WE KNOW WHERE WE'RE GOING.
OUR PLAN HASN'T CHANGED.

ANNUAL REPORT

2017

Exchange
Income
Corporation

READINESS IN ALL CONDITIONS

OUR BUSINESS MODEL REMAINS OUR STRONGEST ASSET DELIVERING DIVIDENDS AND GROWTH

The strategy of Exchange Income Corporation (EIC) is to make investments to grow a portfolio of diversified niche operations, both through acquisition and organic growth opportunities. The strength of our business model allows us to face any condition and generate growth for our shareholders. Our strategically acquired operations span multiple sectors and geographies, and offer diverse products and services that stabilize our cash flow stream. Stable cash flow means stable dividend payouts, plain and simple.

We've been through economic cycles of growth and contraction but have delivered overall growth in all conditions. Our strategy has allowed us to grow our earnings consistently year over year, and provide a reliable growing dividend to our shareholders as a result.

Our dividends have increased 13 times over 14 years, leading to a 5% compound annual growth rate (CAGR) of our dividend and over $350 million dividends paid since our inception. These increases prove the strength of our model.


C. Farewel
L A B R A D O R
Bell Isle

FORESIGHT COMES WITH EXPERIENCE

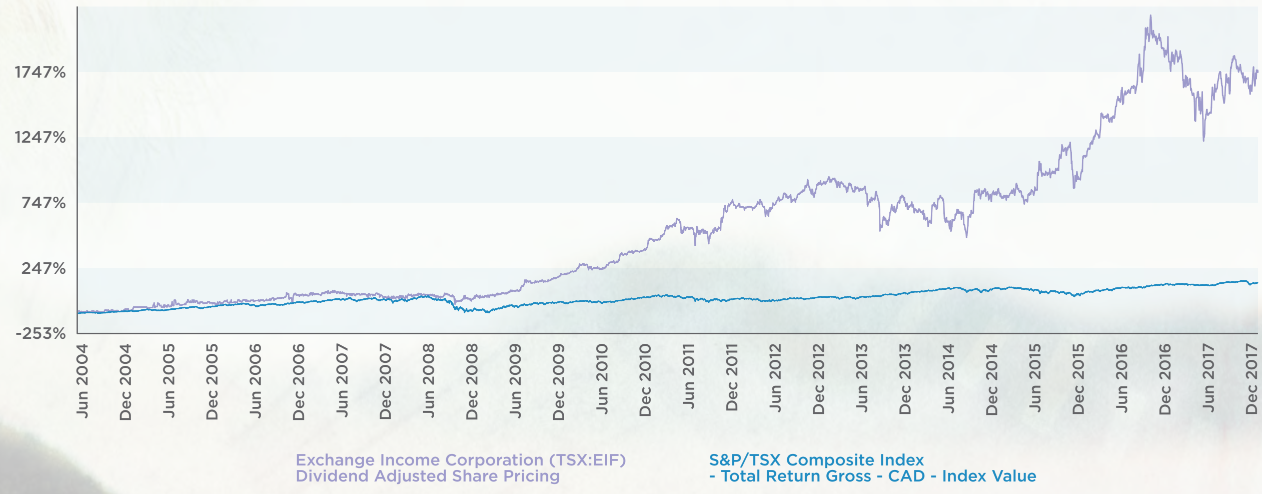
OUR LONG-TERM PERSPECTIVE LEADS TO GROWING RETURNS

For 15 years, we've maintained our commitment to creating long-term value for shareholders. Our strategy of delivering reliable dividends has always been a cornerstone of EIC. We do this by making smart capital deployment decisions to continually expand our portfolio through acquisitions and organic growth. Our strategy is to make steady returns over a long period of time rather than risky short-lived returns.

The buy and hold strategy we follow creates stability for our subsidiaries' management teams and employees. This stability allows them to focus on the long-term outlook for their business.

Our long-term perspective that focuses on growth has led us to raise over $270 million since the beginning of 2016. Our sound strategy is what gives our investors confidence that we will continue to make profitable returns on our investment decisions and increase value for our shareholders.

SHAREHOLDER VALUE



THE WAY FORWARD IS A FAMILIAR ROUTE

OUR DIVERSE PORTFOLIO IS EXPANDING THROUGH OUR CONSISTENT INVESTMENT STRATEGY

The acquisition targets we set our sights on have to meet the stringent requirements laid out by EIC. They must have a track record of profitability and an ongoing generation of strong cash flows. They must operate in a defensible niche market. We must have the utmost confidence that the management teams who brought these companies to success will continue to build on that success with our investment.

We're constantly scanning the environment for new acquisition opportunities that are able to generate the returns we expect, and this creates the discipline on what we will pay. This includes opportunities that are strategically aligned to take advantage of synergies among our existing businesses, in particular the large aviation-related sector of our portfolio.

The diversity of EIC's portfolio also leads to natural balance sheet hedges in areas that are volatile for most companies, especially those tied to currency and commodities such as fuel. Having diverse operations mitigates the risk that comes from changes outside of our control.


OUR DIVERSIFIED REVENUE STREAMS
MODULAR BUILDING PRODUCTS
FIRE SUPPRESSION AND EVACUATION SERVICES
MEDEVAC TRANSPORTATION
MARITIME SURVEILLANCE SOLUTIONS
AIRPORT FIXED BASE OPERATIONS
AFTER-MARKET AVIATION EQUIPMENT SALES
CUSTOMIZED STEEL TANKS
PRECISION METAL MANUFACTURING
HIGH PRESSURE WATER CLEANING SYSTEMS
COMMUNICATION TOWER CONSTRUCTION AND INSTALLATION
SCHEDULED PASSENGER AND FREIGHT SERVICES


Arctic Circle
Bay
Mac Lead Bay
Artillery L.
Great Slave Lake
Pike L.
Buffalo
Nelson

INVESTED IN ACCRETIVE EXPANSION

OUR COMMITMENT TO GROWTH IS UNWAVERING

We're always looking for new ways for our existing subsidiaries to grow. When the opportunity presents itself for one of our companies to enter a new market, or increase their current market share in a given sector, we provide the capital to facilitate that growth. We hold ourselves to the same standard for expanding our existing companies as we do with new acquisitions. The project has to demonstrate that it will yield positive returns for us to make the investment.

In 2017, we invested in the Force Multiplier Demonstrator aircraft for Provincial Aerospace, allowing them to enter a new market. This will give its customers access to intelligence, surveillance and reconnaissance services without having to make a large capital investment. We also invested in expanding Regional One's aircraft portfolio both in size and types of aircraft. Finally, we invested in the purchase of new machinery for the shop operations of Stainless Fabrication, allowing it to increase its capacity to meet growing customer demands.

Investing in our own operations is something we've done since our first acquisition. When Perimeter was acquired in 2004, it was generating $27 million of revenues with a fleet of 19 aircraft. Revenues generated by Perimeter in 2017 were approximately $95 million. The fleet has now grown to 31 aircraft, showcasing the importance of our organic growth initiatives.

GUIDED BY OUR PRINCIPLES

ACQUISITION SPOTLIGHT: QUEST WINDOW SYSTEMS

In November of 2017, we acquired Quest Window Systems (Quest) for up to $100 million dollars. Quest is headquartered in Mississauga, Ontario, and is a leading manufacturer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in major cities across North America.

We were attracted to this acquisition because of Quest's profitable, demonstrated niche market experience, and the existing management team's drive to grow the business through trans-national expansion initiatives. Since the acquisition, EIC has announced the construction of a second manufacturing facility for Quest in the United States that will significantly increase capacity for the company.

Quest places product innovation and customer-focused solutions at the centre of what they do. Their geographic and customer diversification allows for opportunities to expand further in existing markets, and enter into new markets. Martin Cash, CEO and Founder of Quest, recognized that EIC could offer the resources and support needed to achieve his corporate vision for growth.

> OUR CHOICE TO PARTNER WITH EIC WAS DRIVEN LESS BY PRICE AND MORE BY THEIR BELIEF IN OUR MANAGEMENT TEAM, OUR SHARED VISION TO GROW QUEST AND BEING ABLE TO CONTINUE TO OPERATE THE BUSINESS AS WE HAVE IN THE PAST.

MARTIN CASH

CEO and Founder
Quest Window Systems, Inc.

PARTNERING TOGETHER AND GROWING STRONGER

OUR INVESTMENT RETURNS ARE MORE THAN PROFITS

Some of EIC's most important stakeholders are the many Indigenous communities throughout Canada, whom we've fostered relationships with for nearly 60 years.

We connect people throughout the country by making it possible for them to travel year-round for their essential needs, and help stimulate local economies by providing jobs and creating infrastructure.

Exciting progress was made in 2017 with the creation of Air Borealis, which united the Innu and Inuit people of Labrador with PAL Airlines. Our regional airlines further expanded our community partnership program. These agreements provide support and opportunities directly to the communities they serve. We have also made a recapitalization investment in Wasaya Group, a First Nation-owned aviation company, to extend our First Nation relationship and coverage in Northwestern Ontario.

Beyond our business and customer relationships, we're proud to support many initiatives. These range from educational programs that promote careers in aviation for Indigenous peoples, to children's programs like our Bomber Day Experience, where we fly youth from remote communities to experience a football game and stay in Winnipeg overnight.

Our Indigenous partners are essential to our continued growth, and we want to be a part of their success.

NAVIGATING OBSTACLES FOR FAVOURABLE OUTCOMES

OUR RESULTS ARE RECORD-BREAKING

Our acquisition strategy and making investments to grow our operations led to continuing gains in EIC's key financial metrics in 2017. This is our model at work.

With the acquisition of Quest late in 2017, the year-over-year comparison wasn't impacted by any significant acquisition.

The 2017 results extend our track record of profitable growth and it is those profits that facilitated the increase of our dividend by 4.3% to $2.19 (annualized). Nothing in our model has changed over the life of EIC. Results and dividends prove the success of our model.

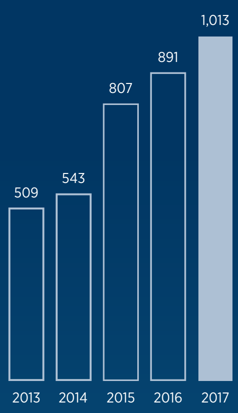
2017 REVENUE
GREW BY 14% TO $1.0 BILLION

2017 EBITDA
INCREASED BY 17% TO $248.7 MILLION

2017 NET EARNINGS
IMPROVED BY 17% TO $72.2 MILLION

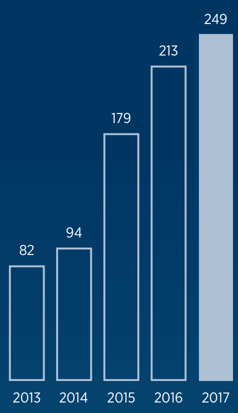
2017 ADJUSTED NET EARNINGS
GREW BY 10% TO $79.7 MILLION

2017 RESULTS



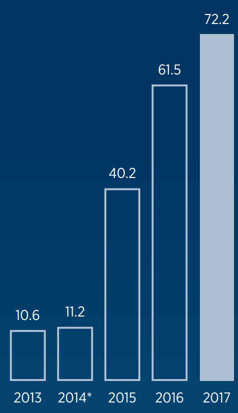
REVENUE
($ MILLIONS)

CAGR: 18.8%



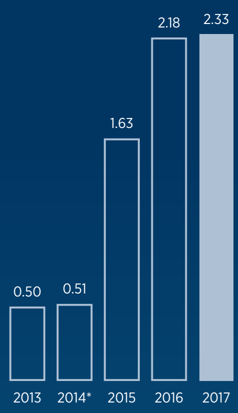
EBITDA
($ MILLIONS)

CAGR: 32.0%



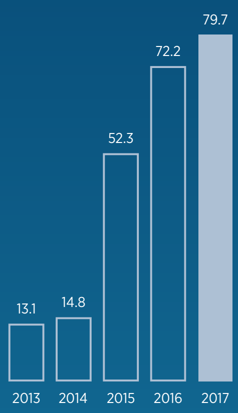
NET EARNINGS
($ MILLIONS)

CAGR: 61.6%



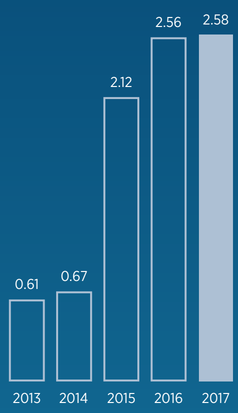
NET EARNINGS PER SHARE
($ PER SHARE)

CAGR: 46.9%



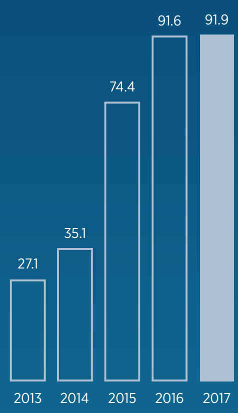
ADJUSTED NET EARNINGS
($ MILLIONS)

CAGR: 57.1%



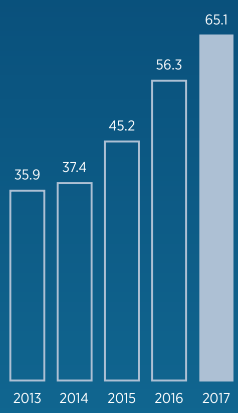
ADJUSTED NET EARNINGS PER SHARE
($ PER SHARE)

CAGR: 43.4%



FREE CASH FLOW LESS MAINTENANCE CAPEX
($ MILLIONS)

CAGR: 35.7%



DIVIDENDS DECLARED
($ MILLIONS)

*The 2014 results were adjusted for the non-cash charge coming from the settlement with the Canada Revenue Agency.

TRAJECTORY BASED IN STRATEGY

ACQUISITION SPOTLIGHT: MONCTON FLIGHT COLLEGE

In early 2018, we announced the acquisition of Canada's largest pilot training company, Moncton Flight College. Beyond the accretive nature of this deal for our shareholders, we have created an opportunity to address the impact our airlines are facing from aircraft pilot shortages. The vertical integration provided through the operation of Moncton Flight College enables us to source and train pilots for our airlines.

Moncton Flight College has a long history of producing highly-qualified commercial pilots in domestic and foreign markets. Many of the pilots in Canada's commercial airlines have come through Moncton Flight College. In total, they have graduated over 19,000 commercial pilots who operate in more than 85 countries. Moncton Flight College is spread across two campuses in New Brunswick and operates a fleet of over 50 training aircraft.

With the increased requirement for commercial aircraft pilots, we anticipate the demand for the services of Moncton Flight College will continue to grow.

Hon.

GARY FILMON

P.C., O.C., O.M. LLD., ICD.D.
Chairman,
Board of Directors

CHAIRMAN'S MESSAGE

2017 was another year of record operating results for EIC as we hit new all-time highs in Revenue, EBITDA, Net Earnings and Net Earnings per share. We continued to execute on our business model of making accretive acquisitions, and growing our portfolio of companies organically while maintaining a strong balance sheet which provides stability in times of economic uncertainty and capital to move quickly when the right opportunity presents itself. In fact, I believe what is remarkable about 2017 is not how different it was from preceding years, but rather, how consistent it was with the previous 13 years. Merriam Webster defines reliable as "giving the same result on successive trials". I believe that is a great definition of EIC.

For approximately 14 years we have dedicated ourselves to the idea that accretive acquisition, organic growth and a strong balance sheet will allow us to generate a strong reliable income stream that will enable our shareholders to count on a monthly dividend that will grow with the company. There is a tendency in public markets to be very focused on the short term and the most recent announcement, or the profitability in the latest quarter. While there were certainly many exciting developments in 2017, they are not the reason our shareholders own the stock. It is the proven effectiveness of our business model and management, and the Board of Directors commitment to staying the course that has yielded this result. Our dividends per share grew another 5% to $2.10 in 2017 and maintained our average annual growth rate since inception of approximately 5%. This is a track record that many envy but few can match.

By no means am I suggesting that our business does not face challenges, and in fact I am suggesting quite the opposite. All businesses face challenges and it is how those challenges are dealt with that define the company. EIC is no different. Since our first acquisition of Perimeter in 2004 we have faced a number of situations which tested our model. These would include such external items as the rapid and dramatic changes in currency exchange rates, super cycles of natural resource prices and petroleum in particular, and the elimination of the income trust tax structure which caused many former trusts to cut their dividends dramatically in response to the tax changes. It also includes internal challenges such as new competition in our aviation business a decade ago in Manitoba, or the exceptionally rapid growth of our US cell tower business that stretched our ability to manage to the limits. In each of these situations and many more EIC has not only survived it has thrived. This year's challenge created by a short and distort attack focused on trying to drive down our stock through untrue and salacious statements, while not an operating issue, is no different. We responded as we always have by focusing on our model and delivering results to our shareholders. The outcome? Record earnings both on an absolute and per share basis and today we announced the 13th dividend increase in our history. While the stock has not yet fully recovered from this attack we are confident that in the long run the markets will value the stock based on the results we deliver, and we are very comfortable with that outcome.

We have invested not only in the acquisition of strong companies, but also in their growth post acquisition. This model has been very successful. And while some of our subsidiaries have grown more than others, all have contributed to our success. We are deliberately diversified and this enables us to deal with the challenges companies inevitably face. Perimeter, Calm and Regional One, in particular, are all multiples of the size they were when we purchased them. Their growth is no different than an accretive acquisition as it supports the ongoing increases in our dividend.

We are ecstatic about our recent acquisition of Quest. The vendors have built a unique business producing window wall systems for high rise residential buildings. They have a profitable track record of growth and are ready to take Quest to the next level by opening a second manufacturing facility, which will be located in the US and will double our capacity. When we purchased Quest it had an order book of over $200 million and in the short period under our ownership they have grown the backlog further. We are excited about opening this facility in 2019.

I think it is important to point out that when Martin Cash looked for someone to sell his business to he was looking for more than the best price. He was looking for a partner with experience in growing companies and a shareholder who valued the management team that was being acquired. After considerable due diligence and input from his advisors he chose to sell to EIC and take a portion of the purchase price in shares of EIC. He made this choice in spite of the fact that EIC was not the highest bidder. While our offer was of course competitive, it was our track record of assisting our acquired companies and giving them the resources to capture the market opportunity that resulted in their choice to sell to EIC. We look forward to Martin, Jody and the team at Quest leading it into the future.

Subsequent to year end we announced an investment in Wasaya Group, a First Nation-owned aviation company operating in Northwestern Ontario. In this transaction we will purchase an ownership interest in Wasaya for $12 million of EIC stock, and provide debt financing of a similar amount to recapitalize the company. We are very excited about extending our coverage in Northwestern Ontario through our investment in Wasaya and working with our First Nations partners to improve air service to the communities by making sure the schedules are as inter-connective as possible with Perimeter and Bearskin. The transaction will also enable Wasaya access to EIC infrastructure and lower costs through such items as fuel purchasing and our internal overhaul capacity. While this is a small transaction by EIC standards, we are excited about the ability to extend the geographic coverage of our airline business with First Nations Partners.

EIC has had great success vertically integrating our airlines through the purchase of Regional One as a parts supplier and Provincial Aerospace to provide aircraft overhaul capability to name just two. We recently announced the acquisition of Moncton Flight College, Canada's largest pilot training company. While the acquisition, like all EIC purchases, is accretive to our per share earnings, we are more excited about internalizing the solution to the worldwide aircraft pilot shortage. There is already rapid movement of pilots to fill opportunities at the international tier 1 carriers driven by their increased fleets. We expect this shortage to intensify as Transport Canada enacts new laws reducing the number of hours pilots can work. Moncton Flight College will enable us to internally address our pilot requirements while accretively growing our Company with third party training.

We look forward to 2018 and continuing on the path we have travelled for the last 14 years since the acquisition of Perimeter. On behalf of our Board of Directors, management and employees across North America, Ireland, the Caribbean and the Middle East, I would like to thank our shareholders for their ongoing support, particularly in a period where our stock price has been volatile. We look forward to continuing to deliver results and returns that make you proud to be shareholders of our Company.

MIKE PYLE

MBA, ICD.D.
Chief Executive Officer

CEO'S MESSAGE

2017 was a strong year for EIC as we established all-time highs in most of our financial metrics, executed on our business plan of accretive acquisition, increased our dividends paid per share by 5%, and integrated our airline maintenance systems internalizing the overhaul of our aircraft. It was also, however, a period of significant volatility of our stock price, largely driven by a short and distort campaign, which has caused uncertainty for our shareholders. While these gyrations in the market can cause uncertainty and are needless distractions, in the long run the markets will value a stock appropriately based on its fundamentals. EIC has consistently delivered profitable growth and a reliable dividend while maintaining a solid balance sheet. We did not vary from this in 2017, delivering the highest per share profitability in our history and the outlook for 2018 is even better.

EIC has long believed that investments must be made with the focus on the long term, and not just on what an investment will produce in the immediate future. It is this focus that has driven most of the growth in revenues and profitability in 2017. While the performance of Quest, which we acquired in November, has performed well and in fact exceeded our expectations, investments made in prior years have driven our increase in profitability. A brief summary of the key operating metrics is set out below.

- **Revenue increased by 14% to $1.01 billion**
- **EBITDA increased 17% to $248.7 million**
- **Net earnings increased 17% to $72.2 million**
- **Earnings per share increased 7% to $2.33**
- **Adjusted net earnings per share increased 1% to $2.58**
- **Dividends paid increased 5% to $2.10**
- **Payout ratio was 71%**

2017 was about much more than our current period financial results. It was about executing on our plan and laying the groundwork for future success. It was about investing in our operations, in our people and in acquisitions. It was also about investing in our customers and their communities. In short it was about investing in the future.

Our aviation group knew that 2017 was going to have a significant increase in the number of overhauls we were scheduled to complete on our larger aircraft. The overhauls require the aircraft to be offline for an extended period and can result in capacity shortages. In past years we would have utilized third parties to complete this overhaul work. With the acquisition of Provincial we were able to internalize this work and reduce the cost of the overhauls but more importantly we were able to control the timing of when the work was completed. The vast majority of the overhauls were completed in the first part of the year when the business is slower because of the availability of transportation over ice roads. This enabled us to have our full fleet available during the busy summer and Christmas seasons.

Many of the First Nations we service, especially in eastern Manitoba experienced an abnormally extreme fire season and, in fact, four communities needed to be evacuated. The availability of all of our aircraft enabled EIC airlines, with support from other companies and the Canadian Airforce, to move the residents of the communities to safety. Following the fires EIC completed the lion's share of the repatriations. The Christmas season is also a very busy time for the airlines with early December characterized by heavy southbound traffic and the reverse in late December as people return home with gifts and other Christmas supplies. In 2016 we suffered from a shortage of aircraft and abnormally difficult weather and as a result we provided service which was simply not good enough. We committed to our customers that this would not repeat itself in the future. With the completion of the overhaul cycle early in the year, additional capacity and a robust schedule, the service challenges experienced in the preceding year were completely reversed and our customers experienced the level of service they expect. These choices show in our financial results, but more importantly they show in our customers' satisfaction. We were able to renew not only Community Partnership Agreements ("CPA") with our First Nations but also enter into new arrangements with communities who had not entered into the agreements in the past. A total of five agreements were signed or extended in 2017.

We also expanded our partnerships with the Innu and Inuit in Labrador in 2017. Provincial has enjoyed a partnership (Innu Mikun) with the Innu for many years. This partnership was expanded with the Air Borealis operation which brought the Inuit of Labrador into the partnership and opened many new markets to the company.

EIC has always believed in investing back into the communities we service. Through our CPA and other partnership arrangements we return resources to these communities through profit sharing, low- and no-cost service options and economic development funds. In 2017 we expanded these programs with an initiative in Manitoba and Northwestern Ontario where we brought in youth and chaperones from the communities which we service to attend Winnipeg Blue Bomber Football Games. The children were treated to dedicated charter travel, tickets to the game, souvenirs and a chance to meet some of the players on the field after the game. For many of these children it was the first time they have had the opportunity to leave the community and the program was a big success. We look forward to expanding this initiative for the 2018 season.

Two of our smaller airline companies embarked on expansions of their services in 2017. Keewatin Air, our northern medevac specialists were awarded the third and final medevac contract for the Nunavut government. We have long serviced the Kiviliq and Baffin areas and the addition of Kitikmeot marks the first time we have held all of the contracts at the same time. We began servicing this area at the beginning of December. Custom Helicopter acquired two Airbus H125 helicopters in late 2017 to service a new heli-skiing contract in British Columbia diversifying its geographic and customer base.

Regional One, our aircraft leasing and aftermarket parts company, continued to reap the benefits of investments made growing the lease portfolio in previous years. EBITDA in 2017 reached over $110 million, over six times the level at which the company was purchased based upon only five years ago. The management team at Regional One has focused on scaling the operation and institutionalizing very proprietary data on the value of the parts and aircraft types in which they trade. Regional One has grown from a profitable entrepreneurial company into an industry leader as a result of this initiative combined with capital from EIC.

Provincial debuted its Force Multiplier aircraft at the Dubai airshow. The aircraft is the first of its kind state-of-the-art surveillance aircraft available for use in countries around the world on short notice. Utilizing decades of experience in maritime surveillance and the latest in technology, Provincial constructed and has staffed the aircraft. It will go into service in the second quarter and while it is early in the rollout process, interest from governments has been very promising.

2017 was also a very exciting year on the acquisition front. In November we purchased Quest, a North American leader in the supply and installation of window wall systems for high rise residential buildings. The company specializes in complete solutions for the external structure of high rise apartments and condos, utilizing...

CEO'S MESSAGE (continued)

... components that do not require cranes for installation. Rather the exoskeleton is manufactured in pieces that can be transported in the project construction elevator thereby reducing the cost and time to install a truly custom product. The acquisition has an initial purchase price of $85 million which can rise to $100 million if certain performance goals are met. We believe that it is highly likely that the vendors will receive the full earn out as the company was purchased with an order book of over $200 million. In the short period since the acquisition closed the order book has continued to grow. I am pleased to announce that as a result of the order backlog and strong demand for our product we will be building a second manufacturing facility later in 2018. This facility will be located in the southern US near existing markets and will double the total production capacity of the company. I look forward to bringing you further details on this project later in 2018.

In conjunction with the release of our fourth quarter results we announced that we have completed the acquisition of the Moncton Flight College, one of North America's leading flight schools. We are very excited about this transaction for two reasons. First of all, as is the case with all of our transactions, it is accretive to our results based on its historical performance. Similar to the Quest transaction, the initial price of approximately $35 million can rise to $55 million if it meets its growth targets. The company focuses on both the domestic and international markets. The world shortage of pilots is expected to continue and, in fact, intensify in future years. This situation is exacerbated in Canada by the proposed changes to pilot work regulations by Transport Canada. Anticipated reductions in allowed working hours will only increase the pilot shortage. EIC has a significant share of the airline business in Canada and we are clearly exposed to the potential pilot shortage. The second and more significant reason for our excitement about this transaction is the ability to vertically integrate our aviation business and supply our own pilot needs while still generating accretive results training pilots for third parties. We have had great success vertically integrating our parts supply through Regional One and our aircraft overhaul requirements through Provincial. The acquisition of Moncton Flight College expands this integration in an accretive manner.

We are very proud of our track record at EIC. From our beginnings as a capital pool company, an income trust and finally as a corporation we have followed a consistent model. Disciplined accretive acquisitions, investment in our subsidiaries to create organic growth, a strong balance sheet to provide resilience in challenging times and flexibility to move quickly when an opportunity warrants. This model has generated the profits necessary to pay our shareholders a reliable and growing dividend. To that end I am very pleased to announce that effective with our March dividend we will be increasing our dividend by $0.0075 per month to $0.1825 per month or $2.19 per annum. This is the 13th increase in our history and maintains a cumulative annual growth rate in our dividend of approximately 5% over our 14-year history. This is a track record very few public companies can match. Even with this increase, as a result of the work we have done on our existing subsidiaries and the acquisition of Quest and Moncton Flight College we expect our dividend payout ratio to decline in 2018.

We have consistently followed the same model and generated results which have dramatically outperformed the TSX over the last 14 years. We are proudly diversified and pay a strong dividend to our shareholders. I believe that whether someone chooses to be a shareholder of EIC or not, the words of the late NFL football coach Dennis Green describe EIC very well "They are exactly who we thought they were!"

I want to thank our loyal shareholders for their support over the years, and in 2017 in particular. Our stock has been volatile and comments made by short-sellers certainly caused stress to our shareholders and employees. I am proud that we have been able to deliver another year of profitable growth which has funded our 13th dividend increase and the outlook for 2018 is even better. Our model works and we consistently execute our plan. We have a 14-year track record to prove it. On behalf of our Board, our management team and our employees around the world thanks again for your support and I look forward to reporting our future results to you.

FEBRUARY 21, 2018

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MANAGEMENT DISCUSSION & ANALYSIS

PREFACE

This MD&A supplements the audited consolidated financial statements and related notes for the year ended December 31, 2017 ("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, 2017. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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.

EXCHANGE INCOME CORPORATION

The Corporation is a diversified, acquisition-oriented corporation focused on opportunities in aerospace and 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 on-going active monitoring of and investment in 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.

(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** (as a division of Perimeter), **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** (comprised of PAL Airlines and PAL Aerospace) 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. **Quest** is a manufacturer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in Canada and the United States. **WesTower** is focused on the engineering, design, manufacturing and construction of communication infrastructure and provision of technical services. **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. **Ben Machine** is a manufacturer of precision parts and components primarily used in the aerospace and defence sector. **Overlanders** manufactures precision sheet metal and tubular products.

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2017	per share basic	per share fully diluted	2016	per share basic	per share fully diluted
For the year ended December 31						
Revenue	$ 1,012,950			$ 891,026		
EBITDA[1]	248,698			212,575		
Net earnings	72,160	$ 2.33	$ 2.26	61,490	$ 2.18	$ 2.12
Adjusted net earnings[1]	79,727	2.58	2.47	72,202	2.56	2.43
Adjusted net earnings payout ratio[1]		81 %	85 %		78 %	82 %
Free Cash Flow[1]	191,114	6.17	5.46	164,211	5.83	5.08
Free Cash Flow less Maintenance Capital Expenditures[1]	91,946	2.97	2.81	91,584	3.25	3.00
Free Cash Flow less Maintenance Capital Expenditures payout ratio[1]		71 %	75 %		61 %	67 %
Dividends declared	65,087	2.10		56,331	1.995	

FINANCIAL POSITION	December 31, 2017	December 31, 2016
Working capital	$ 240,018	$ 178,492
Capital assets	796,576	693,993
Total assets	1,749,197	1,424,532
Senior debt and finance leases	550,621	446,329
Equity	577,508	486,137

SHARE INFORMATION	December 31, 2017	December 31, 2016
Common shares outstanding	31,317,890	28,793,354
	December 31, 2017	December 31, 2016
Weighted average shares outstanding during the year - basic	30,960,708	28,151,807

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

SIGNIFICANT EVENTS

Bought Deal Financing of Common Shares

On January 4, 2017, the Corporation closed a bought deal financing of common shares, resulting in the issuance of 2,303,450 shares of the Corporation at $42.45 per share. This includes the full exercise of an overallotment option to purchase 300,450 shares, representing 15% of the size of the offering. The net proceeds of the offering were $93.0 million and were used to make a repayment against the Corporation's credit facility.

Amended Credit Facility

During the first quarter, the Corporation amended its credit facility to increase its size and extend its term. The amendments included increasing the credit available to $695 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc., which is an aggregate increase of $200 million over the Corporation's previous credit facility. Two banks were added to the syndicate and the maturity was extended to March 2021. The Corporation amends and extends its facility on a regular basis to continuously have a maturity that extends at least three years and to increase the size of its facility to correspond to the increasing size of the Corporation.

Air Borealis

On June 16, 2017 it was announced that Provincial would be expanding its Labrador indigenous partnership to include both the Innu and Inuit under a new brand, Air Borealis. For nearly 20 years Provincial has been partnered with the Innu (Innu Development Limited Partnership) alone through Innu Mikun while the Inuit (Nunatsiavut Group of Companies) provided competing air service in Labrador through Air Labrador. Prior to this transaction, Air Labrador ceased operations. Air Borealis is equally owned by PAL Airlines, The Innu Development Limited Partnership and the Nunatsiavut Group of Companies and is managed by Provincial. Air Borealis with its fleet of Twin Otter aircraft provides vital air service to all of coastal Labrador communities previously served by Innu Mikun and Air Labrador and will now have seamless through traffic on the PAL Airlines' network. PAL Airlines also provides Air Borealis any needed air service requiring larger gauge aircraft. In conjunction with the transaction PAL Airlines launched service to seven new destinations on the Quebec North Shore.

Normal Course Issuers Bid ("NCIB")

During the year through its NCIB, the Corporation purchased a total of 797,580 shares for cancellation. The Corporation paid $26.0 million for these shares, representing an average purchase price of $32.64 per share. The Corporation believes that the underlying performance of its businesses is not fully reflected in its share price, making the share buyback an accretive use of capital.

Kitikmeot Contract Award

During the first quarter, Keewatin was awarded the five year medevac contract for the Kitikmeot region of Nunavut. As a result of this award, Keewatin now has all three regions of Nunavut under contract, further establishing Keewatin as the preeminent northern medevac provider. Services under the contract began in December 2017.

Re-Marketing Agreement with Bombardier

As announced in the Corporation's 2016 annual report, the Corporation entered into an agreement with Bombardier Commercial Aircraft Asset Management for the purchase of 13 previously owned CRJ900 aircraft. During the second quarter, the Corporation took delivery of the last of the CRJ900 aircraft. Regional One, pursuant to the agreement, continues to have the opportunity to acquire additional aircraft. These aircraft were purchased as part of the Corporation's expansion of its leasing business into Ireland.

Acquisition of Quest Window Systems Inc.

On November 14, 2017, the Corporation acquired Quest Window Systems Inc. ("Quest"). Quest, headquartered in Mississauga, Ontario, is a manufacturer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in Canada and the United States. The total purchase price includes the purchase price paid in cash at closing of $73.0 million, shares of the Corporation issued at closing with a value of $12.1 million, and up to an additional $15 million if post-closing growth targets are met. The additional $15 million will be paid within 24 months of closing subject to the growth targets being met.

Convertible Debenture Issuance – Unsecured 2017 Series

On December 20, 2017, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. The offering was first announced to be $70 million in debentures, however, due to investor demand, the offering was upsized. At the closing of the offering, the Corporation issued $100 million principal amount of debentures. 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 $51.50 per share. The maturity date of the debentures is December 31, 2022.

Subsequent Event – Early Redemption of Convertible Debentures

On November 30, 2017, the Corporation announced its intention to exercise its right to call its 7 year 5.50% convertible debentures due September 30, 2019. On January 11, 2018, the Corporation funded the redemption of these debentures with cash on hand. Prior to the redemption date, $0.7 million principal amount of debentures were converted into 20,291 common shares at a price of $36.80 per share. On January 11, 2018 the remaining outstanding debentures in the principal amount of $56.8 million were redeemed by the Corporation.

Subsequent Event – Partnership with Wasaya Group

On February 1, 2018, the Corporation entered into an agreement with Wasaya Group and its shareholders whereby the Corporation will acquire an ownership interest in Wasaya Group. EIC expects to invest $25.0 million in Wasaya of which approximately $12 million will be an equity investment and $13 million will be a loan to Wasaya. The equity investment will be funded through the issuance of shares of the Corporation to the vendors of Wasaya. EIC has funded an initial investment of $2.0 million and expects to complete the transaction during the first quarter of 2018. The partnership is expected to enhance the level of air service in Northern Ontario and result in operational efficiencies.

Subsequent Event – Purchase of CANLink Global Inc.

On February 22, the Corporation entered into an agreement to acquire CANLink Global Inc. (Moncton Flight College) for up to $55 million. Moncton Flight College is the largest flight training college in Canada and offers domestic Canadian pilot training as well as a foreign pilot program. The total purchase price will include $29 million paid in cash at closing, shares of the Corporation issued at closing with a value of $6 million and up to an additional $20 million if post-closing targets are met.

2. ANNUAL RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the year ended December 31, 2017 and the comparative 2016 year.

	Year Ended December 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 808,569	$ 204,381	$ -	$ 1,012,950
Expenses[1]	560,701	181,255	22,296	764,252
EBITDA	247,868	23,126	(22,296)	248,698
Depreciation of capital assets				108,556
Amortization of intangible assets				10,397
Finance costs - interest				36,982
Acquisition costs				3,041
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				95,307
Current income tax expense				27,812
Deferred income tax recovery				(4,665)
Net earnings				$ 72,160
Net earnings per share				$ 2.33
Adjusted net earnings				$ 79,727
Adjusted net earnings per share				$ 2.58

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.

	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 of capital assets				82,316
Amortization of intangible assets				11,747
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
Net earnings per share				$ 2.18
Adjusted net earnings				$ 72,202
Adjusted net earnings per share				$ 2.56

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

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

REVENUE AND EBITDA

On a consolidated basis, revenue generated by the Corporation during the current year was $1,013.0 million, an increase of $121.9 million or 14% over the comparative period. Of the increase, $105.2 million is attributable to the Aerospace & Aviation segment and $16.7 million of the increase is attributable to the Manufacturing segment. The overall growth in revenue was achieved without the impact of material acquisitions. The acquisitions of Team J.A.S. and CarteNav in 2016 have contributed positively to our financial performance, however, these acquisitions were relatively small. The acquisition of Quest occurred mid-way through the fourth quarter and therefore Quest has not yet significantly influenced our overall results.

EBITDA generated by the Corporation during the current year was $248.7 million, an increase of $36.1 million or 17% over the comparative period. The increase in EBITDA was driven by the Aerospace & Aviation segment.

The head-office costs of the Corporation, which are included in EBITDA, increased by $6.8 million over the comparative period. This was a result of higher headcount at head-office, an increase in professional costs and increased costs associated with information technology as head office took a greater responsibility for this function in the period.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation increased by $105.2 million or 15% to $808.6 million.

Revenue in the Legacy Airlines and Provincial increased by $21.1 million or 4%. This was primarily the result of increased volumes in all revenue streams in the Kivalliq market and targeted growth in Northwestern Ontario. Services relating to the new Kitikmeot contract award began in December 2017, thereby having a small impact on the year to date results and a more significant impact on the quarterly results. Higher activity levels for both our rotary and fixed wing aircraft related to fire suppression, evacuation and related services also contributed to the increase in revenue. Provincial experienced increased revenues in its airlines operations as a result of its partnership in Air Borealis, which was offset by lower revenue from its aerospace modification programs, one of which came to an end in 2016 and new projects have shifted out into future periods.

Regional One's revenue increased by $84.1 million or 52% over the comparative period. This was driven by growth in both of Regional One's main revenue streams as summarized in the following table.

Regional One Revenue	Year Ended December 31, 2017	Year Ended December 31, 2016	Variance	Variance %
Sales and service revenue	$ 159,116	$ 106,343	$ 52,773	50%
Lease revenue	88,254	56,882	31,372	55%
	$ 247,370	$ 163,225	$ 84,145	52%

The increase in revenue generated by Regional One was driven by previous investments in inventory and Growth Capital Expenditures. The revenue generated by Regional One is comprised of two main streams – sales and service revenue and lease revenue. Sales and service revenue is derived from the sales of aircraft parts, aircraft engines and whole aircraft as well as from the provision of services such as asset management. Lease income is generated through the leasing of aircraft engines or whole aircraft.

Within the sales and service revenue stream, the parts revenue is the most predictable and stable from both sales and margin perspectives. The sale of parts generally comprises the biggest portion of this revenue stream and margins on parts sales are relatively consistent. Sales of aircraft engines and entire aircraft vary on a period to period basis, both in volume and in price, but are generally higher dollar transactions. Margins on these transactions vary by the type of aircraft or engine, its amount of available green time and overall market demand and are typically lower than margins on part sales. Regional One also provides asset management services to clients who own aircraft and who require asset management expertise such as managing return conditions and remarketing. This line of business levers the core competencies of the company and is relatively new, therefore third party asset management revenues are still comparatively minor but growing. Margins are high because there are few direct costs associated with the sales.

Sales and service revenue increased by 50% compared to the same period in 2016. The sales of parts are the largest component of sales and service revenue and these grew by 52% during 2017. The revenue increase is a result of several factors, including the purchase of additional inventory, an increasing customer base, and the part out of additional aircraft.

Lease revenue increased by 55% compared to 2016. This increase is directly attributable to investment in the lease portfolio. Compared to the lease portfolio at December 31, 2016, Regional One's portfolio of aircraft available for lease has decreased by three and the number of engines available for lease has increased by six. The net book value of the lease portfolio has risen significantly with the investment in Regional One's fleet of CRJ900 aircraft available for lease and the disposal of lower value aircraft as part of their life cycle. The new higher value aircraft attract higher lease rates than lower value aircraft. The Corporation's investment in Regional One's inventory and lease portfolio is discussed further in *Section 4 - Investing Activities*.

The strengthening of the Canadian dollar compared to the prior period impacted the Canadian converted value of Regional One's US denominated revenues. Had the average exchange rates from 2016 persisted into 2017, Regional One's revenues would have been approximately $5.3 million higher.

In the Aerospace & Aviation segment EBITDA increased by $43.7 million or 21% to $247.9 million.

EBITDA contributed by the Legacy Airlines and Provincial increased by $7.8 million or 6%. Increased revenue is the primary driver of the increased EBITDA. Previous investments in the northern cargo operations led to operational efficiencies and positively impact margins compared to the prior period. Provincial's EBITDA increased by 4% as a result of higher contributions from its airline operations as a result of both improved yields and increased volumes, which was partially offset by decreases in the aerospace operations as a result of lower revenues. Provincial's investment in Air Borealis has been a significant contributor to the improved yields.The improvement in EBITDA was slightly impacted by increased fuel costs, increased third party leasing costs experienced early in 2017 and by higher pilot training costs as a result of turnover experienced throughout the industry.

Regional One contributed EBITDA of $113.0 million, which is an increase of 47% over the prior year. The increased revenues drove the higher EBITDA, particularly the increase in lease revenue. The gross margin of approximately 37% generated by the sales and service revenue stream in 2017 is consistent with the prior period. Lease revenue has increased in 2017 and EBITDA margins associated with Regional One's lease revenue are high as there is no cost of sale and depreciation and financing costs are both accounted for outside of EBITDA.

The change in currency conversion rates during 2017 negatively impacted Regional One's EBITDA by approximately $2.4 million.

Manufacturing Segment

In the Manufacturing segment revenue increased by $16.7 million or 9% to $204.4 million. This is the result of increases in all of the entities within the segment with the exception of WesTower. Also contributing to the increase is the revenue from Quest, which was acquired on November 14, 2017.

In the Manufacturing segment, EBITDA decreased by $0.7 million or 3% to $23.1 million. This is the net result of increases in EBITDA across all entities in the segment, with the exception of WesTower. Quest, which was acquired on November 14, 2017, contributed $2.9 million in EBITDA.

Stainless, Alberta Operations, Ben Machine and Overlanders all contributed strong revenue growth, with combined revenue increases of $27.4 million or 29% over the prior period. Stainless experienced strong demand in both its shop and field operations. Alberta Operations continued its resurgence from the economic downturn that impacted its revenues over the past several years. Ben Machine has benefitted from increased worldwide defence spending. Revenue growth at Overlanders is the result of prior investment in production capacity. These factors increasing revenue led to increases in EBITDA across the entities.

WesTower's results continue to be negatively impacted by reduced capital spending by cellular carriers in WesTower's traditional services as they prepare for the transition to the next generation of technology. This has resulted in a downturn of services historically provided by WesTower that has been steeper and more prolonged than we have experienced in the past. Previously when there has been a delay between the implementation of old and new technologies, cellular carriers have generally implemented some capital spending programs to enhance existing cellular infrastructure or decommission infrastructure that is no longer required. Currently, the vast majority of cellular carriers' capital spending has been associated with fibre-optic infrastructure, a market in which WesTower has recently entered and is looking to expand its market share. These factors have led to revenue and EBITDA decreases at WesTower compared to 2016. WesTower has implemented a number of measures to reduce costs and generate efficiencies which is intended to allow EBITDA to recover in future periods.

NET EARNINGS

Year Ended December 31	2017	2016	Variance	Variance %
Net Earnings	$ 72,160	$ 61,490	$ 10,670	17%
Net Earnings per share	$ 2.33	$ 2.18	$ 0.15	7%

Net Earnings for the year ended December 31, 2017 was $72.2 million, an increase of $10.7 million or 17%. This increase was driven by the 17% increase in EBITDA and a gain on the disposal of the Corporation's partnership interest in Innu Mikun. These increases were partially offset by increased depreciation, interest and acquisition costs.

On June 18, 2017, PAL Airlines expanded its Labrador indigenous partnership to include both the Innu Development Limited Partnership ("IDLP") and Nunatsiavut Group of Companies ("NGC"). The new partnership provides air services, primarily in the Labrador region, under the brand Air Borealis. The three partners have equal ownership interests and equal board representation. The air services provided by Air Borealis were previously provided by Innu Mikun and Air Labrador. PAL Airlines disposed of its existing interest in Innu Mikun by contributing it to the new partnership in return for a one-third interest in the new partnership. Likewise, IDLP contributed its existing interest in Innu Mikun and NGC contributed cash as well as its existing interest in Air Labrador. The Corporation recorded a non-cash gain on the disposal of its interest in Innu Mikun. The gain of $5.6 million ($3.9 million after tax) was determined under IFRS by comparing the carrying value of its previous investment to its percentage of the fair value of the net assets contributed by the other partners. Its interest in Innu Mikun has therefore been de-recognized and its new interest has been recorded in Other Assets at an amount equal to the original book value of the partnership plus the gain. The costs associated with this transaction have been expensed and netted with the non-cash gain on the income statement. The equity method of accounting is used to recognize the Corporation's share of the earnings of Air Borealis.

Depreciation has increased by $26.2 million as a result of the purchases of capital assets during both 2016 and 2017. Of the increase, $13.2 million relates to additional depreciation on Regional One's fleet of aircraft and engines available for lease. Interest costs have increased by $6.8 million due to the increase in long term debt outstanding on the Corporation's credit facility and increases in borrowing rates throughout 2017. Further discussion of the Corporation's outstanding debt balances can be found in *Section 7 – Liquidity and Capital Resources*.

Acquisition costs vary from year to year depending on the acquisition related activities undertaken by the Corporation. The acquisition of Quest, which closed during the fourth quarter of 2017, was the most significant reason for the increase in acquisition costs.

Income tax expense has decreased by $2.4 million and the effective rate of tax has decreased to 24.3% from 29.3%. The proportion of pre-tax earnings has shifted between jurisdictions and this shift of earnings to lower tax rate jurisdictions is contributing to the decrease in the effective rate. Additionally, a decrease to income tax rates was passed in the US prior to December 31, 2017. This had no impact on current taxes incurred on US earnings in 2017 but resulted in a revaluation of our deferred income tax liabilities that are attributable to our US operations, resulting in a deferred tax recovery of $2.7 million.

The 7% increase in basic Net Earnings per share was due to higher Net Earnings, and was partially offset by the 10% increase in the weighted average number of shares outstanding compared to 2016. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

Year Ended December 31	2017	2016
Net Earnings	$ 72,160	$ 61,490
Acquisition costs, net of tax	2,328	1,309
Amortization of intangible assets, net of tax	7,590	8,576
Accelerated interest accretion on redeemed debentures, net of tax	1,559	827
Gain on disposal of Innu Mikun, net of tax	(3,910)	-
Adjusted Net Earnings	$ 79,727	$ 72,202
per share - Basic	$ 2.58	$ 2.56
per share - Diluted	2.47	2.43

Adjusted Net Earnings for the year ended December 31, 2017 increased by 10% to $79.7 million in comparison to 2016. The increase in Net Earnings in comparison to 2016 is the primary driver of the increase in Adjusted Net Earnings. The 2017 calculation includes the removal of a gain on disposal of the Corporation's partnership interest in Innu Mikun, which reduced Adjusted Net Earnings. Acquisition costs, net of tax, for 2017 increased by $1.0 million compared to the prior year as discussed above. Amortization on the Corporation's intangible assets, net of tax, decreased by $1.0 million in comparison to 2016 as a result of intangible assets from previous acquisitions becoming fully amortized during the year.

Adjusted Net Earnings per share increased by 1% compared to 2016 as a result of increased Adjusted Net Earnings, partially offset by the 10% increase in the weighted average number of shares outstanding in the current year.

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

Year Ended December 31	2017	2016
Cash flows from operations	$ 124,755	$ 136,847
Change in non-cash working capital items and long-term deferred revenue	64,031	26,055
Acquisition costs, net of tax	2,328	1,309
	$ 191,114	$ 164,211
per share - Basic	$ 6.17	$ 5.83
per share - Fully Diluted	$ 5.46	$ 5.08

The Free Cash Flow generated by the Corporation for 2017 was $191.1 million, an increase of $26.9 million or 16% over the comparative period. The main reason for this increase is the 17% increase in EBITDA, slightly offset by increased interest costs and current taxes. Free Cash Flow is discussed further in *Section 13 – Non-IFRS Measures and Glossary*.

On a basic per share basis, the increase in absolute Free Cash Flow was partially offset by the 10% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $6.17 per share, an increase of 6% over the comparative period (fully diluted $5.46, an increase of 7%). Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

Changes in non-cash working capital balance is included in cash flow from operations per the Statement of Cash Flow and is removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. Discussion of changes in working capital is included within *Section 4 – Investing Activities*.

3. FOURTH QUARTER RESULTS

The following section analyzes the financial results of the Corporation for the three months ended December 31, 2017 and the comparative three month period in 2016.

	Three Months Ended December 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 200,546	$ 63,364	$ -	$ 263,910
Expenses[1]	138,008	55,308	7,279	200,595
EBITDA	62,538	8,056	(7,279)	63,315
Depreciation of capital assets				26,969
Amortization of intangible assets				2,407
Finance costs - interest				12,149
Acquisition costs				2,737
Gain on disposal of partnership interest				-
Earnings before tax				19,053
Current income tax expense				3,577
Deferred income tax recovery				(1,444)
Net earnings				$ 16,920
Net earnings per share				$ 0.55
Adjusted net earnings				$ 22,260
Adjusted net earnings per share				$ 0.72

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.

	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
Depreciation of capital assets				21,990
Amortization of intangible assets				3,249
Finance costs - interest				7,680
Acquisition costs				437
Earnings before income tax				17,948
Current income tax expense				4,658
Deferred income tax recovery				(532)
Net earnings				$ 13,822
Net earnings per share				$ 0.48
Adjusted net earnings				$ 16,631
Adjusted net earnings per share				$ 0.58

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

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

REVENUE AND EBITDA

Revenue generated by the Corporation during the fourth quarter was $263.9 million, an increase of $42.3 million or 19% over the comparative period. Of the increase, $26.6 million relates to the Aerospace & Aviation segment and $15.7 million relates to the Manufacturing segment.

EBITDA generated by the Corporation during the current quarter was $63.3 million, an increase of $12.0 million or 23% over the comparative three month period. The Aerospace & Aviation segment generated $13.9 million of the increase and the Manufacturing segment generated $1.8 million of the increase. Head-office costs of the Corporation increased by $3.8 million over the comparative period. This was a result of higher headcount and increased incentive compensation at head-office, an increase in professional costs and increased costs associated with information technology as head office took a greater responsibility for this function in the period.

Aerospace & Aviation Segment

In the Aerospace & Aviation segment revenue increased by $26.6 million or 15% to $200.5 million.

Revenue in the Legacy Airlines and Provincial increased by $10.5 million or 8%. This was primarily the result of increased volumes in all revenue streams in the Kivalliq and Manitoba markets, targeted growth in Northwestern Ontario and increased volumes in Provincial's airline business. Services under the new Kitikmeot contract began in December 2017, increasing revenues compared to the prior period. Provincial experienced increased revenues in its airline operations as a result of its partnership in Air Borealis, which was partially offset by lower revenue in its aerospace modification programs, one of which came to an end in 2016 and new projects have shifted out into future periods

Regional One's revenue increased by 36% over the comparative three month period. This was driven by growth in both of Regional One's main revenue streams as summarized in the table below.

Regional One Revenue	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Variance	Variance %
Sales and service revenue	$ 37,546	$ 29,739	$ 7,807	26%
Lease revenue	23,654	15,325	8,329	54%
	$ 61,200	$ 45,064	$ 16,136	36%

The sales and service revenue increased by 26% compared to the same period in 2016. The sales of parts are the largest component of sales and service revenue and these grew by 51% during the fourth quarter of 2017. The revenue increase is a result of several factors, including the purchase of additional inventory, an increasing customer base, and the part out of additional aircraft. As described earlier, the sales of aircraft and engines vary from period to period, and revenue from these sales decreased by $1.2 million compared to the fourth quarter in 2016.

Lease revenue increased by 54% compared to the fourth quarter in 2016. This increase is directly attributable to investment in the lease portfolio as discussed for the year ended 2017 in *Section 2 – Annual Results of Operations*.

The translation of Regional One's US denominated revenues were negatively impacted by the strengthening Canadian dollar in 2017. If the average exchange rates in the fourth quarter of 2016 persisted into the fourth quarter of 2017, Regional One's revenues would have been approximately $3.0 million higher.

In the Aerospace & Aviation segment EBITDA increased by $13.9 million or 29% to $62.5 million. This is the result of increases in the Legacy Airlines and Regional One.

EBITDA contributed by the Legacy Airlines and Provincial increased by $4.8 million or 18%. Increased revenue is a driver of the increased EBITDA, including the addition of the Kitikmeot contract as of December 1, 2017. The increase in capacity in 2017 and a quicker freeze up in November of 2017 compared to 2016, which reduced cancellations as a result of fog, eliminated the challenges experienced by our airlines in the fourth quarter of 2016. Provincial's EBITDA was consistent with the comparative quarter in 2016. Provincial's investment in Air Borealis has been a significant contributor to the improved yields, which was offset by decreased EBITDA within its aerospace operations. Across the airlines, the improvement in EBITDA was slightly impacted by increased fuel costs and by higher pilot training costs as a result of turnover experienced throughout the industry.

Regional One contributed EBITDA of $31.3 million for the quarter, which is an increase of 42% over the prior year. The increased revenues drove the higher EBITDA. The 41% gross margin generated by the sales and service revenue stream in the fourth quarter of 2017 is consistent with the prior period. Lease revenue has increased in the fourth quarter of 2017 and EBITDA margins associated with Regional One's lease revenue are high as there is no cost of sale and depreciation and financing costs are both accounted for outside of EBITDA.

The change in currency conversion in the current quarter compared to the fourth quarter of 2016 negatively impacted Regional One's EBITDA by $1.5 million.

Manufacturing Segment

In the Manufacturing segment, revenue increased by $15.7 million or 33% to $63.4 million and EBITDA increased by $1.8 million or 30% to $8.1 million. Quest, which was acquired on November 14, 2017, contributed EBITDA of $2.9 million.

Stainless, Alberta Operations, Ben Machine and Overlanders contributed strong revenue and EBITDA growth, posting increases of 29% and 17% respectively. Stainless experienced strong demand in both its shop and field operations, with the largest growth coming in their field operations which typically yields stronger margins. The stronger demand in the worldwide defence sector has resulted in Ben Machine experiencing stronger margins on its orders compared to the prior period. Overlanders is benefitting from its focus on operational efficiencies and this is reflected in its increased EBITDA.

The industry conditions that are negatively impacting WesTower's results are discussed in *Section 2 – Annual Results of Operations*. WesTower has implemented a number measures to reduce costs and generate efficiencies which has mitigated its decline in EBITDA.

NET EARNINGS

Three Months Ended December 31	2017	2016	Variance	Variance %
Net Earnings	$ 16,920	$ 13,822	$ 3,098	22%
Net Earnings per share	$ 0.55	0.48	$ 0.07	15%

Net Earnings for the three months ended December 31, 2017 was $16.9 million, an increase of 22%. This increase was primarily driven by the 23% increase in EBITDA. This was partially offset by increased depreciation relating to investments in EIC's fleet of aircraft, higher interest costs and higher acquisition costs as discussed in *Section 2 – Annual Results of Operations*.

Income tax expense has decreased by $2.0 million. Although pre-tax earnings have increased by 6% compared to the fourth quarter of 2016, the effective rate of tax has decreased to 11.2% from 23.0% for the quarter. The most significant cause of this variance is that a decrease in income tax rates was passed in the US prior to December 31, 2017. This had no impact on current taxes incurred on US earnings in 2017 but resulted in a revaluation of our deferred income tax liabilities that are attributable to our US operations, resulting in a deferred tax recovery of $2.7 million. Additionally, the proportion of pre-tax earnings has shifted between jurisdictions and this shift of earnings to lower tax rate jurisdictions is contributing to the decrease in the effective rate.

The 15% increase in basic Net Earnings per share was due to higher Net Earnings, and was partially offset by the 8% increase in the weighted average number of shares outstanding compared to 2016. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

Three Months Ended December 31	2017	2016
Net Earnings	$ 16,920	$ 13,822
Acquisition costs, net of tax	2,024	437
Amortization of intangible assets, net of tax	1,757	2,372
Interest accretion on redeemed debentures, net of tax	1,559	-
Adjusted Net Earnings	$ 22,260	$ 16,631
per share - Basic	$ 0.72	$ 0.58
per share - Diluted	0.68	0.56

Adjusted Net Earnings for the three months ended December 31, 2017 increased by 34% to $22.3 million compared to the fourth quarter in 2016. The increase in Net Earnings in comparison to 2016 is the primary driver of the increase in Adjusted Net Earnings. Acquisition costs, net of tax, for 2017 increased by $1.6 million compared to the prior year primarily due to the acquisition of Quest. Amortization on the Corporation's intangible assets, net of tax, decreased by $0.6 million in comparison to 2016 as a result of intangible assets from previous acquisitions becoming fully amortized during the year. Accelerated accretion on redeemed debentures, net of tax, increased by $1.6 million as a result of the Corporation's decision to exercise its right to redeem the September 2012 Unsecured Debentures early. The redemption of these debentures occurred on January 11, 2018 and were accreted to their par value as at December 31, 2017.

Adjusted Net Earnings per share increased by 24% compared to the fourth quarter of 2016 as a result of the 34% increase in Adjusted Net Earnings, partially offset by the 8% increase in the weighted average number of shares outstanding. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

Three Months Ended December 31	2017	2016
Cash flows from operations	$ 27,108	$ 39,455
Change in non-cash working capital items	20,613	873
Acquisition costs, net of tax	2,024	437
	$ 49,745	$ 40,765
per share - Basic	$ 1.61	$ 1.42
per share - Fully Diluted	$ 1.45	$ 1.25

The Free Cash Flow generated by the Corporation for 2017 was $49.7 million, an increase of $9.0 million or 22% over the comparative period. The primary reason for the increase is the 23% increase in EBITDA, partially offset by an increase in interest costs.

On a basic per share basis, the increase in absolute Free Cash Flow was partially offset by the 8% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $1.61 per share, an increase of 13% over the comparative period (fully diluted $1.45, an increase of 16%). Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

Changes in non-cash working capital balance is included in cash flow from operations per the Statement of Cash Flow and is removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. Discussion of changes in working capital is included within *Section 4 – Investing Activities*.

4. INVESTING ACTIVITIES

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

ACQUISITIONS

On November 14, 2017, the Corporation acquired all of the assets of Quest Window Systems Inc. ("Quest"). Quest, headquartered in Mississauga, Ontario, is a manufacturer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in Canada and the United States. The components of the consideration paid to acquire Quest are outlined in the table below.

Consideration given:		
Cash	$	73,017
Issuance of 377,500 shares of the Corporation at $32.09 per share		12,114
Estimated working capital adjustment		(1,175)
Contingent consideration - earn out		13,889
Total purchase consideration	$	97,845

The preliminary purchase price allocation will be finalized during the first quarter of 2018 when final settlement of working capital and other post-closing adjustments occur.
The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:	
Accounts receivable	$ 25,013
Inventory	8,919
Prepaid expenses and deposits	328
Capital assets	5,032
Intangible assets	37,840
	77,132
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	11,468
Fair value of identifiable net assets acquired	65,664
Goodwill	32,181
Total purchase consideration	$ 97,845

CAPITAL EXPENDITURES

	Year Ended December 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Maintenance Capital Expenditures	$ 96,206	$ 1,214	$ 907	$ 98,327
add: finance lease principal payments	-	841	-	841
Maintenance Capital Expenditures	96,206	2,055	907	99,168
Growth Capital Expenditures	126,878	1,499	-	128,377
	$ 223,084	$ 3,554	$ 907	$ 227,545

	Year Ended December 31, 2016			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Maintenance Capital Expenditures	$ 68,164	$ 2,985	$ 456	$ 71,605
add: finance lease principal payments	-	1,022	-	1,022
Maintenance Capital Expenditures	68,164	4,007	456	72,627
Growth Capital Expenditures	159,383	-	-	159,383
	$ 227,547	$ 4,007	$ 456	$ 232,010

Aerospace & Aviation

Regional One's invested $33.0 in Maintenance Capital expenditures and $49.9 million as Growth Capital Expenditures. Regional One's Maintenance Capital Expenditures account for 34% of the total Maintenance Capital Expenditures in the Aerospace & Aviation segment. The $13.2 million increase in Maintenance Capital Expenditures at Regional One is as a result of the increased depreciation on its expanded fleet of leased aircraft and engines. The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	December 31, 2017		December 31, 2016	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	37	48	40	42

The Regional One lease portfolio is comprised of several different types of aircraft and engines, but the predominant platforms are the Bombardier CRJ aircraft and the GE CF34 engines that are used on those aircraft. Other platforms included in the portfolio are the Bombardier Dash 8, Embraer 145 and ATR aircraft. Regional One is different from traditional leasing companies. It does not acquire assets with the intention of owning them for a long duration and deriving earnings solely from the financing spread. Regional One typically acquires assets with the intent of leasing them for a shorter duration, consuming available green time and producing cash flows, and then generating further profits once the aircraft have been retired from the active fleet and parted out. It is important to note that not all of the aircraft and engines in the portfolio will be on lease at any given time.

The fleet of aircraft and engines in Regional One's leasing portfolio is impacted by the purchase of assets which are added to the fleet offset by the transfer of assets into inventory for part out or sale. Regional One had Growth Capital Expenditures of $49.9 million for the year. The Growth Capital Expenditures were primarily related to the five CRJ-900 aircraft purchased per the Bombardier agreement in the first half 2017. Since its acquisition by EIC, Regional One has consistently delivered returns that exceed our target return on capital. When capital expenditures are made by Regional One, these aircraft often take approximately six months before Regional One starts earning returns on these investments.

The $63.2 million in Maintenance Capital Expenditures invested by the Legacy Airlines and Provincial represents an increase of 31% over 2016. The increase in Maintenance Capital Expenditures for these entities is the result of higher number of large aircraft overhauls in 2017 compared to 2016 and a larger fleet to support our expansion into new markets. The operating airlines experienced a higher amount of scheduled large aircraft overhauls in 2017 as a result of the variable timing of these events over the fleet of aircraft. There were 15 large aircraft overhauls in 2017 compared to 9 in 2016 and a historical average of 11.

In the Legacy Airlines and Provincial, $77.0 million in capital expenditures were invested in support of growth opportunities. The most significant investment relates to the development of Provincial's demonstrator surveillance aircraft which will enable Provincial to expand its service offering. In addition, Provincial acquired two Beech 1900 aircraft to service increased volumes and new routes, including the new Northern Quebec operations. Investments in new aircraft and ground infrastructure in our Legacy Airlines included the acquisition of two aircraft and ground infrastructure for the Kitikmeot contract which commenced during the fourth quarter of 2017, the purchase of two helicopters to support Custom's expansion into new markets, including a three year Heli-ski contract, and two Dash 8-300 aircraft to support expansion into areas of Northwestern Ontario previously not serviced by the Corporation's Legacy Airlines.

Manufacturing Segment

Maintenance Capital Expenditures in the Manufacturing segment primarily relate to replacement of production equipment or components of that equipment and can vary significantly from year to year.

Certain manufacturing assets have long useful lives and therefore can last for many years before requiring replacement or significant repair. Maintenance Capital Expenditures of $2.1 million made by our Manufacturing segment entities for 2017 has decreased by 49% from the comparative period.

Growth Capital Expenditures of $1.5 million in this segment were related to the purchase of equipment by Stainless to increase its production capacity in response to the growth in demand.

INVESTMENT IN WORKING CAPITAL

During the year, the Corporation made investments of $64.0 million in working capital across several subsidiaries. Detail of the increase is included in Note 23 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements. The majority of the increase was to support the Corporation's increased level of operations.
The Corporation's consolidated revenue increased by 19% in the fourth quarter of 2017 over the same three month period in 2016. This required additional investment in working capital. Second, the Corporation made significant investments during the year in Regional One's inventory of parts for resale. This investment has resulted in significant year over year and quarter over quarter increases in revenue from part sales as described in Section 2 and Section 3 of the MD&A. Finally, the Corporation's income taxes receivable increased over the prior period. The Corporation expects the receivable balance will decrease in 2018 through a combination of reduced installment payments and refunds received. The Corporation's working capital position can vary from period to period due to variations in the timing of receipts and payment associated with larger customer contracts and fluctuations in foreign currency translation.

5. DIVIDENDS AND PAYOUT RATIOS

The payment of stable and growing dividends to shareholders is a cornerstone goal of the Corporation. We are able to keep this commitment through our consistent execution of our core strategy of diversification, disciplined organic investment in our subsidiaries and disciplined acquisition of companies with defensible and steady cash flows.

Dividends

			2017 Dividents			2016 Dividents
Month	Record Date	Per share	Amount	Record Date	Per share	Amount
January	January 31, 2017	$ 0.175	$ 5,438	January 29, 2016	$ 0.16	$ 4,424
February	February 28, 2017	0.175	5,447	February 29, 2016	0.16	4,416
March	March 31, 2017	0.175	5,450	March 31, 2016	0.16	4,418
April	April 28, 2017	0.175	5,455	April 29, 2016	0.16	4,423
May	May 31, 2017	0.175	5,444	May 31, 2016	0.1675	4,633
June	June 30, 2017	0.175	5,411	June 30, 2016	0.1675	4,783
July	July 31, 2017	0.175	5,402	July 29, 2016	0.1675	4,786
August	August 31, 2017	0.175	5,383	August 31, 2016	0.1675	4,789
September	September 29, 2017	0.175	5,367	September 30, 2016	0.1675	4,791
October	October 31, 2017	0.175	5,367	October 31, 2016	0.1675	4,795
November	November 30, 2017	0.175	5,447	November 30, 2016	0.175	5,034
December	December 29, 2017	0.175	5,476	December 30, 2016	0.175	5,039
Total		$ 2.10	$ 65,087		$ 1.995	$ 56,331

Dividends declared for the current year increased over the comparative year as a result of the two increases in the dividend rate per month in the prior year and the higher number of shares outstanding in 2017. The Corporation increased the monthly dividend rate per share by $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 2017 totaling $2.10 per share compared to $1.995 per share in the comparative year, an increase of 5%. Dividends declared for fiscal 2017 totaled $65.1 million. Impacting the dividends declared in 2017 most significantly was the Corporation's issuance of shares through its equity offering that closed January 4, 2017, resulting in the issuance of 2,303,450 shares and the convertible debenture conversions throughout 2016, resulting in the issuance of 928,156 shares.

The Corporation uses both an earnings-based payout ratio (Adjusted Net Earnings) and a cash flow-based payout ratio (Free Cash Flow less Maintenance Capital Expenditures) to assess its ability to pay dividends to shareholders. Both methods of calculating the payout ratio provide an indication of the Corporation's ability to generate sufficient funds from its operations to pay dividends.

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

Adjusted Net Earnings excludes acquisition costs, amortization of intangible assets and unusual one-time items, such as the non-cash gain on disposal of the Corporation's partnership interest in Innu Mikun. Amortization of intangible assets results from intangible assets that are recorded when the Corporation completes an acquisition as part of the purchase price allocation for accounting purposes. There are no future capital expenditures associated with maintaining or replacing these intangible assets, therefore intangible asset amortization is not considered when assessing the ability to pay dividends. Acquisition costs are external costs incurred by the Corporation depending on acquisition activity and these costs are not required to maintain existing cash flows and therefore these costs are not considered in assessing the payment of dividends. Adjusted Net Earnings includes depreciation on all capital expenditures and is not impacted by the period to period variability in Maintenance Capital Expenditures.

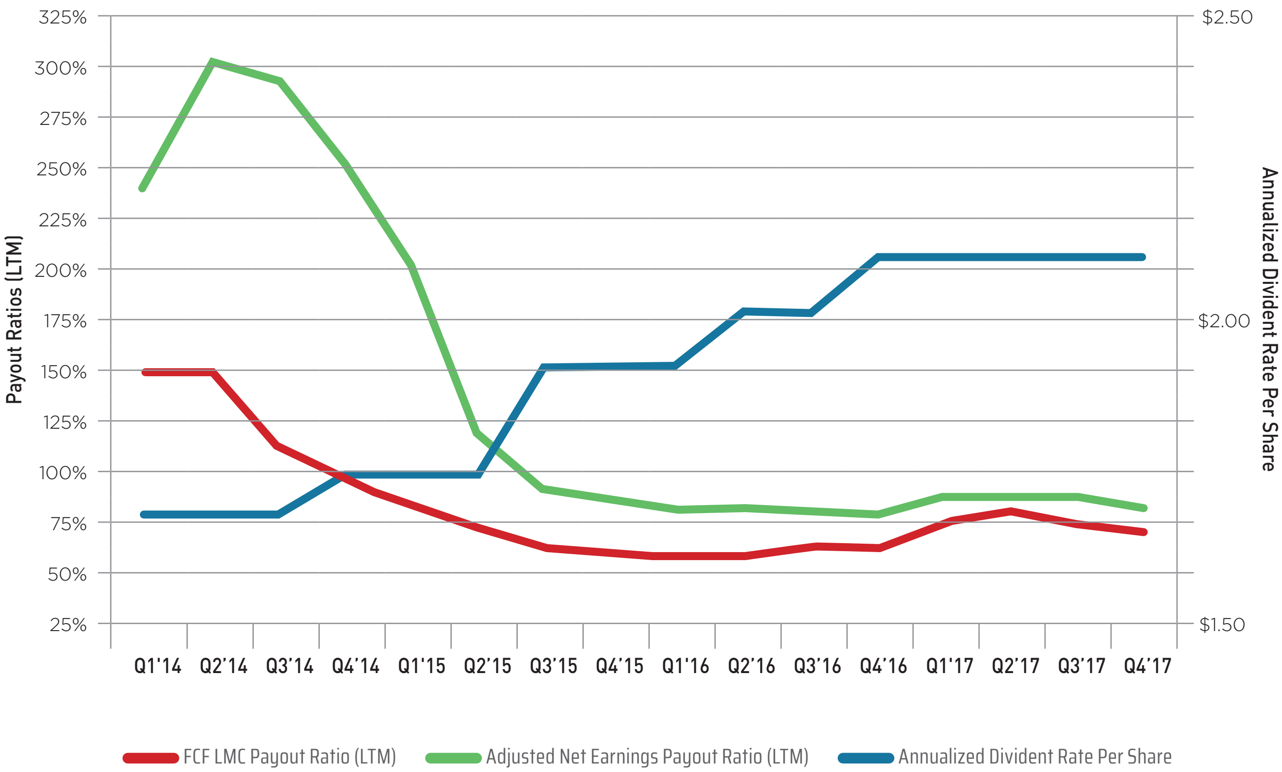
The Corporation analyzes its payout ratios on a trailing twelve month basis when assessing its ability to pay and increase dividends. The use of a longer period of time reduces the impact of seasonality on the analysis. The first quarter of the fiscal year is always the most seasonally challenging for the Corporation. Winter roads into northern communities lessen the demand for the Corporation's air services. Therefore a single quarter can be impacted by seasonal variations that do not impact the Corporation's ability to pay dividends over a longer period of time.

Payout Ratios

Payout Ratios for the Corporation	Year Ended December 31, 2017		Year Ended December 31, 2016	
	Per share basic	Per share fully diluted	Per share basic	Per share fully diluted
Free Cash Flow less Maintenance Capital Expenditures	71%	75%	61%	67%
Adjusted Net Earnings	81%	85%	78%	82%

The Corporation's Free Cash Flow less Maintenance Capital Expenditures payout ratio has increased to 71%. The increase is the direct result of the increase in Maintenance Capital Expenditures as the increase in the Free Cash Flow per share is greater than the increase in the dividends per share. The nature of Maintenance Capital Expenditures means it can fluctuate from period to period based on the timing of maintenance events as discussed in *Section 4 – Investing Activities*. The Adjusted Net Earnings payout ratio, which is not impacted by the timing differences from Maintenance Capital Expenditures, is relatively stable year over year.

The graph that follows shows the Corporation's historical Free Cash Flow less Maintenance Capital Expenditures trailing twelve months payout ratio and Adjusted Net Earnings trailing twelve 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 Free Cash Flow less Maintenance Capital Expenditures trailing twelve months payout ratio had been impacted by the increased Maintenance Capital Expenditures in the first half of 2017 and improved in the latter half of 2017 as those expenditures declined.



6. OUTLOOK

ACQUISITION STRATEGY

EIC continued to execute on its acquisition strategy in the fourth quarter and into 2018. The acquisition of Quest closed in the fourth quarter and in the first quarter EIC announced both the partnership with Wasaya and the acquisition of Moncton Flight College. These transactions serve to further diversify EIC, significantly expand our Manufacturing segment, and strategically strengthen our airlines.

While EIC is still actively seeking new acquisitions, it is likely this pace will slow while the focus is placed on closing and integrating these companies, as applicable.

AEROSPACE & AVIATION SEGMENT

In the fourth quarter and early in 2018, EIC's airlines focused on three key initiatives. These were working strategically together, continuing to partner with communities they serve, and investing for the long term. These activities have positioned this segment well to further expand in 2018 and increase year over year profitability as discussed in greater detail below.

The companies within the segment continued to work together to maximize their strategic position in the market and utilization of their assets. As EIC expanded into Northwestern Ontario ("NWO"), a key initiative has been the integration of Perimeter and Bearskin. EIC has merged the entities into one organization, allowing the two companies to adopt the best practices from both companies and gain efficiencies as they become one. The legal merger occurred on December 31, 2017 and the operational merger will occur over the remainder of 2018. When the operational merger is complete the two organizations will operate under one Air Operating Certificate, which will allow the entities to maximize performance and efficiencies. A key aspect of EIC's aviation entities working together is maximizing the utilization of aircraft. These capacity initiatives in the fourth quarter resulted in PAL Airlines sending a Dash 8 to Perimeter to supplement capacity in Perimeter's busy period and Keewatin sending a King Air to Quebec to support PAL Airlines in the execution of a new medevac contract. Likewise, pending the successful close of the Wasaya transaction, Calm Air will likely place an ATR 42 into NWO to support Wasaya for additional opportunities. These EIC capacity initiatives enable our airlines to increase the utilization of their aircraft and deliver the capacity requirements to their customers. Another example of the airlines working together is Bearskin collaborating with Team JAS to increase parts support for the Metro aircraft. This initiative will utilize Team JAS' expertise in Parts Manufacturer Approval to provide Metro parts to Perimeter and Bearskin. This will improve the availability of these parts and lower their costs.

A key success factor for EIC's airlines is to partner with the customers they serve. These partnerships align our interests with the interests of our customers, providing benefits to all parties. 2017 was a very successful year for developing new partnerships and extending existing partnerships. PAL Airlines expanded its partnership in Labrador under a new brand, Air Borealis, which now includes both the Innu and the Inuit. In Manitoba and NWO, five CPA's were extended or entered into in 2017. The CPA's can be directly with the communities we serve or with the tribal council that represents these communities. EIC's expansion into NWO to date has been successful, however we did not yet have the same level of partnership with the communities as we do in Manitoba. Early in 2018 an opportunity arose to partner with Wasaya to service this region. Wasaya Airways has a strong brand and significant community support being owned by 12 First Nations in NWO. Partnering with the communities we serve is a cornerstone to our airline's strategy and this transaction will achieve this in NWO. Once this transaction is complete, EIC's airlines will work strategically with Wasaya to maximize utilization of aircraft, service levels in the communities and efficiency of the airlines.

Investing with a long term focus is critical to EIC's success. While total Growth Capital Expenditures in the fourth quarter were significantly lower than earlier in 2017, there was still significant investment for the future. Custom acquired two aircraft in the fourth quarter, received their Instrument Flight Rules certification in August of 2017, and are developing Night Vision operations. This focus on the long term enabled them to procure a multi-year heli-skiing contract in BC, deliver medevac services in northern Manitoba, and actively bid on new opportunities. These investments are significant and have enabled Custom to provide new services, expand their territory, and ultimately become less reliant on the seasonal emergency response work in the summer. Keewatin successfully began medevac operations for the Kitikmeot region contract in the fourth quarter. This included adding additional aircraft and opening new bases in Cambridge Bay and Yellowknife to support this new long term contract. PAL Aerospace has continued to invest in people, adding employees for the FWSAR contract to successfully achieve all the required milestones in the contract to date. Investing in people, processes and systems is critical as PAL Aerospace prepares to bid on the expected release of the Department of Fisheries and Oceans ("DFO") request for proposal that is anticipated to come out in early 2018. PAL is the incumbent and has held this contract in various forms since the 1980's. The contract is set to expire in March 2019. PAL Aerospace also completed their demonstrator surveillance aircraft early in 2018. They are actively negotiating its deployment with multiple customers and are using it to demonstrate capabilities for a long term RFP with a foreign country. These investments further increase the capabilities of the Aerospace & Aviation segment and their competitive positioning in the market.

While Regional One did not expand their portfolio of assets in the fourth quarter, they still invested $8.8 million to maintain their existing portfolio which grew significantly in 2016 and 2017. Additionally Regional One invested considerable time and effort investigating new platforms in the fourth quarter, specifically the ERJ145 platform and the potential to retrofit certain aircraft into freighters. Both these initiatives have the potential to be significant and Regional One will continue to invest in these platforms moving forward.

Fuel prices are higher than the levels experienced in 2017. This has and will have some short term impact on results, however over the long term most of the Company's aviation subsidiaries have the ability to adjust prices to reflect higher fuel costs. The Company's airlines providing services to government agencies and other contract customers have fuel flow through provisions immediately mitigating the exposure from changes in fuel cost. For the remainder of the services fuel surcharges can be added, however the Company and its subsidiaries are mindful of the impact price increases have on the communities they serve and therefore often implement these prices changes over time after providing notice of the change well in advance of its implementation.

In relation to the US dollar, the Canadian dollar is currently stronger compared to the first six months of 2017. While this will not have a significant net impact on the Company's Canadian subsidiaries when viewed in total, it will negatively impact the translation of the Company's US subsidiaries, specifically Regional One and Stainless, into Canadian dollars for consolidated financial reporting.

Pilot turnover at our airlines driven by pilot recruitment from international airlines has continued. Increased worldwide flight demand and a large group of pilots approaching retirement ensure this will continue into the foreseeable future. This pilot demand will only increase when expected new regulations in respect to Pilot Fatigue and Flight Duty Times are implemented in the near future. This pilot shortage will continually put pressure on our airlines to recruit, hire and train pilots. To date, our airline executives have successfully managed the operational challenges and costs this creates. However moving forward, the EIC group of aviation companies has developed a multifaceted strategy to proactively address the pilot shortage. One aspect of this plan was recently executed with the acquisition of Moncton Flight College. Moncton Flight College, the largest flight training school in Canada, has developed a reputation as an international leader for flight training. Bringing Moncton Flight College into the EIC group of airlines will have clear benefits to the EIC aviation group to strengthen pilot recruitment and retention.

MANUFACTURING SEGMENT

The Manufacturing segment is poised for significant growth in 2018 largely as a result of the Quest acquisition. The remainder of the segment is also positioned for year over year growth as a result of strong order books in the majority of the segment and improvement at WesTower, although it will remain well below historical levels. Overall these factors should result in the EBITDA from the segment approximately doubling in 2018.

WesTower has been impacted significantly by reduced capital spending by cellular carriers in WesTower's traditional services as they prepare for the transition to the next generation of technology. This is the cyclical nature of the technology change in this industry and WesTower is still positioned as the top in class national service provider, which will enable them to capitalize on the deployment of the next generation technology when 5G is commercialized. Until such point in time, WesTower has partnered with other companies to combine crews, technology and equipment with their expertise to expand its offerings into wireline services and in-building systems. WesTower has also developed new service offerings such as corrosion testing for cellular carriers' existing tower infrastructure as well as continuing to expand its technical service offering. These changes lead us to expect immediate improvement at WesTower in 2018. We do not, however, anticipate it to materially rebound until the rollout of the of the wireless network upgrades begins to takes place.

The customer demand and resulting backlogs at Stainless, Ben Machine and Overlanders are strong and expected to continue throughout 2018. All these entities have worked strategically to increase throughput and expect to realize some year over year improvements as a result. The economy in Alberta, while still depressed, continues to improve which should also result in year over year gains for Alberta Operations.

Quest performed well for the six weeks of ownership in 2017 generating EBITDA of $2.9 million. This performance is higher than expected as Quest benefited from strong margins on the close out of a couple jobs in 2017. One of the attributes of the Quest acquisition was their multiyear backlog which was over $200 million at close. Since the acquisition their backlog has grown and their pipeline of opportunities in Canada and the US is robust. As a result Quest will be expanding their operations to add a second manufacturing facility in the US that will double its capacity. This expansion will enable Quest to continue to execute on opportunities and fully service their customers as Quest is currently booked out too far to meet some of their customers' requests for new jobs. Production from this new plant is anticipated to start in 2019 and is expected to achieve a strong return on invested capital.

CAPITAL EXPENDITURES

Maintenance Capital Expenditures are expected to be slightly higher than the levels of 2017. While the number of scheduled large aircraft maintenance events are expected to be down, this decrease will be offset by a higher number of scheduled engine maintenance events in 2018. The timing of these engine overhauls are prescriptive and the schedule across EIC's fleet will result in a higher number of engine overhauls in 2018 than is typical. Similar to 2017, the timing of the Maintenance Capital Expenditures is expected to be weighted more heavily to the first half of the year in 2018.

Currently, EIC is planning on lower Growth Capital Expenditures in 2018 as it currently only has two major programs scheduled. The first is the completion PAL Aerospace's demonstrator surveillance aircraft in the first quarter of 2018. The second is the new manufacturing facility in the US for Quest's expansion as discussed in the Outlook for the Manufacturing segment.

A key tenet to EIC's business model is to continue to invest in our subsidiaries. As such, EIC will continue to assess prospects to grow through additional investment as opportunities are developed by their subsidiaries throughout the year. For example, Regional One will likely bring new growth opportunities throughout the year as they continue to be opportunistic in the expansion of their aircraft portfolio, especially as they move into the ERJ145 platform and the potential to retrofit certain aircraft into freighters. However, at the current time no major capital expenditures are planned.

7. LIQUIDITY AND CAPITAL RESOURCES

In 2017, we completed an equity offering and used the proceeds to pay down our credit facility. The Corporation also amended and increased its capacity under the credit facility to reflect the size of its operations. On December 20, 2017, the Corporation closed a bought deal offering of $100 million of convertible unsecured subordinated debentures which mature in 2022. Subsequent to year-end a portion of the proceeds of this offering were used to redeem its 7 year 5.50% convertible debentures which were due September 30, 2019.

The Corporation's working capital, Free Cash Flow and capital resources are strong and there is no long-term debt or debentures maturing before 2020. The Corporation has sufficient liquidity and access to capital to make further acquisitions, invest in its operating subsidiaries and meet its obligations.

As at December 31, 2017, the Corporation had a cash position of $72.3 million (December 31, 2016 of $26.5 million) and net working capital of $240.0 million (December 31, 2016 of $178.5 million), which represents a current ratio of 1.93 to 1 (December 31, 2016 of 2.05 to 1). The Corporation's cash balance at December 31, 2017 includes $56.8 million to fund the redemption of its September 2012 Unsecured Convertible Debentures, which were redeemed on January 11, 2018.

The Corporation aims to maintain leverage ratios at consistent levels over time. There are points where leverage temporarily rises as a result of a significant acquisition where the associated EBITDA has not yet been realized. Our target leverage range, based on senior debt to EBITDA, is between 1.5 and 2.5. Our leverage covenant with our lenders allows for a leverage ratio maximum of 3.0. The Corporation's leverage ratio at December 31, 2017 as calculated under our credit facility, which is adjusted for the timing of acquisitions, was 1.86 (December 31, 2016 - 1.98). Our leverage ratios are, and have been, within our target range and well beneath the maximum allowed under our credit facility.

OVERVIEW OF CAPITAL STRUCTURE

The Corporation's capital structure is summarized below.

	December 31 , 2017	December 31 , 2016
Total senior debt outstanding (principal value)	$ 550,318	$ 445,425
Convertible debentures outstanding (par value)	318,678	230,082
Common shares	576,471	463,603
Total capital	$ 1,445,467	$ 1,139,110

Subsequent to the end of the year, the Corporation completed the previously announced redemption of its 7 year 5.50% convertible debentures due September 30, 2019. On January 11, 2018, the Corporation used cash on hand to fund the redemption of the $56.8 million of debentures outstanding. The following table reflects the capital structure of the Corporation on January 11, 2017 after this redemption.

	January 11 , 2018	December 31 , 2016
Total senior debt outstanding (principal value)	$ 550,318	$ 445,425
Convertible debentures outstanding (par value)	261,835	230,082
Common shares	576,471	463,603
Total capital	$ 1,388,624	$ 1,139,110

CREDIT FACILITY

The size of the Corporation's credit facility is $750 million, with $695 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. At December 31, 2017, the Corporation had drawn $109.7 million and US $351.2 million (December 31, 2016 - $217.3 million and US $169.9 million).

During the year, the Corporation used the net proceeds of $93.0 million from its equity offering to make a repayment of the credit facility. The Corporation made draws on its credit facility during 2017 to fund the acquisition of Quest and to fund a portion of its investment in working capital as discussed in *Section 4 – Investing Activities and Growth Capital Expenditures*. In addition, the Corporation made several draws on its credit facility throughout the year to fund purchases of shares for cancellation under its NCIB.

During the year, the Corporation used derivatives through several cross currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in 30 days at the same term 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 US dollar borrowings as they will be exchanged for the same Canadian equivalent in 30 days. At December 31, 2017, US $194.7 million (December 31, 2016 – US $37.8 million) of the Corporation's US denominated borrowings are hedged with these swaps.

CONVERTIBLE DEBENTURES

The following summarizes the convertible debentures outstanding as at December 31, 2017 and the changes in the amount of convertible debentures outstanding during the year ended December 31, 2017:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012[1]	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
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$51.50

Par value	Balance, beginning of year	Issued	Converted	Redeemed / Matured	Balance, end of year
Unsecured Debentures - September 2012[1]	$ 56,940	$ -	$ (97)	$ -	$ 56,843
Unsecured Debentures - March 2013	65,000	-	(20)	-	64,980
Unsecured Debentures - March 2014	39,142	-	(11,262)	-	27,880
Unsecured Debentures - June 2016	69,000	-	(25)	-	68,975
Unsecured Debentures - December 2017	-	100,000	-	-	100,000
Total	$ 230,082	$ 100,000	$ (11,404)	$ -	$ 318,678

Note 1): Subsequent to year end, on January 11, 2018, the Corporation redeemed its 7 year 5.50% convertible debentures which were due September 30, 2019.

SHARE CAPITAL

The following summarizes the changes in the shares outstanding of the Corporation during the year ended December 31, 2017:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of year		28,793,354
Issued upon conversion of convertible debentures	various	358,938
Issued under dividend reinvestment plan (DRIP)	various	198,083
Issued under First Nations community partnership agreements	various	18,117
Issued under deferred share plan	various	7,727
Shares cancelled under NCIB	various	(797,580)
Prospectus offering, January 2017	January 4, 2017	2,303,450
Issued to Quest vendors on closing	November 14, 2017	377,500
Issued under employee share purchase plan (ESPP)	November 20, 2017	58,301
Shares outstanding, end of year		31,317,890

The Corporation raised gross proceeds of $97.8 million through a bought deal equity offering on January 4, 2017, resulting in the issuance of 2,303,450 shares. The Corporation did not have any equity offerings in the comparative period.

The Corporation issued 198,083 shares under its dividend reinvestment plan ("DRIP") during 2017 and received $6.6 million for those shares in accordance with the DRIP.

During the 2017, the Corporation repurchased shares for cancellation under its NCIB, which is detailed further below.

On November 14, 2017, the Corporation completed its acquisition of Quest, of which a portion of the purchase price was paid through the issuance of 377,500 shares having a value of $12.1 million.

The weighted average shares outstanding for the year ended December 31, 2017 increased by 10% over the comparative period. This increase is mainly attributable to the equity offering completed by the Corporation on January 4, 2017 and the shares issued as a result of the convertible debenture conversions throughout 2016.

NORMAL COURSE ISSUERS BID

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 were made through the facilities of the TSX commencing on January 23, 2017 and ending on January 22, 2018. The maximum number of shares that could be purchased by the Corporation on a daily basis was 30,390 shares, other than block purchase exemptions.

During 2017, the Corporation purchased a total of 797,580 shares through its NCIB. The Corporation paid $26.0 million to purchase these shares at a weighted average purchase price of $32.64. All shares purchased under the NCIB were cancelled.

Subsequent to December 31, 2017, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,566,827 shares, representing 5% of the issued and outstanding shares as at January 23, 2018. Purchases of shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on February 5, 2018 and ending on February 4, 2019, 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 36,859 shares, other than block purchase exemptions. As of the date of this report, there are 1,566,827 shares available for purchase under the NCIB ending February 4, 2019.

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 accretive use of capital.

SCHEDULE OF FINANCIAL COMMITMENTS

The following are the financial commitments of the Corporation and its subsidiaries at December 31, 2017:

	Total	Less Than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	$ 550,318	$ -	$ 550,318	$ -
Convertible debentures (par value)	318,678	56,843	192,860	68,975
Operating leases	121,656	21,725	70,889	29,042
Finance leases	2,113	1,170	943	-
	$ 992,765	$ 79,738	$ 815,010	$ 98,017

8. RELATED PARTY TRANSACTIONS

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

PROPERTY LEASES

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. In addition, 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 are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2017 under these leases was $3.7 million (2016 – $3.4 million) and the lease term maturities range from 2018 to 2020. The lease expenses are recorded within general and administrative expenses and are classified as operating leases therefore no related balances exist on the Corporation's statement of financial position.

KEY MANAGEMENT COMPENSATION

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

Compensation awarded to key management for the 2017 year and the comparative 2016 year is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Salaries and short-term benefits	$ 5,601	$ 5,118
Share-based payments	3,071	2,447
	$ 8,672	$ 7,565

CO-INVESTMENTS WITH CRJ CAPITAL CORP.

During 2017, the Corporation entered into an agreement with CRJ Capital Corp., a corporation controlled by the CEO of Regional One. Under this agreement, CRJ Capital Corp. can, subject to the approval of the Corporation, co-invest with the Corporation, on a non-controlling basis, in certain aircraft assets. As a co-investor in these isolated aircraft assets, CRJ Capital Corp. receives profits as money is collected on the sale of the aircraft assets. In connection with this agreement, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During the current period CRJ Capital Corp. invested US$7.9 million, generating returns paid or payable to CRJ Capital Corp. of US$3.5 million. As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at December 31, 2017 was US$5.1 million. At December 31, 2017, US$1.4 million is recorded as accounts receivable from CRJ Capital Corp.

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of these consolidated financial statements. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

ACCOUNTING ESTIMATES

Business Combinations

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

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the subsidiary and the equity interests issued by the Corporation. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Corporation is recognized at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration liability is recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, order backlog, certifications, software intellectual property ("IP"), and 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, Stainless, Quest 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, 2017 would result in an increase of approximately $8.7 million (2016 - $8.0 million) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

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

The recoverable amount of the CGUs was based on value in use using a discounted cash flow model, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 2.5% and 5.0%, and discount rates (pre-tax) ranging between 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, 2017.

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 7.5x (2016 – 7.5x) and was 7.0x (2016 – 7.0x) for the Manufacturing segment.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2017.

Deferred Income Taxes

The Corporation is subject to income taxes in Canada, the United States and certain other jurisdictions. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation maintains provisions for uncertain tax positions that are believed to appropriately reflect our risk with respect to tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. 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.

Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

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

In the normal course of Regional One's business, it may acquire entire aircraft or components of an aircraft for breakdown into saleable parts. Regional One determines the carrying value of its inventory using the average cost to sales percentage based on the expected selling price. Accordingly, the carrying value of inventory and recognition of the related cost of sale requires estimates related to the margins that Regional One will ultimately earn on the parts. The Corporation has a process whereby such estimates are reviewed and assessed for reasonableness on a regular basis and the underlying inventory may be appraised by a third party. However, due to unforeseen changes in market conditions or other factors, estimated average cost to sales percentages may differ significantly from earlier estimates. Management believes, based on its industry experience, that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of the carrying value of inventory and related cost of sales. However, many factors can and do change throughout a component part's life, which can result in a change to future average cost to sales percentage estimates. Some of the factors that can change include significant changes in worldwide utilization of certain aircraft types which the parts support, 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 or an increase 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, 2017 and 2016 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2017 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, 2018 and have not yet been applied in preparing the 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 additional 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 has made qualitative assessments of the impact of adopting this standard by reviewing the characteristics of all significant revenue streams and customer contracts and has not currently identified any significant differences. The Corporation's most complex revenue recognition assessments pertain to long-term contracts and based on qualitative analysis, the Corporation determined that no material changes will be required as control is generally transferred throughout the term and the costs incurred to date compared to total estimated contract costs is consistent with a performance achieved over time. The remaining revenue recognition policies within the Manufacturing and and Aerospace and Aviation segments under IFRS 15 are anticipated to be the consistent with current policies. Quantitative impacts will be finalized prior to publishing the interim financial statements for the quarter ending March 31, 2018. The Corporation's intention is to apply the standard retrospectively with the cumulative effect recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018.

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. The Corporation's primary operating lease obligations pertain to leases associated with real estate and the aggregate lease commitments are disclosed in note 20. Based on the quantum of the lease commitments the Corporation expects there will be a material increase in the right of use assets and lease liabilities on the Corporation's consolidated balance sheet, however has not modelled the potential impact on its statement of income. The Corporation does anticipate that operating profit before depreciation, amortization, finance costs and other will increase. 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 will continue to assess 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, 2017, and has concluded that the internal controls over financial reporting are effective.

Quest was acquired November 14, 2017. In accordance with section 3.3(1)(b) of National Instrument 52-109, management has limited the scope of its design and evaluation of internal controls over financial reporting to exclude the controls at Quest.

Quest had EBITDA of $2.9 million included in the consolidated results of the Company for the period since the acquisition closed on November 14, 2017 to December 31, 2017. As at December 31, 2017, it had current assets and non-current assets of $35.9 million and $74.9 million, respectively, and current liabilities and non-current liabilities of $9.2 million and $14.1 million, respectively.

There have been no other material changes to the Corporation's internal controls during the 2017 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, 2017.

12. RISK FACTORS

The Corporation and its subsidiaries ("Subsidiary" or "Subsidiaries") are subject to a number of risks. These risks relate to the organizational structure of the Corporation and 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 and its Subsidiaries operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management of the Corporation to predict all risk factors or the impact of such factors on the business of the Corporation. The Corporation assumes no obligation to update or revise these risk factors or other information contained in this report to reflect new events or circumstances, except as may be required by law.

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
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
FINANCIAL	• Availability of Future Financing • Income Tax Matters • Commodity Risk • Foreign Exchange • Interest Rates • Credit Facility and the Trust Indentures • Dividends • Unpredictability and Volatility of Share Prices • Dilution Risk • Credit Risk
HUMAN CAPITAL	• Reliance on Key Personnel • Employees and Labour Relations • Conflicts of Interest

EXTERNAL RISKS:

Economic and Geopolitical Conditions

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

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

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

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

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

Competition

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

The airline Subsidiaries currently focus on niche markets in Manitoba, Ontario, Nunavut, Newfoundland and Labrador, Quebec, Nova Scotia and New Brunswick and experience different levels of competition depending on the geography and the nature of service provided. The objective of these companies is to provide the best service through efficient management of operations, maintaining an owned fleet of appropriately sized aircraft, maintaining significant ground infrastructure and fostering strong relationships with customers. The airline Subsidiaries would be exposed to downside earnings risk if a well-capitalized competitor were to commence operations or if a current competitor were to significantly expand services in the niche markets where the entities currently operate. The greatest impact would be on the segment's scheduled operations, as competition would put pressure on load factors resulting in declining margins due to the nature of fixed costs in these operating entities. This impact would be more pronounced in the short-term until the affected Subsidiary made the appropriate operational changes to respond to the competition.

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

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

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

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

Government Funding for First Nations Health Care

Many of the communities which Perimeter, Bearskin (a division of Perimeter), Keewatin, Calm Air, Custom Helicopters, and Provincial provide services to, have very limited medical resources and as a result, trips to medical facilities are required to seek adequate medical care. First Nations people with a medical condition which cannot be adequately treated in their community are provided travel warrants by the local medical authorities. These warrants are then exchanged by the person for an airline ticket. Perimeter, Bearskin, Keewatin, Calm Air 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, Provincial, Bearskin and Custom Helicopters decide to reduce or eliminate funding for medical-related transportation services, this would have a significant negative impact on Perimeter, Keewatin, Calm Air, Provincial, Bearskin+ and Custom Helicopters as applicable.

Access to Capital

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

Market Trends and Innovation

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

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

General Uninsured Loss

Each of the Subsidiaries carries comprehensive general liability, fire, flood and extended coverage insurance with policy specifications, limits and deductibles customarily carried for similar businesses. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not 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. 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 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.

New proposed Transport Canada regulations in respect to Pilot Fatigue and Flight Duty Times are currently under review at Transport Canada and expected to be published in 2018 with implementation requirements over the following 1-5 years. Depending on the content of the finalized regulations, there may be an increase in the number of pilots required by EIC. This requirement will vary based on the company's approval for Aerial operations, Commuter or Airline operations. This impact is recognized as industry wide and EIC and its aviation companies continue to enhance a multidimensional strategy to address aviation industry pilot recruitment and retention challenges inclusive of this additional potential regulatory impact.

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 Aerospace & Aviation Subsidiaries of the Corporation.

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

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

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

Ben Machine and Provincial are parties to non-disclosure agreements relating to technical assistance agreements and manufacturing licensing agreements involving U.S. International Traffic in Arms Regulations ("ITAR") controlled defence articles and technical data, and therefore 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.

Certain of our subsidiaries regularly engage in business transactions with US based suppliers and customers. The North American Free Trade Agreement is currently being renegotiated. The outcome of these renegotiations is highly uncertain and could negatively impact the operations of our subsidiaries. Among the possible risks are the possibility of new tariffs, increased difficulty associated with the movement of goods and people across the border and changes to access to work permits by employees.

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, 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 through its due diligence investigations, that the representations and warranties given by such vendors will adequately protect against such risks or that the Corporation will recover any losses incurred in the event of a breach of a representation or warranty.

Concentration and Diversification Risk

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

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

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

Maintenance Costs

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

Access to Parts and Relationships with Key Suppliers

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

Casualty Losses

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

Environmental Liability Risks

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

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

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

Dependence on Information Systems and Technology

Information systems are an important part of the business process of the Subsidiaries, including marketing their products and services, managing inventory, 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 cyber security 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 Sales Prices of Aviation Related Assets

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

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

Fluctuations in Purchase Prices of Aviation Related Assets

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

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

Warranty Risk

Certain Subsidiaries are exposed to warranty risk through their manufacturing activities. In particular, Provincial manufactures highly complex and sophisticated surveillance aircraft, incorporating various technologies and components. These aircraft are subject to detailed specifications, which are listed in contracts with customers, as well as 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.

Global Offset Risk

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

Intellectual Property Risk

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

FINANCIAL RISKS:

Availability of Future Financing

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

Income Tax Matters

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

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

Commodity Risk

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

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

The operations of the Manufacturing segment entities in Alberta 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 Aerospace & 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, particularly in relation to the US dollar. Our Canadian and US subsidiaries are impacted differently from fluctuations in the Canada/US dollar exchange rate.

Our Canadian operations have significant US dollar inflows and outflows and it varies greatly by entity. For instance, many of our airline Subsidiaries have net annual outflows of US dollars as parts cost, engines, and aircraft purchases are often purchased in US dollars. As well, the price of fuel, while purchased in Canadian dollars, is impacted by fluctuations in the Canada/US dollar exchange rate. However other entities, including

Quest and Provincial aerospace space have significant contracts that are paid in US dollars. When viewed in total, EIC's Canadian operations do not have a large exposure to fluctuations in the Canada/US dollar exchange rate. It is important to note that while exchange rate fluctuations may have a short term impact on any one of our Canadian Subsidiaries results that none of their business models are based on arbitraging between the two currencies and ultimately exchange rate changes will be reflected in their pricing charged to customers.

Our US Subsidiaries operations are not impacted by fluctuations in the exchange rate as the vast majority of their revenues and expenditures are in US dollars. However when their results are included in EIC's consolidated results for financial reporting purposes, EIC's consolidated results will be impacted by the translation of our US Subsidiaries results from their domestic currency into the Corporation's reporting currency, which is Canadian dollars. This exposure is hedged from a Statement of Financial Position perspective however the translation of their operating results will be impacted by fluctuations in the Canada/US dollar exchange rate.

Interest Rates

As at December 31, 2017, 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 $4.8 million (ignoring the impact of foreign exchange) per annum for the credit facility based on the amounts outstanding as at December 31, 2017. 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 at its head-office or at a Subsidiary.

Employees and Labour Relations

The success of the Subsidiaries is dependent in large part upon their ability to attract and retain key management and employees. Recruiting and maintaining personnel in the industries in which the Subsidiaries are involved is highly competitive and it cannot be guaranteed that these entities will be able to attract and retain the qualified personnel needed for their businesses. In particular, skilled labour for the WesTower operations of tower maintenance and erection, engineers in Provincial's modification operations, software developers, and certain metal fabricators are specialized and it can be difficult to find qualified personnel and retain them given the competitive environments 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. If the proposed Transport Canada regulations in respect to Pilot Fatigue and Flight Duty Times are published in 2018 with an implementation period over the next 1-5 years, they will have an additional impact on the number of pilots required for EIC Aviation Operators. These regulations are currently under review at Transport Canada and the specific impacts will be dependent on the finalized regulatory requirements. 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. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

EBITDA: is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash items such as gains or losses recognized on the fair value of contingent consideration items, asset impairment and restructuring costs, and any unusual non-operating one-time items such as acquisition costs. It is used by management to assess its consolidated results and the results of its operating segments.

EBITDA is a performance measure utilized by many investors to analyze the cash available for distribution from operations before allowance for debt service, capital expenditures and income taxes.

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

Free Cash Flow: for the year is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital and long-term deferred revenue, acquisition costs 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 and depreciation recorded on assets in the Corporation's leasing pool. Other capital expenditures are classified as Growth Capital Expenditures as they will generate new cash flows and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

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

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

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

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

14. SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table provides selected annual information for the Corporation for the years ended 2015 through to 2017.

	2017	2016	2015
Revenues	$ 1,012,950	$ 891,026	$ 807,403
Expenses[1]	764,252	678,451	628,163
EBITDA	$ 248,698	$ 212,575	$ 179,240
Total non-operating expense	176,538	151,085	139,006
Net earnings	$ 72,160	$ 61,490	$ 40,234
Earnings per share			
Basic	$ 2.33	$ 2.18	$ 1.63
Diluted	2.26	2.12	1.60
Adjusted net earnings	$ 79,727	$ 72,202	$ 52,262
Basic	2.58	2.56	2.12
Diluted	2.47	2.43	2.07
Dividends declared	$ 65,087	$ 56,331	$ 45,227
Per share	2.10	1.995	1.815
Free Cash Flow	$ 191,114	$ 164,211	$ 139,772
Per share basic	6.17	5.83	5.67
Per share fully diluted	5.46	5.08	4.76
Free Cash Flow less Maintenance Capital Expenditures	$ 91,946	$ 91,584	$ 74,405
Per share basic	2.97	3.25	3.02
Per share fully diluted	2.81	3.00	2.73
Financial Position			
Working capital	$ 240,018	$ 178,492	$ 135,310
Total assets	1,749,197	1,424,532	1,229,056
Total long-term liabilities[2]	831,840	687,296	524,553
Total liabilities	1,171,689	938,395	782,438
Share Information			
Common shares outstanding as at December 31,	31,317,890	28,793,354	27,633,217
Weighted average common shares outstanding during the year - basic	30,960,708	28,151,807	24,656,755

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

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

The following summary of quarterly results reflects the continuing operations of the Corporation:

	2017 Q4	Q3	Q2	Q1	2016 Q4	Q3	Q2	Q1	2015 Q4
Total revenue	$ 263,910	$ 253,367	$ 273,145	$ 222,528	$ 221,657	$ 224,620	$ 226,851	$ 217,898	$ 224,504
EBITDA	63,315	71,964	70,071	43,348	51,304	60,012	56,928	44,331	46,055
Net earnings (loss) - continuing operations	16,920	23,902	25,779	5,559	13,822	20,581	17,214	9,873	9,923
Basic	0.55	0.78	0.83	0.18	0.48	0.72	0.62	0.36	0.36
Diluted	0.53	0.72	0.77	0.18	0.47	0.67	0.59	0.35	0.35
Adjusted net earnings (loss) - continuing operations	22,260	25,716	23,943	7,808	16,631	23,145	20,403	12,023	12,636
Basic	0.72	0.84	0.77	0.25	0.58	0.81	0.74	0.43	0.46
Diluted	0.68	0.77	0.72	0.25	0.56	0.74	0.69	0.43	0.45
Free Cash Flow (FCF)	49,745	55,849	51,731	33,789	40,765	45,873	42,683	34,890	36,025
Basic	1.61	1.81	1.66	1.09	1.42	1.60	1.54	1.26	1.31
Diluted	1.45	1.58	1.46	0.98	1.25	1.37	1.34	1.10	1.14
FCF less Maintenance Capital Expenditures	27,748	35,976	21,842	6,380	22,823	26,484	25,476	16,801	20,460
Basic	0.90	1.17	0.70	0.21	0.80	0.93	0.92	0.61	0.74
Diluted	0.86	1.05	0.66	0.20	0.74	0.84	0.84	0.58	0.69
Maintenance Capital Expenditures	21,997	19,873	29,889	27,409	17,942	19,389	17,207	18,089	15,565
Growth Capital Expenditures	15,768	20,771	33,048	58,790	44,760	53,268	33,489	27,866	(517)

ADDITIONAL INFORMATION

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

February 21, 2018

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, 2017 and December 31, 2016 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, 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, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at	December 31, 2017	December 31, 2016
ASSETS		Revised (Note 2)
CURRENT		
Cash and cash equivalents	$ 72,315	$ 26,494
Accounts receivable	207,796	150,338
Costs incurred plus recognized profits in excess of billings (Note 16)	9,294	7,567
Inventory (Note 7)	178,397	129,854
Prepaid expenses and deposits	29,932	34,295
Income taxes receivable	5,072	-
	502,806	348,548
OTHER ASSETS (Note 8)	25,570	14,589
CAPITAL ASSETS (Note 9)	796,576	693,993
INTANGIBLE ASSETS (Note 10)	135,706	107,277
DEFERRED INCOME TAX ASSETS (Note 25)	258	238
GOODWILL (Note 10)	288,281	259,887
	$ 1,749,197	$ 1,424,532
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 166,415	$ 127,423
Income taxes payable	-	3,570
Deferred revenue	24,160	27,222
Billings in excess of costs incurred plus recognized profits (Note 16)	14,200	10,772
Current portion of long-term debt and finance leases (Note 11)	1,170	1,069
Current portion of convertible debentures (Note 12)	56,843	-
	262,788	170,056
LONG-TERM DEBT AND FINANCE LEASES (Note 11)	549,451	445,260
OTHER LONG-TERM LIABILITIES	34,493	18,399
DEFERRED REVENUE	6,934	11,293
CONVERTIBLE DEBENTURES (Note 12)	240,962	212,344
DEFERRED INCOME TAX LIABILITY (Note 25)	77,061	81,043
	1,171,689	938,395
EQUITY		
SHARE CAPITAL (Note 13)	576,471	463,603
CONVERTIBLE DEBENTURES - Equity Component (Note 12)	14,311	11,245
CONTRIBUTED SURPLUS	3,478	3,478
DEFERRED SHARE PLAN	9,867	7,207
RETAINED EARNINGS		
Cumulative Earnings	320,141	247,981
Cumulative Dividends (Note 14)	(355,718)	(290,631)
Cumulative impact of share cancellation under the NCIB (Note 13)	(12,074)	(395)
	(47,651)	(43,045)
ACCUMULATED OTHER COMPREHENSIVE INCOME	21,032	43,649
	577,508	486,137
	$ 1,749,197	$ 1,424,532

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		2017		2016
REVENUE				
Aerospace & Aviation	$	808,569	$	703,327
Manufacturing		204,381		187,699
		1,012,950		891,026
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		460,397		414,638
Manufacturing expenses - excluding depreciation and amortization		153,894		140,522
General and administrative		149,961		123,291
		764,252		678,451
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		248,698		212,575
Depreciation of capital assets (Note 9)		108,556		82,316
Amortization of intangible assets (Note 10)		10,397		11,747
Finance costs - interest		36,982		30,169
Acquisition costs		3,041		1,309
Gain on disposal of partnership interest (Note 8)		(5,585)		-
EARNINGS BEFORE INCOME TAXES		95,307		87,034
INCOME TAX EXPENSE (RECOVERY) (Note 25)				
Current		27,812		25,888
Deferred		(4,665)		(344)
		23,147		25,544
NET EARNINGS	$	72,160	$	61,490
EARNINGS PER SHARE (Note 17)				
Basic	$	2.33	$	2.18
Diluted	$	2.26	$	2.12

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

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

Attributable to common shareholders For the years ended December 31		2017		2016
NET EARNINGS	$	72,160	$	61,490
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax recovery for the year ended December 31 of $(49) and $(66), respectively.		(35,054)		(7,763)
Net gain on hedge of net investment in foreign operation, net of tax expense for the year ended December 31 of $1,304 and $372, respectively.		12,437		657
		(22,617)		(7,106)
COMPREHENSIVE INCOME	$	49,543	$	54,384

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, 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	-	(1,690)
Shares issued under dividend reinvestment plan (Note 13)	5,345	-
Deferred share plan vesting	-	-
Deferred share plan issuance	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**
Balance, January 1, 2017	**$ 463,603**	**$ 11,245**
Shares issued to acquisition vendors (Note 6)	**12,114**	**-**
Prospectus offering, January 2017 (Note 13)	**94,288**	**-**
Convertible debentures		
Converted into shares (Note 13)	**11,457**	**(524)**
Issued	**-**	**3,590**
Shares issued under dividend reinvestment plan (Note 13)	**6,630**	**-**
Shares issued under First Nations community partnership agreements (Note 13)	**577**	**-**
Deferred share plan vesting (Note 13)	**-**	**-**
Deferred share plan issuance (Note 13)	**199**	**-**
Shares issued under ESPP (Note 13)	**1,957**	**-**
Shares cancelled under NCIB (Note 13)	**(14,354)**	**-**
Comprehensive income	**-**	**-**
Dividends declared (Note 14)	**-**	**-**
Balance, December 31, 2017	**$ 576,471**	**$ 14,311**

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

		Retained Earnings (Revised - Note 2)				
Contributed Surplus - Matured Debentures	Deferred Share Plan	Cumulative Earnings	Cumulative Dividends	Cumulative impact of share repurchase under NCIB	Accumulated Other Comprehensive Income (Loss)	TOTAL
$ 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	$ 247,981	$ (290,631)	$ (395)	$ 43,649	$ 486,137
$ 3,478	$ 7,207	$ 247,981	$ (290,631)	$ (395)	$ 43,649	$ 486,137
-	-	-	-	-	-	12,114
-	-	-	-	-	-	94,288
-	-	-	-	-	-	10,933
-	-	-	-	-	-	3,590
-	-	-	-	-	-	6,630
-	-	-	-	-	-	577
-	2,859	-	-	-	-	2,859
-	(199)	-	-	-	-	-
-	-	-	-	-	-	1,957
-	-	-	-	(11,679)	-	(26,033)
-	-	72,160	-	-	(22,617)	49,543
-	-	-	(65,087)	-	-	(65,087)
$ 3,478	$ 9,867	$ 320,141	$ (355,718)	$ (12,074)	$ 21,032	$ 577,508

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the years ended December 31	2017	2016
OPERATING ACTIVITIES		
Net earnings for the year	$ 72,160	$ 61,490
Items not affecting cash:		
Depreciation of capital assets	108,556	82,316
Amortization of intangible assets	10,397	11,747
Accretion of interest	7,083	5,687
Long-term debt discount	59	192
Gain on sale of disposal of capital assets	(1,678)	(368)
Deferred income tax expense	(4,665)	(344)
Deferred share program share-based vesting	2,859	2,182
Gain on disposal of partnership interest	(5,985)	-
	188,786	162,902
Changes in non-cash operating working capital items and long-term deferred revenue (Note 23)	(64,031)	(26,055)
	124,755	136,847
FINANCING ACTIVITIES		
Net proceeds from (repayment of) long-term debt & finance leases, net of issuance costs (Note 11)	121,925	139,392
Proceeds from issuance of convertible debentures, net of issuance costs	95,195	65,623
Redemption of convertible debentures	-	(30,357)
Issuance of shares, net of issuance costs	102,158	7,714
Payment for repurchase of shares under NCIB (Note 13)	(26,033)	(1,284)
Cash dividends (Note 14)	(65,087)	(56,331)
	228,158	124,757
INVESTING ACTIVITIES		
Purchase of capital assets	(264,803)	(264,702)
Proceeds from disposal of capital assets	40,318	35,075
Purchase of intangible assets	(2,219)	(1,361)
Investment in other assets	(7,205)	(4,328)
Cash outflow for acquisitions	(73,175)	(17,915)
Finance lease receivable payments, net of reserves	(8)	2,624
	(307,092)	(250,607)
NET INCREASE IN CASH AND CASH EQUIVALENTS	45,821	10,997
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	26,494	15,497
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 72,315	$ 26,494
Supplementary cash flow information		
Interest paid	$ 27,226	$ 24,333
Income taxes paid	$ 36,052	$ 11,313

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

1. ORGANIZATION

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

As at December 31, 2017, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Calm Air International LP, Custom Helicopters Ltd., Overlanders Manufacturing LP, Water Blast Manufacturing LP, WesTower Communications Ltd., R1 Canada LP, Provincial Aerospace Ltd., Ben Machine Products Company Inc., EIC Aircraft Leasing Ltd., Quest Window Systems Inc., and EIIF Management USA Inc.. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., and Regional One Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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.

During the year, the Corporation reclassified certain of the December 31, 2016 comparative figures to correspond with current period reporting classification. The reclassifications included $11,293 of current deferred revenue to long-term deferred revenue and $3,441 from other long-term liabilities to accounts payable and accrued expenses.

During the year, the Corporation separated its depreciation and amortization into separate line items on the statement of income. Previously, depreciation of capital asset and amortization of intangible assets were included within one line. The prior year comparative figures have been adjusted to conform to current year presentation.

During the year, the Corporation separated the impact of cumulative purchases under its normal course issuer bid within retained earnings. As part of the repurchase and cancellation, the Corporation must allocate a portion of the purchase price to retained earnings and a portion to share capital based on the average book value of the shares at the time of repurchase (calculated as share capital divided by the number of shares outstanding). The portion that exceeds the average book value is recorded as the cumulative impact of share cancellations under the NCIB within retained earnings. The prior year comparative figures have been reclassified to conform to current period presentation.

The consolidated financial statements were approved by the Board of Directors of the Corporation for issue on February 21, 2018.

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 subsidiaries, including those identified in Note 1. All significant inter-company transactions have been eliminated for the purpose of these consolidated financial statements.

Subsidiaries are all entities (including structured entities) which the Corporation controls. The Corporation controls an entity when it is exposed to, or has the rights to, variable returns from its investment with the entity and has the ability to 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 loyalty points based on the value 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 of the deferred revenue liability for passenger tickets purchased in advance. These evaluations may result in adjustments to the amount of revenue recognized. 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 and 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. The corporation recognizes revenue from consignment sales as discussed above and are generally recorded at the gross amount of revenue with the payment to the consignor recorded as a cost of sales as the Corporation is the principal.

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. 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, WesTower CDA, and Quest 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, WesTower CDA, and Quest 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 revenue recognition from long-term contracts. 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 on the Consolidated Statements of Income. 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 on the Consolidated Statements of Income. 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 exchange rate at the date of the statement of financial position, and income and expenses – at the average exchange rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

If the Corporation disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If the Corporation disposes of part of an interest in a foreign operation 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 are comprised of cash and temporary investments consisting of highly liquid investments having maturities of three months or less. Interest is recorded on an accrual basis. As at December 31, 2017, cash equivalents was nil (December 31, 2016 – nil).

g) *Financial Instruments*

Recognition

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

Classification

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

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

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

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

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

The Corporation measures its financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition, the Corporation shall measure a financial asset at one of amortized cost, 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 Corporation subsequently measures debt instruments based on the business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories:

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

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

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

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

Impairment

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

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

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

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

Hedge Accounting and Derivatives

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.

The Corporation documents at the inception of the hedging transaction the economic relationship between the hedging instrument and hedged item including whether the hedging instrument is expected to offset changes in the cash flows or the fair value of the hedged item. The Corporation documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedging relationship.

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, the strategy in undertaking the hedge transaction and the hedged risk, the identification of the nature of the risk being hedged and how the Corporation will assess whether the hedging relationship meets the hedge effectiveness requirements. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging relationship meets the hedge effectiveness requirements including the economic relationship, the conclusion that credit risk does not dominate the value changes from

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

that economic relationship and the hedge ratio is appropriate. To the extent that the hedge is ineffective, such differences are recognized in the statement of income. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to the statement of income as part of the gain or loss on disposal.

i) *Inventory*

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

The Corporation classifies its inventory into the following categories:

- Parts and other consumables: this includes the inventory of the Aerospace & Aviation segment subsidiaries and represents items utilized in the operations and repair of the aircraft and items purchased for resale, as applicable.
- Raw materials: this includes items used in the manufacturing of products by the Manufacturing segment subsidiaries that have no labour work performed on them.
- Work in process: this includes items that have begun to be utilized in production by the Manufacturing segment subsidiaries.
- Finished goods: this includes items that have completed the manufacturing process and are available for sale or items purchased for resale by the Manufacturing segment subsidiaries, including consignment inventory held at certain entities in the Manufacturing segment.

Cost for aviation parts and components is established based upon the price paid for the inventory, including any costs of purchase, costs of conversion and other costs to bring such inventories to their present location and condition. Regional One's parts inventory carrying value is determined using the average cost to sales percentage method at expected selling prices. The average cost to sales percentage is based on historical profitability or from contracted rates under certain procurement arrangements. Remanufactured inventory cost is based upon the price paid for the cores and also includes expenses incurred for freight, direct manufacturing costs, third party repair costs and overhead, as applicable.

j) *Capital Assets*

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

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

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

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

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

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

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

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

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 the related CGU and are tested annually for impairment or when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). The recoverable amount is the higher of an asset or CGU's fair value less costs of disposal and value in use. An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount. The Corporation determines the fair value less costs of disposal as an amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal but when no active market exists it is derived using estimation techniques including discounted cash flow analysis. 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 2017, the Corporation recorded defined contribution pension plan costs of $3,790 (2016 – $3,033).

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.

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 instruments are convertible debentures and deferred shares under the Corporation's Deferred Share Plan. The dilutive impact of convertible debentures is calculated using the "if converted" method.

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, 2018 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 additional 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 has made qualitative assessments of the impact of adopting this standard by reviewing the characteristics of all significant revenue streams and customer contracts and has not currently identified any significant differences. The Corporation's most complex revenue recognition assessments pertain to long-term contracts and based on qualitative analysis, the Corporation determined that no material changes will be required as control is generally transferred throughout the term and the costs incurred to date compared to total estimated contract costs is consistent with a performance achieved over time. The remaining revenue recognition policies within the Manufacturing and and Aerospace and Aviation segments under IFRS 15 are anticipated to be the consistent with current policies. Quantitative impacts will be finalized prior to publishing the interim financial statements for the quarter ending March 31, 2018. The Corporation's intention is to apply the standard retrospectively with the cumulative effect recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018.

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. The Corporation's primary operating lease obligations pertain to leases associated with real estate and the aggregate lease commitments are disclosed in note 20. Based on the quantum of the lease commitments the Corporation expects there will be a material increase in the right of use assets and lease liabilities on the Corporation's consolidated balance sheet, however has not modelled the potential impact on its statement of income. The Corporation does anticipate that operating profit before depreciation, amortization, finance costs and other will increase. 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 will continue to assess 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 the performance of the business and how much cash is being generated by the Corporation and assists in determining the need for additional cost reductions, evaluation of personnel and resource allocation decisions. Operating profit before depreciation, amortization, finance costs and other is referred to as an additional IFRS measure and may not be comparable to similar measures presented by other companies.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of these consolidated financial statements. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

Accounting Estimates

Business Combinations

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

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

determining the fair values of the acquired company's assets and assumed liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets.

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

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, order backlog, certifications, software intellectual property ("IP"), and 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 using 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, Stainless, Quest 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, 2017 would result in an increase of approximately $8,658 (2016 - $8,010) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

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

The recoverable amount of the CGUs was based on value in use using a discounted cash flow model, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 2.5% and 5.0%, and discount rates (pre-tax) ranging between 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, 2017.

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 7.5x (2016 – 7.5x) and was 7.0x (2016 – 7.0x) for the Manufacturing segment.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2017.

Deferred Income Taxes

The Corporation is subject to income taxes in Canada, the United States and certain other jurisdictions. Significant judgment is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Corporation maintains provisions for uncertain tax positions that are believed to appropriately reflect our risk with respect to tax positions under discussion, audit, dispute, or appeal with tax authorities, or which are otherwise considered to involve uncertainty. 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.

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

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

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

On November 14, 2017, the Corporation acquired all of the assets of Quest Window Systems Inc. ("Quest"). Quest, headquartered in Mississauga, Ontario, is a manufacturer of an advanced unitized window wall system used primarily in high-rise multi-family residential projects in Canada and the United States. The components of the consideration paid to acquire Quest are outlined in the table below.

Consideration given:		
Cash	$	73,017
Issuance of 377,500 shares of the Corporation at $32.09 per share		12,114
Estimated working capital adjustment		(1,175)
Contingent consideration - earn out		13,889
Total purchase consideration	$	97,845

The preliminary purchase price allocation will be finalized during the first quarter of 2018 when final settlement of working capital and other post-closing adjustments occurs.
The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Accounts receivable	$	25,013
Inventory		8,919
Prepaid expenses and deposits		328
Capital assets		5,032
Intangible assets		37,840
		77,132
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		11,468
Fair value of identifiable net assets acquired		65,664
Goodwill		32,181
Total purchase consideration	$	97,845

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The Corporation is still determining the final allocation of the purchase price and expects to complete the allocation in the first quarter of 2018.The preliminary allocation, subject to change upon finalization, has identified $37,840 of intangible assets, including trade name, customer relationships and backlog. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies and the profitability of the acquired business.

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
Final working capital settlement		351
Contingent consideration - earn out		2,166
Total purchase consideration	$	13,851

The total purchase consideration, including the fair value of an earn out, was $13,851. Purchase consideration includes $11,334 of cash paid on closing, the fair value of the earn out of $2,166 that is payable to the vendors, plus the final working capital settlement of $351. The acquisition balance sheet includes the fair value of the earn out liability of $910 to CarteNav's previous option holders whose equity interest was terminated prior to the close of the acquisition. The maximum earn out 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 $11,590 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
Final working capital settlement		151
Issue of 50,765 shares of the Corporation at a price of $35.64 per share		1,809
Total purchase consideration	$	12,769

The total purchase price was US $9,539 ($12,769). 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 $112 ($151) working capital settlement. The aggregate goodwill recognized for Team J.A.S. was US $929 ($1,244).

The 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.

Fair value of assets acquired (CarteNav and Team J.A.S.):	
Cash	$ 4,228
Accounts receivable	2,678
Inventory	4,897
Prepaid expenses	181
Capital assets	4,355
Intangible assets	5,540
	21,879
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	13,786
Goodwill	12,834
Total purchase consideration	$ 26,620

7. INVENTORIES

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

	December 31, 2017	December 31, 2016
Parts and other consumables	$ 38,993	$ 32,327
Aviation parts for resale	101,908	68,407
Raw materials	27,497	21,091
Work in process	5,701	3,628
Finished goods	4,298	4,401
Total inventory	$ 178,397	$ 129,854

During 2017, inventory from the Aerospace & Aviation segment with a value of $86,778 (2016 – $64,125) was recorded as a direct operating expense and inventory from the Manufacturing segment with a value of $52,988 (2016 – $39,684) was recorded as a cost of goods sold expense.

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

8. OTHER ASSETS

The other assets of the Corporation consist of the following:

	December 31, 2017	December 31, 2016
Long term security deposits	$ 1,131	$ -
Long term finance lease receivables	4,068	3,762
Equity method investments	14,306	6,349
Other investments - Fair value through OCI	1,963	4,478
Loan to NGC	4,102	-
Total other assets	$ 25,570	$ 14,589

The Corporation is invested in two equity accounted investments in non-trading entities at December 31, 2017. The Corporation's ownership percentages in the entities are 33% and 49%, and the carrying values at December 31, 2017 are $7,070 (2016 – nil) and $7,236 (2016 – $3,583), respectively. In addition, during the year the Corporation disposed of its interest in an equity accounted investment which had a carrying value of $2,766 at December 31, 2016. The reporting period end for both of the equity accounted investments is December 31. These entities have total assets of $49,895 and total liabilities of $12,710 at December 31, 2017. The entities had revenues of $48,241 and net income of $8,531 for the year ended December 31, 2017. These investments, for which fair market value is not available, have been included within the equity method investments line above.

The Corporation is invested in a non-trading entity which is accounted for at fair value through OCI. The Corporation's ownership percentage is 14.29%. The entity has a carrying value of $1,963 (2016 – $4,478) at December 31, 2017, and holds several aviation assets.

Air Borealis

On June 18, 2017, PAL Airlines expanded its Labrador indigenous partnership to include both the Innu Development Limited Partnership ("IDLP") and Nunatsiavut Group of Companies ("NGC"). The new partnership provides air services, primarily in the Labrador region, under the brand Air Borealis. The three partners have equal ownership interests and equal board representation. The air services provided by Air Borealis were previously provided by Innu Mikun and Air Labrador. PAL Airlines disposed of its existing interest in Innu Mikun by contributing it to the new partnership in return for a one-third interest in the new partnership. Likewise, IDLP contributed its existing interest in Innu Mikun and NGC contributed cash as well as its existing interest in Air Labrador. The Corporation recorded a non-cash gain of $5,585 on the disposal of its interest in Innu Mikun. The gain was determined under IFRS by comparing the carrying value of its previous investment to its percentage of the fair value of the net assets contributed by the other partners. Its interest in Innu Mikun has therefore been de-recognized and the new interest has been recognized at an amount equal to the original book value of the partnership plus the gain. The costs associated with this transaction have been expensed and netted with the non-cash gain on the income statement. In connection with this transaction, the Corporation loaned $5,100 to NGC, of which $4,102 was outstanding at December 31, 2017. The loan is interest bearing and repayable over the next five years.

9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

December 31, 2017	Cost	Accumulated Depreciation	Net Book Value
Land	$ 8,254	$ -	$ 8,254
Buildings	116,900	25,926	90,974
Aircraft frames	265,895	83,958	181,937
Aircraft engines	165,093	67,192	97,901
Aircraft propellers and rotors	39,441	14,381	25,060
Aircraft landing gear	31,278	7,409	23,869
Aircraft rotable parts	39,083	11,145	27,938
Equipment	110,233	73,587	36,646
Other	9,858	7,336	2,522
Leasehold improvements	10,876	5,611	5,265
	796,911	296,545	500,366
Assets for lease to third parties (aircraft and engines)	332,861	36,651	296,210
Total	$ 1,129,772	$ 333,196	$ 796,576

	Year Ended December 31, 2017						
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 8,313	$ -	$ -	$ -	$ -	$ (59)	$ 8,254
Buildings	92,301	-	2,593	(4)	(3,718)	(198)	90,974
Aircraft frames	139,926	-	65,834	(2,532)	(21,291)	-	181,937
Aircraft engines	85,588	-	42,486	(3,105)	(27,068)	-	97,901
Aircraft propellers and rotors	20,513	-	11,082	(797)	(5,738)	-	25,060
Aircraft landing gear	17,581	-	10,004	(944)	(2,772)	-	23,869
Aircraft rotable parts	27,123	-	5,366	(12)	(4,539)	-	27,938
Equipment	33,260	4,532	7,981	(71)	(9,331)	275	36,646
Other	2,517	30	1,251	(21)	(925)	(330)	2,522
Leasehold improvements	4,776	470	699	-	(617)	(63)	5,265
	431,898	5,032	147,296	(7,486)	(75,999)	(375)	500,366
Assets for lease to third parties (aircraft and engines)	262,095	-	118,307	(31,154)	(32,557)	(20,481)	296,210
Total	$ 693,993	$ 5,032	$ 265,603	$ (38,640)	$ (108,556)	$ (20,856)	$ 796,576

During the year, the Corporation had net transfers of $9,887 from capital assets to inventory (December 31, 2016 - $1,382 from inventory to capital assets). The Corporation transfers capital assets out of the lease portfolio

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into inventory for part out and resale when it is determined beneficial to do so as part of the normal life cycle of older aircraft. In addition, the Corporation may transfer assets from inventory to capital assets to capitalize onto one if its operating aircraft. The net of these transfers is included within the Additions/Transfer column.

December 31, 2016	Cost	Accumulated Depreciation	Net Book Value
Land	$ 8,313	$ -	$ 8,313
Buildings	114,604	22,303	92,301
Aircraft frames	210,743	70,817	139,926
Aircraft engines	136,919	51,331	85,588
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
	680,427	248,529	431,898
Assets for lease to third parties (aircraft and engines)	296,561	34,466	262,095
Total	$ 976,988	$ 282,995	$ 693,993

						Year Ended December 31, 2016	
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	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	130,951	-	27,324	(78)	(18,271)	-	139,926
Aircraft engines	79,785	-	22,390	(122)	(16,465)	-	85,588
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
	418,507	4,355	73,340	(1,376)	(62,907)	(21)	431,898
Assets for lease to third parties (aircraft and engines)	124,122	-	192,363	(33,331)	(19,409)	(1,650)	262,095
Total	$ 542,629	$ 4,355	$ 265,703	$ (34,707)	$ (82,316)	$ (1,671)	$ 693,993

10. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2017 and 2016:

December 31, 2017	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 72,623	$ -	$ 72,623
Finite Life Assets			
Customer contracts and relationships	58,946	31,391	27,555
Non-compete agreements	854	854	-
Certifications	8,951	465	8,486
Information technology systems	6,682	2,168	4,514
Backlog	24,555	6,480	18,075
Other	6,258	1,805	4,453
Total	$ 178,869	$ 43,163	$ 135,706

						Year Ended December 31, 2017	
Net Book Value	Opening	Acquisition (Note 6)	Additions	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 60,359	$ 13,400	$ -	$ -	$ -	$ (1,136)	$ 72,623
Finite Life Assets							
Customer contracts and relationships	28,750	6,700	-	-	(7,799)	(96)	27,555
Non-compete agreements	7	-	-	-	(7)	-	-
Certifications	8,547	-	-	-	(60)	(1)	8,486
Information technology systems	3,532	-	1,846	-	(864)	-	4,514
Backlog	1,264	17,740	-	-	(929)	-	18,075
Other	4,818	-	373	-	(738)	-	4,453
Total	$ 107,277	$ 37,840	$ 2,219	$ -	$ (10,397)	$ (1,233)	$ 135,706

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

December 31, 2016	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 60,359	$ -	$ 60,359
Finite Life Assets			
Customer contracts and relationships	52,342	23,592	28,750
Non-compete agreements	854	847	7
Certifications	9,306	759	8,547
Information technology systems	4,836	1,304	3,532
Backlog	6,815	5,551	1,264
Other	5,887	1,069	4,818
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	$ 59,892	$ 1,000	$ -	$ -	$ -	$ (533)	$ 60,359
Finite Life Assets							
Customer contracts and relationships	33,726	2,900	-	-	(7,723)	(153)	28,750
Non-compete agreements	74	-	-	-	(66)	(1)	7
Certifications	8,624	-	-	-	(74)	(3)	8,547
Information technology systems	1,592	1,400	1,282	-	(742)	-	3,532
Backlog	3,432	240	-	-	(2,408)	-	1,264
Other	5,473	-	79	-	(734)	-	4,818
Total	$ 112,813	$ 5,540	$ 1,361	$ -	$ (11,747)	$ (690)	$ 107,277

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, CarteNav, and Quest. 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	2017	2016
Balance, beginning of year	$ 259,887	$ 249,213
Goodwill from business acquisitions	32,181	12,541
Measurement period adjustment - settlement of working capital	158	-
Translation of goodwill of foreign operations (Stainless, Regional One, Water Blast Dakota, and Team J.A.S)	(3,945)	(1,867)
Balance, end of year	$ 288,281	$ 259,887

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 3e), 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 $929) 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, 2017 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, 2017, 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, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Revolving term facility:		
Canadian dollar amounts drawn	$ 109,700	$ 217,300
United States dollar amounts drawn (US$351,230 and US$169,900 respectively)	440,618	228,125
Total credit facility debt outstanding, principal value	550,318	445,425
less: unamortized transaction costs	(1,707)	(1,087)
less: unamortized discount on outstanding Banker's Acceptances	(103)	(163)
Net credit facility debt	548,508	444,175
Finance leases	2,113	2,154
Total net credit facility debt and finance leases	550,621	446,329
less: current portion of finance leases	(1,170)	(1,069)
Long-term debt and finance leases	$ 549,451	$ 445,260

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

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, 2017.

The Corporation reached an agreement to amend the terms of its credit facility during the year ended December 31, 2017. The amendments included increasing the credit facility from $550,000 to $750,000 and the maturity was extended to March 2021. The credit facility consists of $695,000 allocated to the Corporation's Canadian head office and US $55,000 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, 2017 for the long-term debt and finance leases was $18,177 and (2016 – $12,549).

Credit Facility

The following is the continuity of long-term debt for the year ended December 31, 2017:

				Year Ended December 31, 2017	
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 217,300	$ 284,200	$ (391,800)	$ -	$ 109,700
United States dollar portion	228,125	551,192	(311,782)	(26,917)	440,618
	$ 445,425				$ 550,318

				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

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, 2017 and the comparative 2016 period:

				2017
	Opening	Assumed / Entered Into	Repayments / Disposals	Ending
Finance leases	$ 2,154	$ 800	$ (841)	2,113

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

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, 2017 are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Total future minimum lease payments	$ 1,233	$ 982	$ -	$ 2,215
less: amount representing interest	(63)	(39)	-	(102)
Present value of future minimum lease payments	$ 1,170	943	-	$ 2,113

The cost and accumulated depreciation of the finance leased equipment consists of the following as at December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Vehicles under finance leases	$ 5,220	$ 4,564
less: accumulated depreciation	(3,288)	(2,489)
	$ 1,932	$ 2,075

12. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012[1]	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
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$ 51.50

Note 1): Subsequent to year-end, on January 11, 2018, the Corporation redeemed its 7 year 5.50% convertible debentures which were due September 30, 2019.

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

Summary of the debt component of the convertible debentures:

	2017 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2017 Balance, End of Year
Unsecured - 2012	$ 54,838	$ -	$ 2,101	$ (96)	$ -	$ 56,843
Unsecured - 2013	62,662	-	672	(23)	-	63,311
Unsecured - 2014	37,366	-	377	(10,910)	-	26,833
Unsecured - 2016	64,486	-	580	(25)	-	65,041
Unsecured - 2017	-	94,736	26	-	-	94,762
						306,790
less: unamortized transaction costs						(8,985)
Convertible Debentures - Debt Component, end of year						$ 297,805
less: current portion						(56,843)
Convertible Debentures - Debt Component (long-term portion)						$ 240,962

	2017 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	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

During the 2017 year convertible debentures totaling a face value of $11,404 were converted by the holders at various times into 358,938 Shares of the Corporation (2016 – $28,526 face value into 928,156 Shares). Interest expense recorded during the 2017 year for the convertible debentures was $18,805 (2016 – $17,620).

On December 20, 2017, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued $100 million principal amount of debentures. 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 $51.50 per share. The maturity date of the debentures is December 31, 2022.

On January 11, 2018, the Corporation exercised its right to call its 7 year 5.50% convertible debentures due September 30, 2019. Prior to the redemption date, $747 principal amount of debentures were converted into 20,291 common shares at a price of $36.80 per share. On January 11, 2018 the remaining outstanding debentures in the principal amount of $56,753 were redeemed by the Corporation.

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 debentureholders 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, 2017 and were redeemed in June 2016.

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 debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

The September 2012 Unsecured convertible debentures have $56,843 (2016 - $56,940) of principal outstanding as at December 31, 2017 and were redeemed January 11, 2018 as described above.

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

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

without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

The March 2013 Unsecured convertible debentures have $64,980 (2016 - $65,000) of principal outstanding as at December 31, 2017 and mature in March 2020.

March 2014 Unsecured Convertible Debenture Offering

Each debenture is convertible, at the debenture-holders' option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $31.70.

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

The March 2014 Unsecured convertible debentures have $27,880 (2016 - $39,142) of principal outstanding as at December 31, 2017 and mature in March 2021.

June 2016 Unsecured Convertible Debenture Offering

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

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

The June 2016 Unsecured convertible debentures have $68,975 (2016 - $69,000) of principal outstanding as at December 31, 2017 and mature in June 2023.

December 2017 Unsecured Convertible Debenture Offering

The Corporation issued the $100.0 million Five Year 5.25% Convertible Unsecured Subordinated Debentures on December 20, 2017. 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 December 31, 2022. Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $51.50.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the shares for the

20 trading days ending five days prior to the maturity date. The debentures are not redeemable until after December 31, 2020. After December 31, 2020, but prior to December 31, 2021, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after December 31, 2021 but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

Transaction costs of $4,805 were incurred in relation to the issuance of these debentures.

The December 2017 Unsecured convertible debentures have $100,000 (2016 - nil) of principal outstanding as at December 31, 2017 and mature in December 2022.

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, 2017	December 31, 2016
Unsecured Debentures - 2012	$ 3,160	$ 3,166
Unsecured Debentures - 2013	3,062	3,063
Unsecured Debentures - 2014	1,238	1,754
Unsecured Debentures - 2016	3,261	3,262
Unsecured Debentures - 2017	3,590	-
Convertible Debentures - Equity Component, end of year	$ 14,311	$ 11,245

All convertible debentures outstanding at December 31, 2017 represent direct unsecured debt obligations of the Corporation.

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

13. SHARE CAPITAL

Changes in the shares issued and outstanding during the year ended December 31, 2017 are as follows:

	Number of Shares	2017 Amount
Share capital, beginning of year	28,793,354	$ 463,603
Issued upon conversion of convertible debentures	358,938	11,457
Issued under dividend reinvestment plan	198,083	6,630
Issued under First Nations community partnership agreements	18,117	577
Issued under deferred share plan	7,727	199
Shares cancelled under NCIB	(797,580)	(14,354)
Prospectus offering, January 2017	2,303,450	94,288
Issued to Quest vendors on closing	377,500	12,114
Issued under employee share purchase plan	58,301	1,957
Share capital, end of year	31,317,890	$ 576,471

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

	Number of Shares	2016 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
Issued under deferred share plan	5,622	98
Shares cancelled under NCIB	(57,710)	(889)
Issued to Team J.A.S. vendors on closing	50,765	1,809
Issued under employee share purchase plan	56,782	2,369
Share capital, end of year	28,793,354	$ 463,603

On January 4, 2017, the Corporation issued 2,003,000 shares at $42.45 per share from treasury as part of the equity offering announced in the fourth quarter of 2016. The underwriters were granted an overallotment option of 300,450 additional shares, which was fully exercised, resulting in a total of 2,303,450 shares issued for aggregate consideration of $97,781.

On January 12, 2017, the Corporation received approval from the TSX for the renewal of its NCIB and during the year ended December 31, 2017 purchased a total of 797,580 shares. The Corporation purchased the shares at an average cost of $32.64 per share for aggregate consideration of $26,033. All of the shares repurchased under NCIB were cancelled. The excess of the cost over the average book value of $11,679 was charged to cumulative impact of share cancellation under the NCIB within retained earnings.

On November 14, 2017, the Corporation completed its acquisition of Quest, which included the issuance of 377,500 shares having a value of $12.1 million.

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 2017 year and the comparative 2016 year are as follows:

Year Ended December 31	2017	2016
Cumulative dividends, beginning of year	$ 290,631	$ 234,300
Dividends during the year	65,087	56,331
Cumulative dividends, end of year	$ 355,718	$ 290,631

The amounts and record dates of the dividends during the 2017 year and the comparative 2016 year are as follows:

			2017 Dividents			2016 Dividents
Month	Record Date	Per share	Amount	Record Date	Per share	Amount
January	January 31, 2017	$ 0.175	$ 5,438	January 29, 2016	$ 0.16	$ 4,424
February	February 28, 2017	0.175	5,447	February 29, 2016	0.16	4,416
March	March 31, 2017	0.175	5,450	March 31, 2016	0.16	4,418
April	April 28, 2017	0.175	5,455	April 29, 2016	0.16	4,423
May	May 31, 2017	0.175	5,444	May 31, 2016	0.1675	4,633
June	June 30, 2017	0.175	5,411	June 30, 2016	0.1675	4,783
July	July 31, 2017	0.175	5,402	July 29, 2016	0.1675	4,786
August	August 31, 2017	0.175	5,383	August 31, 2016	0.1675	4,789
September	September 29, 2017	0.175	5,367	September 30, 2016	0.1675	4,791
October	October 31, 2017	0.175	5,367	October 31, 2016	0.1675	4,795
November	November 30, 2017	0.175	5,447	November 30, 2016	0.175	5,034
December	December 29, 2017	0.175	5,476	December 30, 2016	0.175	5,039
Total		$ 2.10	$ 65,087		$ 1.995	$ 56,331

Subsequent to December 31, 2017 and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.175 per share for January and February 2018.

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.

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

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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. The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States. The results of Quest are included in the Manufacturing segments results as of the date of acquisition (Note 6).

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

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

	Year Ended December 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 808,569	$ 204,381	$ -	$ 1,012,950
Expenses	560,701	181,255	22,296	764,252
EBITDA	247,868	23,126	(22,296)	248,698
Depreciation of capital assets				108,556
Amortization of intangible assets				10,397
Finance costs - interest				36,982
Acquisition costs				3,041
Gain on disposal of partnership interest				(5,585)
Earnings before income tax				95,307
Current income tax expense				27,812
Deferred income tax recovery				(4,665)
Net earnings				$ 72,160

	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
				Year Ended December 31, 2016
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 of capital assets				82,316
Amortization of intangible assets				11,747
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 (1)	Consolidated
				Year Ended December 31, 2017
Total assets	$ 1,354,888	$ 318,039	$ 76,270	$ 1,749,197
Net capital asset additions, excluding finance leases	220,865	2,713	907	224,485
Indefinite lived intangible assets	45,688	26,935	-	72,623
Goodwill	191,411	96,870	-	288,281

	Aerospace & Aviation	Manufacturing	Head Office (1)	Consolidated
				Year Ended December 31, 2016
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	46,773	13,586	-	60,359
Goodwill	193,855	66,032	-	259,887

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.

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

The following is the geographic breakdown of revenues for the year ended December 31, 2017 and the 2016 comparative year, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Year ended December 31	2017	2016
Canada	$ 666,077	$ 609,697
United States	132,649	140,418
Europe	70,634	30,319
Other	143,590	110,592
Total revenue for the year	$ 1,012,950	$ 891,026

	As at December 31, 2017		As at December 31, 2016	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	$ 500,241	$ 230,246	$ 447,718	$ 198,053
United States	59,770	58,035	222,372	61,834
Europe	226,349	-	13,020	-
Other	10,216	-	10,883	-
	$ 796,576	$ 288,281	$ 693,993	$ 259,887

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, 2017 and the 2016 comparative year:

Year ended December 31	2017	2016
Sale of services	$ 540,178	$ 495,901
Sale of goods	179,943	150,425
Lease of goods	88,448	57,001
Aerospace & Aviation revenues	$ 808,569	$ 703,327
Direct operating expenses - sale of services	344,763	314,253
Cost of goods sold and lease expenses	115,634	100,185
Aerospace & Aviation expenses - excluding depreciation and amortization	$ 460,397	$ 414,438

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 contracted lease term being less than four years and the vast majority having less than two years as at December 31, 2017. 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, WesTower CDA, and Quest 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, 2017, the Corporation recognized revenue on these types of long-term contracts totaling $136,003 (2016 – $154,590).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2017 and the 2016 comparative year:

As at December 31	2017	2016
Costs incurred on uncompleted contracts	$ 122,329	$ 114,219
Estimated earnings	19,812	25,490
	142,141	139,709
less: billings to date	(147,047)	(142,914)
Total	$ (4,906)	$ (3,205)
Costs incurred plus recognized profits in excess of billings	$ 9,294	$ 7,567
Billings in excess of costs incurred plus recognized profits	(14,200)	(10,772)
Total	$ (4,906)	$ (3,205)

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, 2017 and comparative in 2016 year are as follows:

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

Year Ended December 31	2017	2016
Net earnings	$ 72,160	$ 61,490
Effect of dilutive securities		
Convertible debenture interest	9,071	10,345
Diluted earnings	$ 81,231	$ 71,835
Basic weighted average number of shares	30,960,708	28,151,807
Effect of dilutive securities		
Deferred shares	656,198	541,708
Convertible debentures	4,383,094	5,257,792
Diluted basis weighted average number of shares	36,000,000	33,951,307
Earnings per share:		
Basic	$ 2.33	$ 2.18
Diluted	$ 2.26	$ 2.12

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.

	2017	2016
Salaries, wages & benefits	$ 264,550	$ 234,424
Aircraft operating expenses	286,688	251,050
Materials	100,168	97,715
General and administrative	46,460	38,741
Building rent and maintenance	17,793	10,815
Communication and information technology	7,812	7,393
Advertising	3,847	3,547
Sub-contracting services	7,937	5,101
Other	28,997	29,665
	$ 764,252	$ 678,451

19. EMPLOYEE BENEFITS

Deferred Share Plan

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

	2017	2016
Deferred shares outstanding, beginning of year	541,708	390,267
Granted during the year	84,340	127,427
Granted through dividends declared during the year	37,877	31,506
Redeemed during the year	(7,727)	(5,622)
Forfeited during the year	-	(1,870)
Deferred shares outstanding, end of year	656,198	541,708
Vested portion of deferred shares outstanding, end of year	464,460	345,149

The fair value of the deferred shares granted during the 2017 year was $3,313 at the time of the grant (weighted average grant price of $39.28 per share) and was based on the market price of the Corporation's shares at that time (2016 – $3,173, weighted average grant price of $24.90 per share). During the 2017 year, the Corporation recorded compensation expense of $2,859 for the Deferred Share Plan within the general and administrative expenses of head-office (2016 – compensation expense of $2,182).

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 2017, employees acquired 58,301 shares from Treasury at a weighted average price of $33.56 per share, effective November 20, 2017 for the 2017 program that will vest in 18 months. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $713 based on the share price and monthly dividend rate as at that time.

During 2016, employees acquired 56,782 shares from 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. 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.

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 2017, total expenses recorded for the ESPP in head-office expenses was $570 (2016 – $789).

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

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, 2017	December 31, 2016
Less than 1 year	$ 21,725	$ 20,681
Between 1 year and 5 years	70,889	57,782
More than 5 years	29,042	43,627
	$ 121,656	$ 122,090

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 $23,754 (2016 - $28,691) 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, 2017, the total value of these letters of credit was $18,347 (2016 - $29,476).

21. RELATED PARTY TRANSACTIONS

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

Property Leases

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. In addition, EIC 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 2017 under these leases was $3,702 (2016 – $3,352) and the lease term maturities range from 2018 to 2020. The expense is recorded within general and administrative expenses and is paid monthly, therefore no related balances exist on the Corporation's statement of financial position.

Key Management Compensation

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

Compensation awarded to key management for the 2017 year and the comparative 2016 year is as follows:

Year ended December 31,	2017	2016
Salaries and short-term benefits	$ 5,601	$ 5,118
Share-based payments	3,071	2,447
	$ 8,672	$ 7,565

Co-investments with CRJ Capital Corp.

During 2017, the Corporation entered into an agreement with CRJ Capital Corp., a corporation controlled by the CEO of Regional One. Under this agreement, CRJ Capital Corp. can, subject to the approval of the Corporation, co-invest with the Corporation, on a non-controlling basis, in certain aircraft assets. As a co-investor in these isolated aircraft assets, CRJ Capital Corp. receives profits as money is collected on the sale of the aircraft assets. In connection with this agreement, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During the current period CRJ Capital Corp. invested US$7,913, generating returns paid or payable to CRJ Capital Corp. of US$3,520. As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at December 31, 2017 was US$5,068. At December 31, 2017, US$1,421 is recorded as accounts receivable from CRJ Capital Corp.

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$351,230 or $440,618 (2016 – US$169,900 or $228,125) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $230 (2016 – US$43,100) is drawn by EIIF USA, an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $156,300 (2016 - US $89,000) 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 2017, the Corporation continued the use of derivatives through several cross currency basis swaps (“swap”) with a member of the Corporation’s lending syndicate. The swap requires that funds are exchanged back in 30 days at the same terms unless both parties agree to extend the swap for a further 30 days. By borrowing in US dollars, the Corporation 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 swaps at December 31, 2017 was a loss of $5,748 (2016 - loss of $246). At December 31, 2017, the notional value of the swaps outstanding is US $194,700 (2016 - US $37,800).

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, 2017 would have a nil

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

(2016 - nil) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $4.4 million (2016 - $1.4 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, Bankers Acceptances or the London Inter Bank Offer Rate ("LIBOR"). At December 31, 2017:

- US$351,000 (2016 – US$139,000) was outstanding under US LIBOR,
- US$230 (2016 – US$30,900) was outstanding under US Prime,
- $66,500 (2016 – nil) was outstanding under Prime, and
- $43,200 (2016 – $217,300) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2017, net of cash and cash equivalents, a 1% increase in interest rates for the Corporation would decrease pre-tax net earnings by approximately $4.8 million ($3.6 million after-tax) (2016 - $3.6 million ($2.6 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, 2017, $26,558 (2016 - $23,507) of the outstanding receivables were greater than 90 days outstanding. Approximately $2,558 (2016 – $1,693) of this relates to the Manufacturing segment and $24,000 (2016 – $21,814) relates to the Aerospace & Aviation segment. Management at each of the Corporation's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Corporation's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

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

As part of the partnership in Air Borealis, the Corporation loaned funds to one of its partners, NGC. The initial loan of $5,100 was subsequently repaid and the carrying value was $4,102 at December 31, 2017. The loan is secured against the cash flows the borrower is entitled to from the partnership until the loan is repaid.

Liquidity Risk

Liquidity risk is the risk that the Corporation is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Corporation's growth is financed through a combination of the cash flows from operations, 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 maintaining committed and available credit facilities (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	$ 166,415	$ 166,415	$ -	$ -
Long-term debt (principal value)	550,318	-	550,318	-
Convertible debentures (par value)	318,678	56,843	192,860	68,975
Contractual interest[1]	122,058	33,292	86,955	1,811
Total	$ 1,157,469	$ 256,550	$ 830,133	$ 70,786

Note 1): The contractual interest reflects the assumption that amounts outstanding and floating interest rates at December 31, 2017 will remain at current levels until maturity.

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

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:

Recurring fair value measurements	Carrying Value December 31, 2017	Fair Value 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	$ (17,410)	$ -	$ -	$ (17,410)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(5,748)	-	(5,748)	-
Fair Value Disclosures				
Other assets - Amortized cost	8,170	-	8,170	-
Other assets - Fair value through OCI	1,963	-	-	1,963
Long term debt - Amortized cost	(548,508)	-	-	(550,318)
Convertible debt - Amortized cost	(297,805)	(323,815)	-	-

Recurring fair value measurements	Carrying Value December 31, 2016	Fair Value 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)	-	-

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, the acquisition of Team J.A.S., and the acquisition of Quest, 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, 2017	December 31, 2016
Opening	$ 3,765	$ 484
Accretion	238	140
Settled during the period	(463)	(260)
Acquisition of CarteNav	-	3,414
Acquisition of Team J.A.S.	-	9
Acquisition of Quest	13,889	-
Translation (gain)/loss	(19)	(22)
Ending	$ 17,410	$ 3,765

During the year the Corporation finalized the working capital settlement for the acquisition of Team J.A.S. As part of the settlement the Corporation paid US $112 ($153) to the vendors. The original working capital settlement estimate set up at the time of closing was US $6 ($9) and was previously accrued in accounts payable and accrued liabilities.

During the year the Corporation finalized the working capital portion of the CarteNav purchase price. The Corporation paid $351 to the vendors of CarteNav. The original working capital settlement estimate set up at the time of closing was $337 and was previously accrued in accounts payable and accrued liabilities.

The earn out liability recorded as part of the acquisitions are 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. There are 87,642 shares remaining in escrow at December 31, 2017, which will be released on the fifth anniversary of the acquisition of Regional One in April 2018.

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, 2017, management had determined that the fair value of its long term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 3.45%. The discount rate is determined by using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation's credit worthiness.

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As at December 31, 2017, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $323,815 (December 31, 2016 - $261,062) with a carrying value of $297,805 (December 31, 2016 - $212,344).

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	2017	2016
Accounts receivable	$ (31,270)	$ (22,088)
Costs incurred plus recognized profits in excess of billings	(1,727)	209
Inventory	(39,624)	(6,312)
Prepaid expenses and deposits	4,691	4,793
Accounts payable and accrued charges	26,745	10,603
Income taxes receivable/payable	(8,642)	13,991
Deferred revenue	(3,062)	(15,148)
Billings in excess of costs incurred plus recognized profits	3,428	(10,052)
Foreign currency impact	(10,211)	(2,051)
Net change in working capital items	$ (59,672)	$ (26,055)

For the year ended December 31, 2017, long-term deferred revenue decreased by $4,359 (December 31, 2016 – nil) and is reflected with the change in working capital from the table above on the statement of cash flows.

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, 2017	December 31, 2016
Total senior debt outstanding (principal value)	$ 550,318	$ 445,425
Convertible debentures outstanding (par value)	318,678	230,082
Shares	576,471	463,603
Total capital	$ 1,445,467	$ 1,139,110

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 2017 year.

Changes in the capital of the Corporation over the year ended December 31, 2017 are mainly attributed to the following events that occurred during the year. First, the Corporation closed a bought deal financing of common shares, resulting in the issuance of 2,303,450 shares at $42.45 per share. Second, the Corporation issued 377,500 shares and used its credit facility to fund the acquisition of Quest. Finally, the Corporation issued a new series of debentures (Unsecured 2017 series) in December of 2017. The par value of the debentures issued was $100,000.

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:

	2017	2016
Earnings before provision for income taxes	$ 95,307	$ 87,034
Combined Canadian federal and provincial tax rates	27.0%	27.0%
Income tax expense at statutory rates	25,733	23,499
Increase (decrease) in taxes resulting from:		
Permanent differences	3,958	4,016
Realized capital gains	(23)	(25)
Impact of foreign jurisdiction differences	(6,460)	(1,445)
Benefit of previously unrecognized tax assets	(359)	(461)
Amounts in respect of prior periods	290	34
Other	8	(74)
Provision for income taxes	$ 23,147	$ 25,544

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

Unrecognized Deferred Tax Liabilities

At December 31, 2017, 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 $97,185 (2016 - $57,180).

Movement in Deferred Tax Balances during the Year

The movement in the net deferred income tax balances during the 2017 year and the 2016 comparative year are as follows:

	December 31, 2016	Business Acquisitions	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	Goodwill (Note 5)	December 31, 2017
Deferred income tax assets							
Accruals - deductible when paid	$ 1,731	$ -	$ (664)	$ (29)	$ -	$ -	$ 1,038
Amounts recognized in OCI	493	-	-	(493)	-	-	-
Capital and non-capital loss carryforwards	2,388	-	1,505	-	-	-	3,893
Other	88	-	(77)	-	-	-	11
Total deferred income tax asset	$ 4,700	$ -	$ 764	$ (522)	$ -	$ -	$ 4,942
Deferred income tax liability							
Capital assets	$ (47,473)	$ -	$ 3,394	$ 173	$ -	$ -	$ (43,906)
Intangible assets	(32,332)	-	2,928	551	-	-	(28,853)
Financing costs	(898)	-	(738)	-	1,414	-	(222)
Convertible debentures	(2,896)	-	1,014	-	(1,327)	-	(3,209)
Non-deductible reserves	(885)	-	(1,823)	18	-	-	(2,690)
Amounts recognized in OCI	-	-	-	(1,015)	-	-	(1,015)
Investments	(1,021)	-	(874)	45	-	-	(1,850)
Total deferred income tax liability	(85,505)	-	3,901	(228)	87	-	(81,745)
Net	$ (80,805)	$ -	$ 4,665	$ (750)	$ 87	$ -	$ (76,803)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

	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
Amounts recognized in OCI	1,264	-	-	(771)	-	-	493
Capital and non-capital loss carryforwards	2,026	-	366	(4)	-	-	2,388
Other	88	-	-	-	-	-	88
Total deferred income tax asset	$ 10,128	$ 604	$ (2,046)	$ (847)	$ -	$ (3,139)	$ 4,700
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)
Investments	-	-	(1,006)	(15)	-	-	(1,021)
Total deferred income tax liability	(85,883)	(1,515)	2,388	279	(774)	-	(85,505)
Net	$ (75,755)	$ (911)	$ 342	$ (568)	$ (774)	$ (3,139)	$ (80,805)

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, 2017	December 31, 2016
Deferred tax assets	$ 258	$ 238
Deferred tax liabilities	(77,061)	(81,043)
	$ (76,803)	$ (80,805)

26. SUBSEQUENT EVENTS

Renewal of Normal Course Issuers Bid (NCIB)

On January 31, 2018, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,566,827 shares, representing 5% of the issued and outstanding shares as at January 23, 2018. Purchases of shares pursuant to the renewed NCIB may be made through the facilities of the TSX commencing on February 5, 2018 and ending on February 4, 2019, 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 36,859 shares, other than block purchase exemptions. As of the date of this report, there are 1,566,827 shares available for purchase under the NCIB ending February 4, 2019.

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

Early Redemption of Convertible Debentures

On January 11, 2018, the Corporation exercised its right to call its 7 year 5.50% convertible debentures due September 30, 2019. Prior to the redemption date, $747 principal amount of debentures were converted into 20,291 common shares at a price of $36.80 per share. On January 11, 2018 the remaining outstanding debentures in the principal amount of $56,753 were redeemed by the Corporation.

Subsequent Event – Partnership with Wasaya Group

On February 1, 2018, the Corporation entered into an agreement with Wasaya Group and its shareholders whereby the Corporation will acquire an ownership interest in Wasaya Group. EIC expects to invest $25.0 million in Wasaya of which approximately $12 million will be an equity investment and $13 million will be a loan to Wasaya. The equity investment will be funded through the issuance of shares of the Corporation to the vendors of Wasaya. EIC has funded an initial investment of $2.0 million and expects to complete the transaction during the first quarter of 2018. The partnership is expected to enhance the level of air service in Northern Ontario and result in operational efficiencies.

Subsequent Event – Purchase of CANLink Global Inc.

On February 22, the Corporation entered into an agreement to acquire CANLink Global Inc. (Moncton Flight College) for up to $55 million. Moncton Flight College is the largest flight training college in Canada and offers domestic Canadian pilot training as well as a foreign pilot program. The total purchase price will include $29 million paid in cash at closing, shares of the Corporation issued at closing with a value of $6 million and up to an additional $20 million if post-closing targets are met.

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

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

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

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

SENIOR MANAGEMENT AND OFFICERS

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

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

David White
Executive Vice-President, 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

AST Trust Company (Canada)
Calgary, AB

STOCK EXCHANGE
LISTING & SYMBOL
TSX: EIF

ANNUAL GENERAL MEETING

Calm Air Hangar Facility
930 Ferry Road
Winnipeg, MB R3H 0Y8
Date: May 9, 2018
Time: 10:30 am CT

CORPORATE OFFICE

1067 Sherwin Road
Winnipeg, MB R3H 0T8
Tel: (204) 982-1857
Fax: (204) 982-1855
exchangeincomecorp.ca

WEBSITE LISTINGS FOR SUBSIDIARY COMPANIES

Bearskin Airlines
bearskinairlines.com

Calm Air
calmair.com

Custom Helicopters
customheli.com

Keewatin Air
keewatinair.com

Moncton Flight College
mfc.nb.ca

Perimeter Aviation
perimeter.ca

Provincial Aerospace
provincialaerospace.com
provincialairlines.ca
cartenav.com

Regional One
regionalone.com
teamjas.com

Alberta Operations
hotsyab.com
jaspertank.com

Ben Machine
benmachine.com

Overlanders Manufacturing
overlanders.com

Quest Window Systems
questwindows.com

Stainless Fabrication
stainlessfab.com

WesTower Communications
westower.ca

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Income
Corporation