120)	10,988	56,799
	$ 16,125				$ 304,799

FINANCE LEASES

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

The following is the continuity of the finance leases outstanding for the year ended December 31, 2016 and the comparative 2015 period:

				2016
	Opening	Assumed / Entered Into	Repayments / Disposals	Ending
Finance leases	$ 2,231	$ 1,001	$ (1,078)	$ 2,154

				2015
	Opening	Assumed / Entered Into	Repayments / Disposals	Ending
Finance leases	$ 2,529	$ 916	$ (1,214)	$ 2,231

The future minimum lease payments and the net present value of the future minimum payments of the Corporation's finance leases as at December 31, 2016 are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Total future minimum lease payments	$ 1,145	$ 1,132	$ —	$ 2,277
less: amount representing interest	(76)	(47)	—	(123)
Present value of future minimum lease payments	$ 1,069	$ 1,085	$ —	$ 2,154

The cost and accumulated depreciation of the finance leased equipment consists of the following as at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Vehicles under finance leases	$ 4,564	$ 3,501
less: accumulated depreciation	(2,489)	(1,345)
	$ 2,075	$ 2,156

12. CONVERTIBLE DEBENTURES

Series – Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures – 2012	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures – 2013	EIF.DB.F	March 31, 2020	5.35%	$ 41.60
Unsecured Debentures – 2014	EIF.DB.G	March 31,2021	6.0%	$ 31.70
Unsecured Debentures – 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75

Summary of the debt component of the convertible debentures:

	2016 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2016 Balance, End of Year
Series J	$ 55,595	$ —	$ 1,153	$ (26,391)	$ (30,357)	$ —
Unsecured – 2012	54,700	—	679	(541)	—	54,838
Unsecured – 2013	62,034	—	628	—	—	62,662
Unsecured – 2014	37,822	—	346	(802)	—	37,366
Unsecured – 2016	—	64,211	275	—	—	64,486
						219,352
less: unamortized transaction costs						(7,008)
Convertible Debentures – Debt Component, end of year						$ 212,344

	2015 Balance, Beginning of Year	Debentures Issued	Charges	Debentures Converted	Repaid on Maturity	2015 Balance, End of Year
Series H	$ 21,276	$ —	$ 202	$ (19,314)	$ (2,164)	$ —
Series I	34,390	—	554	—	(34,944)	—
Series J	54,917	—	678	—	—	55,595
Unsecured – 2012	54,068	—	632	—	—	54,700
Unsecured – 2013	61,447	—	587	—	—	62,034
Unsecured – 2014	37,495	—	327	—	—	37,822
						210,151
less: unamortized transaction costs						(6,232)
Convertible Debentures – Debt Component, end of year						$ 203,919

During the 2016 year, convertible debentures totaling a face value of $28,526 were converted by the holders at various times into 928,156 Shares of the Corporation (2015 – $19,829 face value into 991,450 Shares). Interest expense recorded during the 2016 year for the convertible debentures was $17,620 (2015 – $18,749).

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

SERIES H CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $20.00. 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 prior to the maturity date. The Corporation also has the ability to convert these Series H debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After May 31, 2013, but prior to May 31, 2015, 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 May 31, 2015 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 debenture holders have the option to convert the debentures into Shares of the Corporation at the conversion price.

The Series H convertible debentures have nil of principal outstanding as at December 31, 2016 and were redeemed in July 2015.

SERIES I CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $26.00. Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date. At 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 prior to the maturity date. The Corporation also has the ability to convert these Series I debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time.

The Series I convertible debentures have nil of principal outstanding as at December 31, 2016 and were redeemed in March 2015.

SERIES J CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $30.60.

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 prior to the maturity date. The Corporation also has the ability to convert these Series J debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After May 31, 2014, but prior to May 31, 2016, 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 May 31, 2016 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 debenture holders have the option to convert the debentures into Shares of the Corporation at the conversion price.

The Series J convertible debentures have nil of principal outstanding as at December 31, 2016 and were redeemed in June of 2016 as described above.

SEPTEMBER 2012 UNSECURED CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $36.80.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The Corporation also has the ability to convert these unsecured debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After September 30, 2015, but prior to September 30, 2017, 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 September 30, 2017 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 debenture holders have the option to convert the debentures into Shares of the Corporation at the conversion price.

The September 2012 Unsecured convertible debentures have $56,940 (2015 – $57,500) of principal outstanding as at December 31, 2016 and mature in September 2019.

MARCH 2013 UNSECURED CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $41.60.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The Corporation also has the ability to convert these unsecured debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After March 31, 2016, but prior to March 31, 2018, 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, 2018 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 debenture holders have the option to convert the debentures into Shares of the Corporation at the conversion price.

The March 2013 Unsecured convertible debentures have $65,000 (2015 – $65,000) of principal outstanding as at December 31, 2016 and mature in March 2020.

MARCH 2014 UNSECURED CONVERTIBLE DEBENTURE OFFERING

The Corporation issued the $40,000 Seven Year 6.0% Convertible Unsecured Subordinated Debentures on February 11, 2014. These debentures bear interest at the rate of 6.0% per annum payable semi-annually in arrears, in cash, on March 31 and September 30 of each year. The maturity of the debentures is March 31, 2021. Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $31.70.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The Corporation also has the ability to convert these unsecured debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After March 31, 2017, but prior to March 31, 2019, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after March 31, 2019 but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debenture holders have the option to convert the debentures into Shares of the Corporation at the conversion price.

The March 2014 Unsecured convertible debentures have $39,142 (2015 – $39,988) of principal outstanding as at December 31, 2016 and mature in March 2021.

JUNE 2016 UNSECURED CONVERTIBLE DEBENTURE OFFERING

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

Transaction costs of $3,377 were incurred in relation to the issuance of these debentures.

The June 2016 Unsecured convertible debentures have $69,000 (2015 – nil) of principal outstanding as at December 31, 2016 and mature in June 2023.

CONVERTIBLE DEBENTURES EQUITY COMPONENT

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

Summary of the equity component of the convertible debentures:

	December 31, 2016	December 31, 2015
Series J – 2011	$ —	$ 3,136
Unsecured Debentures – 2012	3,166	3,204
Unsecured Debentures – 2013	3,063	3,063
Unsecured Debentures – 2014	1,754	1,797
Unsecured Debentures – 2016	3,262	—
Convertible Debentures – Equity Component, end of year	$ 11,245	$ 11,200

All convertible debentures outstanding at December 31, 2016 represent direct unsecured debt obligations of the Corporation.

13. SHARE CAPITAL

Changes in the Shares issued and outstanding during the year ended December 31, 2016 are as follows:

		2016
	Number of Shares	Amount
Share capital, beginning of year	27,633,217	$ 425,561
Issued upon conversion of convertible debentures	928,156	29,310
Issued under dividend reinvestment plan	176,522	5,345
Shares cancelled under NCIB	(57,710)	(889)
Issued to Team J.A.S. vendors on closing (Note 6)	50,765	1,809
Issued under deferred share plan	5,622	98
Issued under employee share purchase plan	56,782	2,369
Share capital, end of year	28,793,354	$ 463,603

Changes in the Shares issued and outstanding during the year ended December 31, 2015 are as follows:

		2015
	Number of shares	Amount
Share capital, beginning of year	22,507,341	$ 308,919
Issued upon conversion of convertible debentures	991,450	20,348
Issued under dividend reinvestment plan	177,248	3,987
Issued to Provincial vendors on closing	523,188	12,138
Issued to Ben Machine vendors on closing	329,552	6,664
Prospectus Offering, September 2015	3,019,000	71,371
Issued under First Nations community partnership agreement	4,500	98
Issued under deferred share plan	21,749	482
Issued under employee share purchase plan	59,189	1,554
Share capital, end of year	27,633,217	$ 425,561

On December 31, 2015, the Corporation received approval from the TSX for a Normal Course Issuers Bid and purchased a total of 57,710 Shares through several days of trading during 2016. The Corporation purchased the Shares at an average cost of $22.25 per Share for aggregate consideration of $1,284. The excess of the cost over the average book value of $395 was charged to retained earnings.

14. 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 2016 year and the comparative 2015 year are as follows:

Year Ended December 31	2016	2015
Cumulative dividends, beginning of year	$ 234,300	$ 189,073
Dividends during the year	56,331	45,227
Cumulative dividends, end of year	$ 290,631	$ 234,300

The amounts and record dates of the dividends during the 2016 year and the comparative 2015 year are as follows:

			2016 Dividends			2015 Dividends
Month	Record date	Per share	Amount	Record date	Per Share	Amount
January	January 29, 2016	$ 0.16	$ 4,424	January 30, 2015	$ 0.145	$ 3,342
February	February 29, 2016	0.16	4,416	February 27, 2015	0.145	3,347
March	March 31, 2016	0.16	4,418	March 31, 2015	0.145	3,349
April	April 29, 2016	0.16	4,423	April 30, 2015	0.145	3,352
May	May 31, 2016	0.1675	4,633	May 29, 2015	0.145	3,354
June	June 30, 2016	0.1675	4,783	June 30, 2015	0.145	3,358
July	July 29, 2016	0.1675	4,786	July 31, 2015	0.145	3,550
August	August 31, 2016	0.1675	4,789	August 31, 2015	0.16	3,919
September	September 30, 2016	0.1675	4,791	September 30, 2015	0.16	4,404
October	October 31, 2016	0.1675	4,795	October 30, 2015	0.16	4,407
November	November 30, 2016	0.175	5,034	November 30, 2015	0.16	4,419
December	December 30, 2016	0.175	5,039	December 31, 2015	0.16	4,426
Total		$ 1.995	$ 56,331		$ 1.815	$ 45,227

Subsequent to December 31, 2016 and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.175 per Share for each of January 2017 and February 2017.

15. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment provides airline services to communities in Manitoba, Ontario, Nunavut and eastern Canada and also provides aircraft and engine aftermarket parts to regional airline operators around the world. In addition, Provincial's aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft for governments and entities around the world. The results of CarteNav and Team J.A.S. are included in the Aerospace & Aviation segment results as of the date of acquisition (Note 6). The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States.

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

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

	Aerospace & Aviation	Manufacturing	Head Office	Year Ended December 31, 2016 Consolidated
Revenue	$ 703,327	$ 187,699	$ —	$ 891,026
Expenses	499,139	163,856	15,456	678,451
EBITDA	204,188	23,843	(15,456)	212,575
Depreciation and amortization				94,063
Finance costs – interest				30,169
Acquisition costs				1,309
Earnings before income tax				87,034
Current income tax expense				25,888
Deferred income tax recovery				(344)
Net earnings				$ 61,490

	Aerospace & Aviation	Manufacturing	Head Office	Year Ended December 31, 2015 Consolidated
Revenue	$ 614,773	$ 192,630	$ —	807,403
Expenses	442,789	169,798	15,576	628,163
EBITDA	171,984	22,832	(15,576)	179,240
Depreciation and amortization				84,576
Finance costs – interest				30,041
Acquisition costs				5,064
Earnings before income tax				59,559
Current income tax expense				15,544
Deferred income tax expense				3,781
Net earnings				$ 40,234

	Aerospace & Aviation	Manufacturing	Head Office (1)	December 31, 2016 Consolidated
Total assets	$ 1,283,173	$ 205,921	$ (64,562)	$ 1,424,532
Net capital asset additions, excluding finance leases	226,186	2,985	456	229,627
Indefinite lived intangible assets	46,580	13,586	—	60,166
Goodwill	193,855	66,032	—	259,887

	Aerospace & Aviation	Manufacturing	Head Office (1)	December 31, 2015 Consolidated
Total assets	$ 971,126	$ 195,201	$ 62,729	$ 1,229,056
Net capital asset additions, excluding finance leases	120,111	3,596	438	124,145
Indefinite lived intangible assets	46,229	13,611	—	59,840
Goodwill	179,413	66,661	—	246,074

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.

The following is the geographic breakdown of revenues for the year ended December 31, 2016 and the 2015 comparative year, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Year Ended December 31	2016	2015
Canada	$ 609,697	$ 585,726
United States	140,418	122,911
Other	140,911	98,766
Total revenue for the year	$ 891,026	$ 807,403

	As at December 31, 2016		As at December 31, 2015	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	$ 422,139	$ 198,053	$ 413,591	$ 183,335
United States	271,854	61,834	129,038	62,739
	$ 693,993	$ 259,887	$ 542,629	$ 246,074

AEROSPACE & AVIATION SEGMENT SUPPLEMENTAL DISCLOSURE

The Aerospace & Aviation segment's revenues and expenses combine services provided and the sale and lease of goods. The following summarizes the breakdown of the significant categories for the year ended December 31, 2016 and the 2015 comparative year:

Year Ended December 31,	2016	2015
Sale of services	$ 495,901	$ 451,851
Sale of goods	150,425	131,520
Lease of goods	57,001	31,402
Aerospace & Aviation revenues	$ 703,327	$ 614,773
Direct operating expenses – sale of services	$ 314,253	$ 288,144
Cost of goods sold and lease expenses	100,185	86,563
Aerospace & Aviation expenses – excluding depreciation and amortization	$ 414,438	$ 374,707

The Corporation's leasing revenues generated by Regional One are made up of a variety of short-term lease arrangements for aircraft and engines, with the longest lease term being less than two years as at December 31, 2016. In addition, many of the lease agreements have clauses tied to usage of the leased asset and also allowing the lessee to return the leased asset if agreed upon notice is given. As a result, the contractual minimum lease payments under these leases are relatively insignificant compared to the overall leasing revenues generated in the period.

16. PERCENTAGE-OF-COMPLETION REVENUES

The operations of Stainless and WesTower CDA within the Manufacturing segment and Provincial within the Aerospace & Aviation segment have long-term contracts where revenues are recognized on a percentage-of-completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the percentage-of-completion revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue. During the year ended December 31, 2016, the Corporation recognized revenue on these types of long-term contracts totaling $154,590 (2015 – $164,256).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2016 and the 2015 comparative year:

As at December 31	2016	2015
Costs incurred on uncompleted contracts	$ 114,219	$ 103,110
Estimated earnings	25,490	23,141
	139,709	126,251
less: billings to date	(142,914)	(139,299)
Total	$ (3,205)	$ (13,048)
Costs incurred plus recognized profits in excess of billings	$ 7,567	$ 7,776
Billings in excess of costs incurred plus recognized profits	(10,772)	(20,824)
Total	$ (3,205)	$ (13,048)

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

The computation for basic and diluted earnings per share for the year ended December 31, 2016 and comparative in 2015 year are as follows:

Year Ended December 31	2016	2015
Net earnings	$ 61,490	$ 40,234
Effect of dilutive securities		
Convertible debenture interest	10,345	738
Diluted earnings	$ 71,835	$ 40,972
Basic weighted average number of shares	28,151,807	24,656,755
Effect of dilutive securities		
Deferred shares	541,708	390,267
Convertible debentures	5,257,792	581,664
Diluted basis average number of shares	33,951,307	25,628,686
Earnings per share:		
Basic	$ 2.18	$ 1.63
Diluted	$ 2.12	$ 1.60

18. 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.

	2016	2015
Salaries, wages & benefits	$ 234,424	$ 209,812
Aircraft operating expenses	251,050	216,484
Materials	97,715	99,797
General and administrative	38,741	45,987
Building rent and maintenance	10,815	10,773
Communication and information technology	7,393	6,084
Advertising	3,547	3,503
Sub-contracting services	5,101	3,801
Other	29,665	31,922
	$ 678,451	$ 628,163

19. EMPLOYEE BENEFITS

DEFERRED SHARE PLAN

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

	2016	2015
Deferred shares outstanding, beginning of year	390,267	289,761
Granted during the year	127,427	94,230
Granted through dividends declared during the year	31,506	28,025
Redeemed during the year	(5,622)	(21,749)
Forfeited during the year	(1,870)	—
Deferred shares outstanding, end of year	541,708	390,267
Vested portion of deferred shares outstanding, end of year	345,149	250,107

The fair value of the deferred shares granted during the 2016 year was $3,173 at the time of the grant (weighted average grant price of $24.90 per share) and was based on the market price of the Corporation's shares at that time (2015 – $2,121, weighted average grant price of $22.51 per share). During the 2016 year, the Corporation recorded compensation expense of $2,182 for the Deferred Share Plan within the general and administrative expenses of head office (2015 – compensation expense of $1,804).

EMPLOYEE SHARE PURCHASE PLAN

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

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

During 2016, 56,782 Shares were issued out of Treasury at a weighted average price of $41.72 per share, effective November 21, 2016 for the 2016 program that will vest in 18 months (Quarter 2 of 2018). The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $849 based on the share price and monthly dividend rate as at that time.

During 2015, 59,189 Shares were issued out of Treasury at a weighted average price of $26.25 per share, effective November 19, 2015 for the 2015 program that will vest in 18 months (Quarter 2 of 2017). The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $575 based on the share price and monthly dividend rate as at that time.

The ESPP plan is adjusted for changes in the Corporation's share price at the period-end, any changes in the Corporation's dividend rate and any estimated forfeitures. During 2016, total expenses recorded for the ESPP in head office expenses was $789 (2015 – $131).

20. CONTINGENCIES AND COMMITMENTS

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

Commitments	December 31, 2016	December 31, 2015
Less than 1 year	$ 20,681	$ 20,624
Between 1 year and 5 years	57,782	58,071
More than 5 years	43,627	42,053
	$ 122,090	$ 120,748

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 21.

During the year the Corporation's operations expensed $28,691 (2015 – $21,372) of operating lease costs.

The Corporation has letters of credit outstanding with varying maturities that are contingent on certain operational products and services being provided by the Corporation's subsidiaries. As of December 31, 2016, the total value of these letters of credit was $29,476 (2015 – $67,684).

21. RELATED PARTY TRANSACTIONS

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

PROPERTY LEASES

Various entities lease several buildings from related parties who were vendors of the entity that the Corporation purchased the business from originally. These vendors are considered related parties because of their continued involvement in the management of those businesses. In addition, EIC leases office space for its head office from a company controlled by a director of the Corporation. These leases are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2016 under these leases was $3,352 (2015 – $3,055) and the lease term maturities range from 2017 to 2020. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Corporation's statement of financial position (2015 – 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 awarded to key management for the 2016 year and the comparative 2015 year is as follows:

Year ended December 31,	2016	2015
Salaries and short-term benefits	$ 5,118	$ 5,865
Share-based payments	2,447	1,902
	$ 7,565	$ 7,767

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

MARKET RISK

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

CURRENCY RISK

The Corporation has US$169,900 or $228,125 (2015 – US$41,040 or $56,799) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries.

The Corporation's investment in those subsidiaries with USD functional currencies are hedged partially by US$89,000 (2015 – US$40,500) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During 2016, the Corporation entered into a Cross Currency Basis Swap ("Swap") with a member of the Corporation's lending syndicate ("lender"). At inception of the Swap, the Corporation drew US$37,800 from its credit facility and exchanged the US funds for $51,000 with the lender. The $51,000 was used to pay down the Corporation's Canadian denominated borrowings. The Swap requires that funds are exchanged back in 30 days at the same terms unless both parties agree to extend the Swap for a further 30 days. By borrowing in US dollars, the Corporation is able to take advantage of lower interest rates on US dollar LIBOR denominated borrowings. The Swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in 30 days. The Swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the Swap at December 31, 2016 was ($246).

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, 2016 would have a nil (2015 – nil) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $1.4 million (2015 – $0.6 million).

INTEREST RATES

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 11) will fluctuate due to fluctuations in interest rates. The Corporation manages this risk and seeks financing terms in individual arrangements that are most advantageous.

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Banker's Acceptances or the London Inter Bank Offer Rate ("LIBOR"). At December 31, 2016:

- US$139,000 (2015 – US$33,000) was outstanding under US LIBOR,
- US$30,900 (2015 – US$8,040) was outstanding under USD Prime,

- nil (2015 – $16,000) was outstanding under Prime, and
- $217,300 (2015 – $232,000) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2016, net of cash and cash equivalents, a 1% increase in interest rates for the Corporation would decrease net earnings by approximately $3.6 million ($2.6 million after-tax) (2015 – $3.0 million ($2.1 million after tax)).

The interest rates of the convertible debentures (Note 12) have fixed interest rates.

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, 2016, $23,507 (2015 – $18,511) of the outstanding receivables were greater than 90 days outstanding. Approximately $1,693 (2015 – $1,624) of this relates to the Manufacturing segment and $21,814 (2015 – $16,887) relates to the Aerospace & Aviation segment. Management at each of the Corporation's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Corporation's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

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

LIQUIDITY RISK

Liquidity risk is the risk that the Corporation is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Corporation's growth is financed through a combination of the cash flows from operations, borrowing under existing credit facilities, and the issuance of either or a combination of debentures and equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through 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 keeping committed credit facilities available (Note 11).

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	$ 123,982	$ 123,982	$ —	$ —
Long-term debt (principal value)	445,425	—	445,425	—
Convertible debentures (par value)	230,082	—	161,082	69,000
Total	$ 799,489	$ 123,982	$ 606,507	$ 69,000

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2016	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities – Financial liability at fair value through profit and loss	$ (3,765)	$ —	$ —	$ (3,765)
Cross currency basis swap – Financial liability at fair value through profit and loss	(246)	—	(246)	—
Fair Value Disclosures				
Other assets – Amortized cost	3,762	—	3,762	—
Other assets – Fair value through OCI	4,478	—	—	4,478
Long-term debt – Amortized cost	(444,175)	—	—	(445,425)
Convertible debt – Amortized cost	(212,344)	(261,062)	—	—

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2015	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities – Other financial liabilities	$ (484)	$ —	$ —	$ (484)
Fair Value Disclosures				
Other assets – Loans and receivables	3,335	—	3,335	—
Other assets – Available for sale	4,744	—	—	4,744
Long-term debt – Other financial liabilities	(302,655)	—	—	(304,799)
Convertible debt – Other financial liabilities	(203,919)	(212,991)	—	—

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

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

Consideration Liability Summary For the periods ended	December 31, 2016	December 31, 2015
Opening	$ 484	$ 2,162
Accretion	140	23
Settled during the period	(260)	(2,009)
Acquisition of CarteNav (Note 6)	3,414	—
Acquisition of Team J.A.S. (Note 6)	9	—
Translation (gain)/loss	(22)	308
Ending	$ 3,765	$ 484

The earn out liability recorded as part of the acquisition of CarteNav is included in Other Long-Term Liabilities in the Statement of Financial Position. The remaining consideration liabilities, primarily consisting of estimated working capital settlements, are recorded within Accounts Payable and Accrued Expenses in the Statement of Financial Position.

There were 438,209 Shares of the Corporation that were originally issued into escrow at the time of acquisition of Regional One and relate to the retention of the vendor as CEO. The remaining Shares are anticipated to be settled and released from escrow evenly on each of the next two anniversaries of closing the acquisition (175,283 Shares in escrow as at December 31, 2016).

FINANCIAL INSTRUMENT FAIR VALUE DISCLOSURES

The fair values of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued expenses which are classified as amortized cost or other financial liabilities, as applicable, approximate their carrying values due to their short-term nature.

As at December 31, 2016, management had determined that the fair value of its long-term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 3.45%. The discount rate is determined by using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation's creditworthiness.

As at December 31, 2016, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $261,062 (December 31, 2015 – $212,991) with a carrying value of $212,344 (December 31, 2015 – $203,919).

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

23. CHANGES IN WORKING CAPITAL ITEMS

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

Period Ended December 31	2016	2015
Accounts receivable	$ (22,088)	$ (14,566)
Costs incurred plus recognized profits in excess of billings	209	4,052
Inventory	(6,312)	(23,376)
Prepaid expenses and deposits	4,793	(28,373)
Accounts payable and accrued charges	10,603	(8,696)
Income taxes receivable/payable	13,991	(18,626)
Deferred revenue	(15,148)	36,053
Billings in excess of costs incurred plus recognized profits	(10,052)	11,745
Foreign currency impact	(2,051)	14,521
Net change in working capital items	$ (26,055)	$ (27,266)

24. 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 pro forma Operating profit before Depreciation, Amortization, Finance Costs and Other.

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, 2016	December 31, 2015
Total senior debt outstanding (principal value)	$ 445,425	$ 304,799
Convertible debentures outstanding (par value)	230,082	219,965
Shares	463,603	425,561
Total capital	$ 1,139,110	$ 950,325

There are certain requirements of the Corporation resulting from the Corporation's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs and other non-cash items ("EBITDA") ratio. Management considers these requirements in the decisions made in managing the level and make-up of the Corporation's capital structure. The Corporation has been in compliance with all of the financial covenants during the 2016 year.

Changes in the capital of the Corporation over the year ended December 31, 2016 are mainly attributed to the following events that occurred during the year. First, the Corporation used its credit facility to finance capital investments at Regional One. Second, the Corporation redeemed the Series J convertible debentures, resulting in $27,120 of debentures converting into common shares and $30,357 of debentures being repaid with funds from the Corporation's credit facility. Third, the Corporation issued a new series of debentures (Unsecured 2016 series) in June of 2016. The par value of the debentures issued was $69,000. Finally, the Corporation used its credit facility to fund the acquisitions of Team J.A.S. and CarteNav.

In addition to those noted above, further changes to the Corporation's capital structure subsequent to the end of the year are discussed in Note 26.

25. 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:

	2016	2015
Earnings before provision for income taxes	$ 87,034	$ 59,559
Combined Canadian federal and provincial tax rates	27.0%	27.0%
Income tax expense at statutory rates	23,499	16,081
Increase (decrease) in taxes resulting from:		
Permanent differences	231	287
Realized capital gains	(25)	284
Impact of foreign tax rate differences	2,340	1,559
Benefit of previously unrecognized tax assets	(461)	—
Amounts in respect of prior periods	34	1,089
Other	(74)	25
Provision for income taxes	$ 25,544	$ 19,325

UNRECOGNIZED DEFERRED TAX LIABILITIES

At December 31, 2016, 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 $57,180 (2015 – $32,239).

MOVEMENT IN DEFERRED TAX BALANCES DURING THE YEAR

The movement in the net deferred income tax balances during the 2016 year and the 2015 comparative year are as follows:

	December 31, 2015	Business Acquisitions	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	Goodwill (Note 5)	December 31, 2016
Deferred income tax assets							
Accruals – deductible when paid	$ 6,750	$ 604	$ (2,412)	$ (72)	$ —	$ (3,139)	$ 1,731
Capital and non-capital loss carryforwards	2,026	—	366	(4)	—	—	2,388
Amounts recognized in OCI	1,264	—	—	(771)	—	—	493
Other	88	—	(88)	—	—	—	—
Total deferred income tax asset	$ 10,128	$ 604	$ (2,134)	$ (847)	$ —	$ (3,139)	$ 4,612
Deferred income tax liability							
Capital assets	$ (49,486)	$ (226)	$ 2,104	$ 135	$ —	$ —	$ (47,473)
Intangible assets	(30,335)	(1,715)	(439)	157	—	—	(32,332)
Financing costs	(998)	—	(205)	—	305	—	(898)
Convertible debentures	(2,649)	—	832	—	(1,079)	—	(2,896)
Non-deductible reserves	(2,415)	426	1,102	2	—	—	(885)
Other	—	—	(918)	(15)	—	—	(933)
Total deferred income tax liability	(85,883)	(1,515)	2,476	279	(774)	—	(85,417)
Net	$ (75,755)	$ (911)	$ 342	$ (568)	$ (774)	$ (3,139)	$ (80,805)

	December 31, 2014	Business Acquisitions	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	Credited / Charged through discontinued operations	December 31, 2015
Deferred income tax assets							
Accruals – deductible when paid	$ 619	$ 5,319	$ 664	$ 148	$ —	$ —	$ 6,750
Capital and non-capital loss carryforwards	2,240	52	(271)	5	—	—	2,026
Amounts recognized in OCI	76	—	—	1,188	—	—	1,264
Other	93	305	(322)	12	—	—	88
Total deferred income tax asset	$ 3,028	$ 5,676	$ 71	$ 1,353	$ —	$ —	$ 10,128
Deferred income tax liability							
Capital assets	$ (27,264)	$ (19,164)	$ (2,736)	$ (322)	$ —	$ —	$ (49,486)
Intangible assets	(8,950)	(19,810)	(741)	(834)	—	—	(30,335)
Financing costs	(696)	213	(723)	—	208	—	(998)
Convertible debentures	(3,592)	—	805	—	138	—	(2,649)
Non-deductible reserves	(1,940)	—	(457)	(18)	—	—	(2,415)
Total deferred income tax liability	(42,442)	(38,761)	(3,852)	(1,174)	346	—	(85,883)
Net	$ (39,414)	$ (33,085)	$ (3,781)	$ 179	$ 346	$ —	$ (75,755)

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, 2016	December 31, 2015
Deferred tax assets	$ 238	$226
Deferred tax liabilities	(81,043)	(75,981)
	$ (80,805)	$ (75,755)

During 2016, the Corporation recognized an out of period adjustment in relation to the determination of goodwill associated with the acquisition of Provincial Aerospace Ltd. (Note 5).

26. SUBSEQUENT EVENTS

BOUGHT DEAL FINANCING OF COMMON SHARES

In December 2016, the Corporation announced an $85,000 financing of common shares, representing 2,003,000 Shares of the Corporation at $42.45 per Share. The underwriters were also granted an overallotment option to purchase 300,450 additional Shares. On January 4, 2017, the Corporation closed the offering. The entire overallotment option was exercised, resulting in the issuance of 2,303,450 Shares of the Corporation. The net proceeds of the offering were used to make a $93,800 repayment against the Corporation's outstanding credit facility in 2017.

AMENDED CREDIT FACILITY

In February 2017, the Corporation reached an agreement to modify the terms of its credit facility (Note 11). The amendments include increasing the credit available to $750,000, which is an aggregate increase of $200,000 over the Corporation's current credit facility. Two new banks were added to the syndicate and the maturity was extended to March 2021.

RENEWAL OF NORMAL COURSE ISSUERS BID (NCIB)

On January 12, 2017, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,554,884 Shares, representing 5% of the issued and outstanding Shares as at January 9, 2017. Purchases of Shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on January 23, 2017 and ending on January 22, 2018, or an earlier date in the event that the Corporation purchases the maximum number of the Shares available under the NCIB. The maximum number of Shares that may be purchased by the Corporation on a daily basis is 30,390 Shares, other than block purchase exemptions. As of the date of this report, there are 1,554,884 Shares available for purchase under the NCIB ending January 22, 2018.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

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

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

Brad Bennett, O.B.C.

Gary Buckley
Chair, Compensation Committee

Allan Davis, C.P.A., C.A.

Serena Kraayeveld, F.C.P.A., F.C.A., ICD.D
Chair, Corporate Governance Committee

Jeffrey Olin, B.Comm.

Michael Pyle, MBA
Chief Executive Officer

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

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

SENIOR MANAGEMENT AND OFFICERS

Michael Pyle, MBA
Chief Executive Officer

Carmele Peter, LL.B.
President

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

Tamara Schock C.P.A., C.A.
Chief Financial Officer

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

Darwin Sparrow
Chief Operating Officer

Gary Beaurivage
Vice-President & Chief Operating Officer, Aviation

Dianne Spencer
Corporate Secretary

LEGAL COUNSEL

MLT Aikins LLP
Winnipeg, MB

AUDITORS

PricewaterhouseCoopers LLP
Winnipeg, MB

BANKERS

The Toronto-Dominion Bank

Roynat Inc.

Canadian Imperial Bank of Commerce

Bank of Montreal

Alberta Treasury Branches

National Bank of Canada

Laurentian Bank of Canada

HSBC Bank Canada

Fédération des caisses Desjardins du Québec

Raymond James Finance Company of Canada

TRANSFER AGENT

CST Trust Company
Calgary, AB

STOCK EXCHANGE LISTING & SYMBOL

TSX: EIF

ANNUAL GENERAL MEETING

Calm Air Hangar Facility
930 Ferry Road
Winnipeg, MB R3H 0Y8
Date: May 10, 2017
Time: 10:30 am CT

CORPORATE OFFICE

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WEBSITE LISTINGS FOR SUBSIDIARY COMPANIES

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