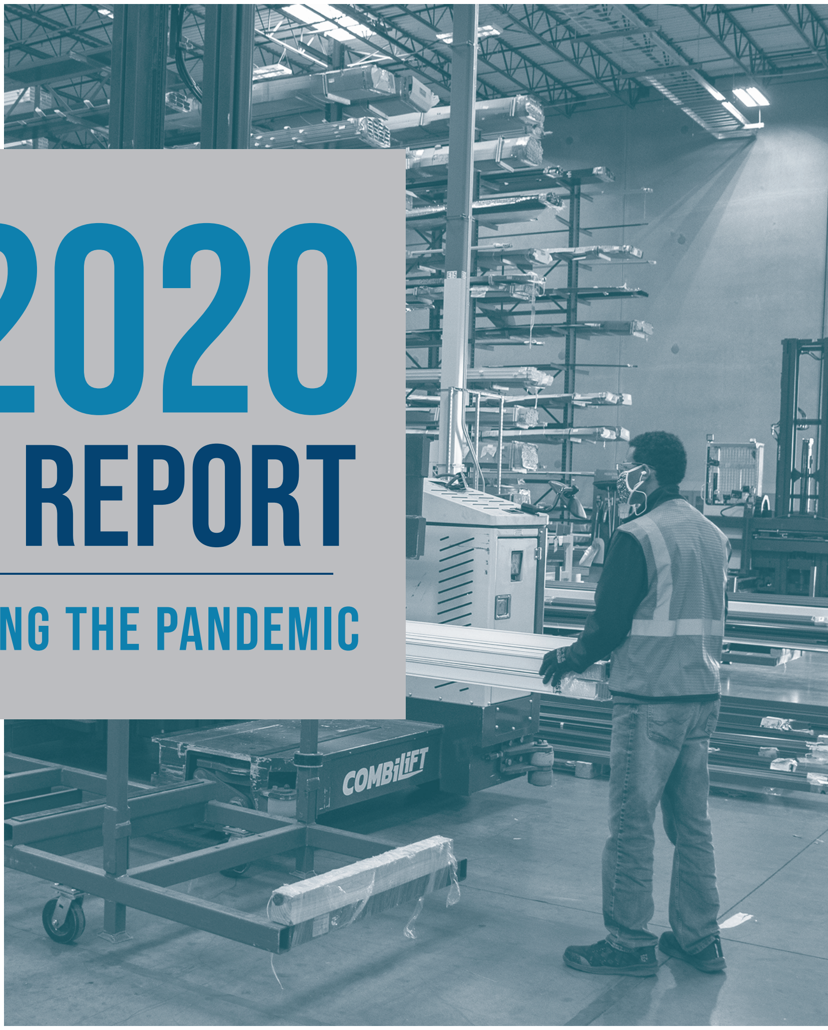
EIC 2020 ANNUAL REPORT

DELIVERING DURING THE PANDEMIC



EIC 2020 ANNUAL REPORT

DELIVERING DURING THE PANDEMIC

CHAIRMAN'S MESSAGE

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

As I think we can all agree, 2020 was a uniquely challenging year. The bulk of this annual report will focus on how EIC's businesses performed admirably through the pandemic. Our results demonstrate resilience and diversity that continue to validate our investment strategy and the trust we have placed in management throughout our organization. We are proud of the results EIC has achieved and pleased with how the company continues to consistently drive value for our investors. Perhaps more than in any other year, the strength of our foundation has been tested.

The successes we have been able to achieve through this time support the confidence we have in a strong future for the Corporation.

That said, I wanted to use this Chairman's Message to shift focus a bit by sharing some details about what has impressed me most over the course of the last year at EIC. Namely, the dedication and integrity of our people.

Consistently, in the face of adversity, EIC and our subsidiaries found ways to adapt and continue delivering for our customers and investors who we know are counting on us. At the same time, throughout our organization, we demonstrated sensitivity and care for our employees as they worked their way through the challenges of the pandemic. This adaptability furthered our efforts to make meaningful, positive contributions to the communities in which we operate.

PAL Airlines Dash 8

We have seen first hand this year the powerful contribution that EIC's entrepreneurial spirit has made to the national efforts to combat the spread of COVID-19.

As the pandemic hit and its implications for travel became clear, EIC quickly made the conscious choice to continue providing essential aviation services across our networks at Calm Air, PAL Airlines, Air Borealis, Bearskin Airlines, Perimeter Aviation, Keewatin Air, Custom Helicopters, and Wasaya Airways. We have remained firm in that commitment despite experiencing precipitous declines in the year over year passenger traffic of approximately 90% at points in the pandemic.

In contrast with other Canadian airlines who have built their businesses in larger southern markets relying on leisure passengers and international connectivity, our airlines are critical infrastructure providers to rural, remote, northern, and Indigenous communities across Canada.

We have always understood the trust placed in us to deliver essential services and prided ourselves on ensuring reliable access not only to passenger services, but also to critical medical services and supplies, reliable food delivery, cargo services, mail delivery, and economic linkages our communities rely on, perhaps more than ever before.

So, we kept flying.

> **"EIC and our subsidiaries found ways to adapt and continue delivering for our customers and investors who we know are counting on us."**

Practically, we recognized the need to quickly adapt to ensure we remained present in the communities we serve while protecting the health of our employees and our customers, operating in the most responsible way possible. Our individual airline operations worked together to become industry leaders in onboard illness prevention almost overnight. EIC carriers moved quickly to implement health check questionnaires before travel and integrated temperature checks during the check-in and boarding processes. We have also enhanced cleaning protocols at the airport and on board our aircraft, switched to direct flights to communities where feasible, and implemented mandatory mask mandates on all flights.

Perimeter Aviation Dash 8 & Bearskin Airlines Metroliner

I must emphasize the significance and scope of this undertaking. We leveraged the strength and operational experience we have as an airline family that, when viewed collectively, is one of the largest air services suppliers in Canada. In doing so, our management teams shared best practices and acted cohesively to develop and implement industry leading practices and protocols in a rapidly changing environment. We are proud of what we were able to achieve through this process.

We know our passengers appreciate these changes. We have seen air traffic quickly return during periods of relative stability in the ongoing battle against COVID-19. We also know that the communities we serve have appreciated the commitment we have demonstrated to them through this unprecedented time and we are grateful to the EIC employees throughout our operation who continue to deliver day in and day out.

Disinfecting aircraft interior

Calm Air ground staff performing temperature check

> **“We are grateful to the EIC employees throughout our operation who continue to deliver day in and day out.”**

Indigenous Services Canada charter network

EIC's ability to continue providing safe and reliable air transportation through the pandemic has also drawn notice from governments across Canada. Our subsidiaries are currently actively involved in vaccine distribution efforts throughout multiple jurisdictions and we continue to deploy the collective capacity of our airlines in partnership with Indigenous Services Canada to manage logistics and transport for essential medical personnel – on charter flights operated with strict, safety-first health protocols – serving fly-in Indigenous communities and protecting against COVID-19. To date, we have completed over 2,500 of these flight segments, delivering over 4,000 vital medical professionals to communities across Canada and returning them safely to their families.

We further invested significant effort to ensure our air ambulance providers are fully prepared to continue serving Canadians with the unique services the pandemic demands we provide. For example, to facilitate the transport of symptomatic COVID-19 patients, Keewatin Air moved quickly to procure and certify four highly specialized EpiShuttle medical isolation units allowing for the transportation of sick, infectious patients from remote communities to larger facilities better prepared to provide acute care as required. These units are a significant new tool Keewatin Air can now deploy as appropriate and together with our other approved aircraft configurations for the transport of infectious patients, ultimately benefiting patients and front-line health care providers in the communities we serve.

EIC's air operators are not the only element of our business that have answered the call from our communities to assist in the battle against COVID-19. Our Manufacturing segment quickly shifted and scaled up production capacity and made our expertise available to provide in-demand services and medical supplies to pandemic response efforts, leveraging our expertise to deliver critical goods for front-line applications. Collectively, we have more than 100 talented design, drafting and engineering professionals in the EIC family of companies who turned their focus to developing products and services to help in the fight against COVID-19. They produced some remarkable results.

WesTower Communications deploys cell site on wheels in Eden Valley, AB

> **"Our Manufacturing segment provided in-demand services and medical supplies to pandemic response efforts, leveraging our expertise to deliver critical goods for front-line applications."**

For example, Ben Machine led in the design and manufacturing of face shields for eventual use by an Ontario Health region and Water Blast Manufacturing designed and manufactured IV poles for the Province of Manitoba. In Alberta, WesTower Communications worked closely with our partners at Telus to deploy a cell site on wheels, better known as a "COW," to the town of Eden Valley. This remote community, home to approximately 700 members of the Bearspaw First Nation, experienced a COVID-19 outbreak in April and May. Reliable communication links that would allow residents to connect with Alberta Health Services were immediately required to facilitate contact tracing and limit the spread of the virus. WesTower responded swiftly to assist with the successful set up of the COW, accomplished within 72 hours of the call for assistance from the Alberta government.

Consistently in these and many more examples, EIC's people have come together to make it happen.

Water Blast Manufacturing distributes fogging machines ideal for disinfecting & sanitizing insitutional areas.

In both our Manufacturing and Aerospace & Aviation segments, the crisis created by the COVID-19 pandemic served to highlight the character we have always known exists across our organization. Our people care deeply about the communities we serve. EIC has always respected that spirit in our business practices and encouraged corporate giving and employee-led community initiatives throughout our organization.

Unfortunately, during the pandemic, some of our long-standing community initiatives have had to temporarily suspend operation. As an example, Wasaya Airways was not able to offer its popular First Nations Youth Aviation Camp in 2020. Traditionally the camp provides First Nations youth an opportunity to explore careers in aviation, learn through hands on experimentation, participate in group tours, and enjoy learning activities over the course of a week in Thunder Bay. This year, challenges associated with COVID-19 made offering the program impossible.

Similarly, PAL was forced to cancel its annual Kite Festival, a family event organized and hosted by PAL employees on an annual basis to support a charity of the employees' choosing. In 2019 the festival supported Choices for Youth, a St. John's based organization supporting stable housing, offering employment training and mental and physical health supports for at risk youth in Newfoundland and Labrador.

Santa visits Nunatsiavut with Air Borealis and Custom Helicopters

PAL Airlines receives Outstanding Philanthropist (Corporate) Award from Ronald McDonald House in Newfoundland and Labrador

"Perimeter Aviation is proud to partner with **Books with Wings**. 17,000 brand new children's books were delivered to isolated communities in Manitoba"

At EIC's corporate head offices, we have had to temporarily suspend our program of bringing children, selected by their participating communities in Nunavut, Northern Manitoba, and Northern Ontario, to Winnipeg to enjoy a Jets or Bombers game. These trips have historically been an opportunity for the children to enjoy a trip they might not otherwise be able to make and to experience, along with their peers in a comfortable and supportive environment, some of the things those of us living in southern Canadian communities probably take for granted. Equally, these trips are incredibly meaningful for EIC staff participants, affording our people an important chance to meet residents of the communities we serve and better understand some of the challenges they face.

These events, and the dozens like them at other EIC companies that could not safely proceed due to COVID-19, will return as soon as circumstances allow. The last year has shown us just how much we appreciate these opportunities to directly engage with our communities and we are looking forward to returning to these traditions once we can do so safely. In other instances, we have found unique ways to continue supporting our communities during the pandemic by developing new initiatives or maintaining existing programs that contribute to ongoing positive change in our communities.

PAL formed a partnership with Project Grow, an initiative established to address food insecurity in Newfoundland and Labrador through community gardening, to deliver over 500 container gardens to residents of at-risk communities in St. John's. PAL also established a separate partnership with the Government of Newfoundland and Labrador to connect those experiencing food insecurity with community food programs by donating staff time, personal protective equipment, vehicles, and administrative capacity to support food delivery services in St. John's, Wabush, Deer Lake, and Happy Valley-Goose Bay.

Perimeter Aviation continues to maintain the Bill Wehrle Scholarship Program, created to provide financial assistance and encouragement to First Nations students pursuing careers in commercial aviation. Calm Air made a donation of 10,000 face masks to the residents of the Kivalliq region in Nunavut to help prevent the spread of COVID, provided Christmas stockings for nearly 1,000 Nunavut students to spread some cheer during the holiday season, and continued to offer its program of collecting and removing recyclable materials from Nunavut communities and returning them to southern destinations for processing and repurposing to make sure the airline is doing what it can to preserve the natural beauty of Canada's North.

In the EIC family of companies, this kind of responsible business practice and community contribution has always been central to our corporate character. This outcome is perhaps not a surprise given the orientation of our investment strategy. Our team is built on entrepreneurs and leaders that thrive in the areas of essential services and specialized applications, who bring that same spirit to everything they do, which includes lending a meaningful hand to strengthen the communities where we have an established presence. Practising responsibility, doing the right thing, and building our presence for the long term have been built into EIC's entrepreneurial DNA from the start.

Perimeter Aviation & Bearskin Airlines proud to receive InteliSys Humanitarian Excellence Award 2021

> **"Practising responsibility, doing the right thing, and building our presence for the long term have been built into EIC's entrepreneurial DNA from the start."**

Quest Window Systems Dallas plant has not had a work place injury since opening.

EIC has always embraced this corporate participation in our communities, not to attract attention or build a social licence for some other aspect of our business, but because we view it as a fundamental component of our healthy corporate culture. At the same time, we have come to appreciate the investment community is looking for enhanced transparency in the reporting of strategies and outcomes to build and maintain sustainable businesses.

That is why earlier this year, EIC launched an initiative to assess our Environmental Social and Governance (ESG) performance and improve our reporting. In support of these objectives, we are in the process of completing our first ESG materiality assessment and gap analysis.

Quest Window Systems facilities are zero waste.

Wasaya Airways delivers the COVID-19 Vaccination team to Sandy Lake First Nation in Northern Ontario

In the near term, we will start the formal process of consulting with stakeholders, internal leaders, and operational personnel from EIC's corporate offices and subsidiaries to develop a list of priority ESG issues most material to EIC. From there, we will construct an action plan for ESG program development. We will be reporting on that activity regularly, describing the progress we are making and the positive change we are creating as an organization.

As important as it is for our employees and investors to understand the fundamentals of our business, we are committed to bringing that same level of transparency to how we are practising our fundamental values as a corporation. We think this is vital information, and we are proud to share it with you going forward.

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

CEO'S MESSAGE

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

Despite the remarkable challenges 2020 presented across our business, EIC again delivered remarkable financial and operational performance throughout the year. In many ways, the tests we have faced and the results we have achieved are a validation of the core character of EIC as a company and an endorsement of how we have progressively built our organization since our inception in 2004.

We have seen time and again how following our business plan and trusting our people has insulated us in part from the COVID-19 pandemic. We are more determined than ever to carry our approach forward, understanding that although we may not be able to accurately predict the future course of the pandemic in Canada and globally, we can draw confidence from how effectively we have managed ourselves in getting to this point.

Our investment strategy has always been rooted in a focus on the long term rather than emphasizing immediate returns. Prioritizing consistency in the calculated expansion of our existing operations, while continuing to follow sound process in the identification and completion of strategic acquisitions, has built EIC a considerable foundation from which we have historically driven exceptional results. Despite the challenges of the pandemic, this model remained effective as EIC once again benefitted throughout the year from returns on sound investments made in previous periods.

> "EIC again delivered remarkable financial and operational performance throughout the year."

PAL Aerospace employees perform maintenance & modification on Dash 8 airframe

EIC's continued stable results have allowed us to meet our dividend obligation to shareholders, reduce our leverage, complete accretive acquisitions, and bolster EIC and our subsidiaries with targeted investments. These collective accomplishments guide our confidence in the future of the company. The value of EIC's diversification has never shone as brightly as it did in 2020.

The airline industry as a whole was defined in 2020 by cash burn per day headlines, with airlines around the world consuming tens of billions of dollars to get through the pandemic. Not at EIC. The diversification within our operations that has been one of our cornerstones since inception provided the buffer required during this economic uncertainty to still generate Free Cash Flow. Our diligent management of capital expenditures, working capital, and costs in general generated results that were truly remarkable under the circumstances. Since the onset of the pandemic in March, EIC's long-term debt, net of cash, has decreased by over $50 million, even after the US $38.4 million in cash used to purchase WIS.

Excluding that purchase, the combined impact of management's actions and the impact of foreign exchange reduced our long-term debt, net of cash, by more than $100 million. EIC's Free Cash Flow less Maintenance Capital Expenditures payout ratio of 71% while weaker compared to 2019, is not materially different when compared to 5 and 10 year averages (60% and 76%,respectively).

In 2020, EIC generated revenue of $1.1 billion and EBITDA of $284.5 million.

Free Cash Flow less Maintenance Capital Expenditures was $3.23 per share and Adjusted Net Earnings per share was $1.35. While some subsidiaries were impacted more than others by the pandemic, our diversification allowed EIC as a whole to achieve positive Free Cash Flow less Maintenance Capital Expenditures and positive Adjusted Net Earnings in a period wrought with economic uncertainty.

> Time and time again our people met challenges head on, finding new ways to continue delivering for the customers and communities we know are counting on us.

While it is clear the challenges of the pandemic are not behind us, with significant disruptions felt again throughout the Canadian economy in the first quarter of 2021, EIC remains optimistic about our ability to manage through the remainder of the pandemic and emerge quickly in a post-pandemic economy. Addressing COVID-19 as successfully as we have thus far demonstrates the stability of our business model and validates our long-standing practice of cultivating strong leadership teams. Our continued emphasis on facilitating the entrepreneurial energy we have throughout our subsidiaries has been on particular display this year. Time and time again our people met challenges head on, finding new ways to continue delivering for the customers and communities we know are counting on us.

In that respect, perhaps more than in previous years, I want to focus the bulk of my message on the successes EIC has achieved throughout 2020 and discuss how those accomplishments position us favourably for the future.

Within EIC's aerospace operations, we have seen several important examples of consistent delivery and innovation that both reward prior investment and justify future optimism for the company. PAL Aerospace is introducing into service two state-of-the-art long range maritime patrol aircraft required to support the Federal Department of Fisheries and Oceans ("DFO") Aerial Surveillance and Enforcement program. The execution of this program has included an extensive modification process that started in earnest in early March of 2019, when the Government of Canada awarded PAL Aerospace the contract to provide aerial surveillance for Canada's inland, coastal, and offshore waters for a period of up to ten years.

DFO Dash 8-100 long range surveillance aircraft

DFO Beechcraft King Air surveillance aircraft

PAL Aerospace hangar in Campbell River, B.C.

Significant work to design and modify these aircraft and meet the other obligations associated with this government contract,including the modification and delivery of two additional Beechcraft King Air B200 medium-range aircraft and the construction of a new hangar facility for the program in Campbell River, B.C., took place during the pandemic. Logistical challenges were addressed, production schedules were maintained, and collaborative working relationships were redefined in the context of our new operating reality. PAL Aerospace and EIC still found a way to get the job done, delivering this essential service to a vital customer, and positioning the program for a decade of future success.

> **“PAL Aerospace and EIC still found a way to get the job done, delivering this essential service to a vital customer, and positioning the program for a decade of future success.”**

FWSAR CC-295 Kingfisher - PAL Aerospace is responsible for In-Service Support for the program

Similarly, PAL Aerospace has seamlessly continued its preparations for the entry into service of Canada’s new fixed-wing search and rescue fleet of CC-295 Kingfisher aircraft. As these cutting-edge aircraft begin their vital operation on behalf of the Government of Canada, PAL Aerospace will be responsible for in-service support for the aircraft, covering all aspects of maintenance work not undertaken by Royal Canadian Air Force Technicians. This considerable and complex scope of work includes essential high value activities such as repairs, second and third level maintenance, future modification work, and depot-level maintenance of the aircraft.

These are inherently essential activities requiring years of careful planning and liaison with our partners at Airbus Defence and Space and the Canadian Forces to ensure that as these aircraft come into service, we are immediately prepared to support their operation.

As with the DFO program, we found new ways within the bounds of pandemic restrictions to keep this important effort on track and ensure we remain properly positioned to meet our obligations as the program becomes operational. We quickly pivoted to work safely and efficiently with our partners while progressively managing through an evolving global supply chain to make sure we were staying on track, readying facilities across the country from which these new Canadian search and rescue aircraft will operate for the next generation.

It has been gratifying to see our initial investments in both the program itself and the people we have entrusted with its management progressively return our confidence by delivering exceptional performance throughout the year.

With that firmly in mind, we were incredibly proud to be included in the ceremony held in Comox B.C. in September 2020 that officially welcomed the CC-295 Kingfisher to Canada. We are looking forward to being a fundamental part of this program for years to come.

> **"Again, this win was delivered during the pandemic, despite significant challenges in the global economy."**

Netherlands Coastguard Dash 8 maritime surveillance aircraft

While adapting and executing these complex programs, PAL Aerospace was able to continue building its outstanding international reputation as a leader in maritime surveillance and intelligence, surveillance, and reconnaissance solutions by reaching across the Atlantic and securing an exciting new contract with the Netherlands Coastguard. Working closely with our new local partners at JetSupport, PAL Aerospace will modify and deliver two fully missionized DHC-8 maritime surveillance aircraft for the Netherlands Coastguard. This includes the provision of crew training on all systems and support for the operations of the aircraft for an initial ten year period.

Throughout the bid process, working against a field of sophisticated international competitors, our people again found ways to manage communication, build collaboration and come together as a formidable winning team. The PAL Aerospace and JetSupport bid was ultimately found to present the Best-Price-Quality-Ratio following a careful and thorough evaluation of tenders submitted to the Netherlands Coastguard. Again, this win was delivered during the pandemic, despite significant challenges in the global economy.

Keewatin Air ambulance Cessna Citation

> **In EIC's air ambulance business, we have also had to adjust the way we operate to continue delivering essential services for the customers and communities relying on us.**

This is a significant strategic accomplishment for PAL Aerospace and a validation of EIC's long-standing support for the company's development of its unmatched credentials in Special Missions Aircraft operations. Consistently ranked in the Top Ten Defense Companies in Canada by Canadian Defense Review, PAL Aerospace's new operations at Schiphol Airport in Amsterdam and active partnership with JetSupport are important steps in penetrating the European market and building on existing international operations in the Dutch Caribbean and the United Arab Emirates. The vital support PAL Aerospace receives from EIC helped facilitate this important award, which will in turn generate significant value for EIC through the operational phase of the program.

In EIC's air ambulance business, we have also had to adjust the way we operate to continue delivering essential services for the customers and communities relying on us. We have accomplished this by trusting in our management team's ability to make the sound decisions we have needed to remain operational through the pandemic while at the same time working collaboratively to identify appropriate strategic investments that will position us to continue effectively driving value in the future.

Keewatin Air's investment in four EpiShuttle units, manufactured by EpiGuard Medical Isolation and Transportation Systems for the transportation of sick, infectious patients from remote communities to larger facilities better prepared to provide acute care, as required is an excellent example in that respect. While EIC believes the technology associated with these units is important now to support care for COVID-19 patients, we also believe there will be significant future applications for the EpiShuttle, as society's approach to the treatment of infectious disease evolves in a post-pandemic world.

By being an early adopter of this technology, leading the way in obtaining Canadian regulatory approvals for its deployment, and integrating the EpiShuttle seamlessly into our service offering, Keewatin and EIC are fortifying our leadership position in the Canadian medevac industry. We are convinced that the EpiShuttle will make medical transports better, safer, and more efficient. These units are important investments, not just in our current capacities, but also in our future as a company committed to working collaboratively with our partners. We are positioned to lead in the development of practices and protocols that will protect the health and safety of our passengers, employees, and the community at large for years to come.

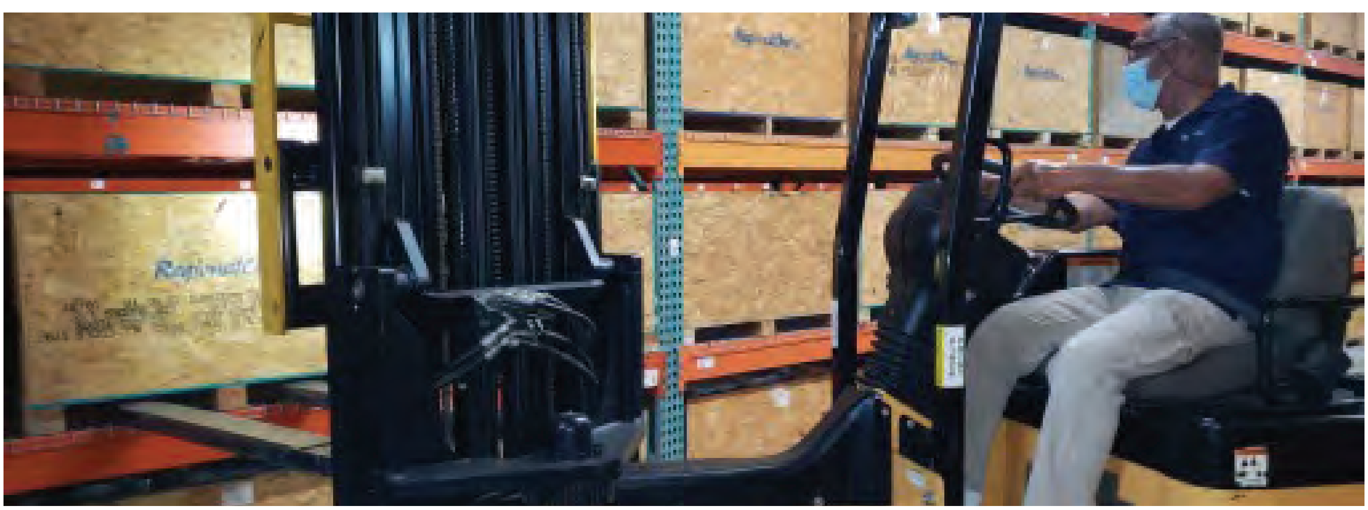
Fundamentally, the most significant operational changes EIC has had to make across our operations this year can be found in our family of regional airlines.

At EIC, we have charted our course through the pandemic based on a simple, core understanding. Our services are essential, and we need to keep flying. Termination of services to vulnerable communities, in which the presence of an EIC airline is in many instances the only way to move passengers and goods in and out, has never been an option for management. As in many other instances throughout our operation this year, we leaned

EpiShuttle unit

heavily on our management teams to figure out how to meet community needs and extend our vital presence in these important markets.

To accomplish this goal, we remained flexible in our approach to the challenges at hand, right sizing services to meet community demand, and investing in the maintenance of our key presence without jeopardizing the economic sustainability of our business. We had to be sensitive to concerns about the safety of air travel, quickly introducing industry leading protections across our network and moving ahead of regulators to establish controls for connecting traffic. We have also invested in enhanced pre-board screening procedures, adjusted service offerings and onboard protocols to heighten disease prevention and led the way by investing in and implementing augmented sanitization protocols on our aircraft and at our airport facilities.



Regional One parts inventory

EIC destinations include over 50 Northern, First Nations & Indigeneous communities

This was an iterative process, undertaken with collaboration across our operations and in partnership with the communities we serve. In many cases we relied on the strong pre-existing links our operators have developed with our communities and customers, taking their lead as to what services were required and how we could deploy our resources most effectively to maintain trust in our operation.

We were also persistent in our engagement with governments at all levels, clearly expressing the challenges of maintaining essential services during times of decreased demand. EIC is the recipient of government assistance in this respect, most notably through the Canadian Emergency Wage Subsidy ("CEWS") program.

We have been diligent about using Government funds exactly how the programs we have accessed are intended.

Specific to the CEWS, we were able to retain workers on the payroll who would otherwise have been laid off, to re-hire workers who were previously laid off, and to continue essential business activities. The CEWS and other programs have been valuable tools for EIC's airlines as we worked to preserve our network and continue serving our customers.

Ultimately, EIC airlines have found ways to continue maintaining vital air access for all our pre-pandemic destinations including over 50 Northern, First Nations and Indigenous communities. We have kept on delivering medical services and supplies, ensuring reliable food delivery, handling cargo, sustaining mail delivery, and continuing a host of other essential services irrespective of significant declines in passenger volumes that made certain routes uneconomical at times.

Our investments in ensuring the reliability of our services over this time made us a logical partner for the Government of Canada as they looked for a solution to facilitate the safe deployment of their nursing workforce to Indigenous communities across Canada. We are proud to have facilitated eighteen full rotations of Indigenous Services Canada's nursing workforce to date, providing a stable link for the movement of medical personnel as well as infrastructure professionals and equipment to maintain critical infrastructure such as water treatment plants. Our flights also provide flexibility to support other needs such as emergency management response, food security, or medevac services as required.

We are also extremely proud to be involved in vaccine rollout efforts involving multiple EIC carriers and notably including the two airlines we operate in partnership with First Nations, Wasaya Airways and Air Borealis. It is tremendously gratifying to be able to support our communities this way and allows us a tangible glimpse of what a post-pandemic future might look like in Canada.

Although perhaps not garnering as much public attention as our airline businesses, the story of EIC's manufacturing segment through 2020 is considerably similiar.

Our success has again been defined by strong management teams making the critical decisions required to maintain production and meet customer needs while being supported by strategic investments we believe continue to position EIC for future success.

Once again, EIC operations have worked diligently to maintain production and meet the needs of our clients by explicitly making operational and investment decisions that prioritize the health and safety of our employees above all other considerations. We have increased employee screening at all EIC manufacturing facilities, enhanced our cleaning and sanitization practices, and worked diligently to meet or exceed all public health guidance from jurisdictions in which we maintain operations.

Our formula in this respect has been to again draw heavily on the collective strength of the exceptional management teams we have in place across our Manufacturing segment. We have ensured that we are facilitating the implementation of best practices, making educated investments in protections where appropriate and distributing resources quickly and efficiently between teams. At the same time, we are continually sharing valuable lessons learned to protect employees, overcome operational impediments, and maintain efficiency in the face of robust customer demand.

Stainless Fabrication electropolished pharma vessels (50 to 700 litres)

Quest Window Systems product

Notably in the segment, we have been able to continue building on the success of Quest Window Systems through the ramp up of production at our new Texas plant and the successful acquisition of WIS in the third quarter of 2020. Again, accomplished during the pandemic and in the face of a challenging economic environment, this transaction extends our strategic positioning of Quest as a fullservice manufacturer and installer of our own products through the integration of a full-service window glazing company with established operations on the West Coast of the United States. We are confident the synergies EIC gains by solidifying Quest in the market as a functional single point of accountability for our customers builds on our already significant competitive advantages in the space. We have experienced firsthand the benefits of this type of strategic investment through the acquisition of AWI in 2019 and believe firmly this is another investment that will return substantial value to EIC in the long term.

We are also extremely proud that several companies from the EIC Manufacturing segment have been able to shift capacity at critical times in 2020 to meet the Government of Canada's call for increased production of PPE and key strategic medical supplies to support front-line workers in the battle against COVID-19. Once again, these exceptional efforts speak to the commitment of EIC and our employees to bring our skills and resources to bear in making tangible contributions to the communities we call home.

WesTower Communications, essential service providers across Canada

Our efforts to redeploy production capacity so that we were able to support the manufacturing and distribution of essential medical equipment is also a perhaps perfect illustration of the unpredictability of the COVID-19 pandemic. Obviously, in an ordinary year, this was not something we would have contemplated.

While 2020 has in many ways been defined by unforeseen circumstances and adverse events globally, at EIC our year has equally been characterized by our progressive ability to manage through these challenges by finding solutions and delivering on our commitments. Although we cannot say for certain what the next year will bring, we now have the benefit of reflecting on our accomplishments and internalizing our lessons learned. Guided by that experience, we are confident in our path forward for the coming year and focused on a future we believe will yield opportunities to continue building on our success while strategically positioning EIC for the long term.

In closing this year's CEO message, I want to sincerely thank the management teams and employees across all EIC's operations for their exceptional efforts during this particularly challenging year. As I have noted throughout this report, your hard work and unwavering commitment to meet the needs of our customers and make positive contributions for our communities have allowed us to excel during one of the most difficult times in our history.

Mandatory mask wearing at all EIC manufacturing facilities

> **"At EIC our year has equally been characterized by our progressive ability to manage through these challenges by finding solutions and delivering on our commitments."**

Students at MFC Training

Your diligence and determination are even more exceptional given the challenges we have all faced in our personal lives. The collective toll of living through the pandemic has been significant. I know all of you have had to confront the realities of lockdowns, isolation from friends and family, the challenges of balancing work and childcare responsibilities, and in some cases losing loved ones to this terrible disease. I hope at times that your work with us has given you both a sense of normalcy and an opportunity to do your part in a meaningful way to make life better for those around you during these trying times.

I would also like to take this opportunity to thank our shareholders, stakeholders, customers, and communities for the support you have shown us in 2020. While we have worked hard to meet your collective expectations, we also appreciate that we can count on you as willing partners who are meaningfully invested in EIC's success. Although the pandemic has been unpredictable, your faith in us has remained solid. We are looking forward to working with you and delivering for you for years to come.

Thank you,

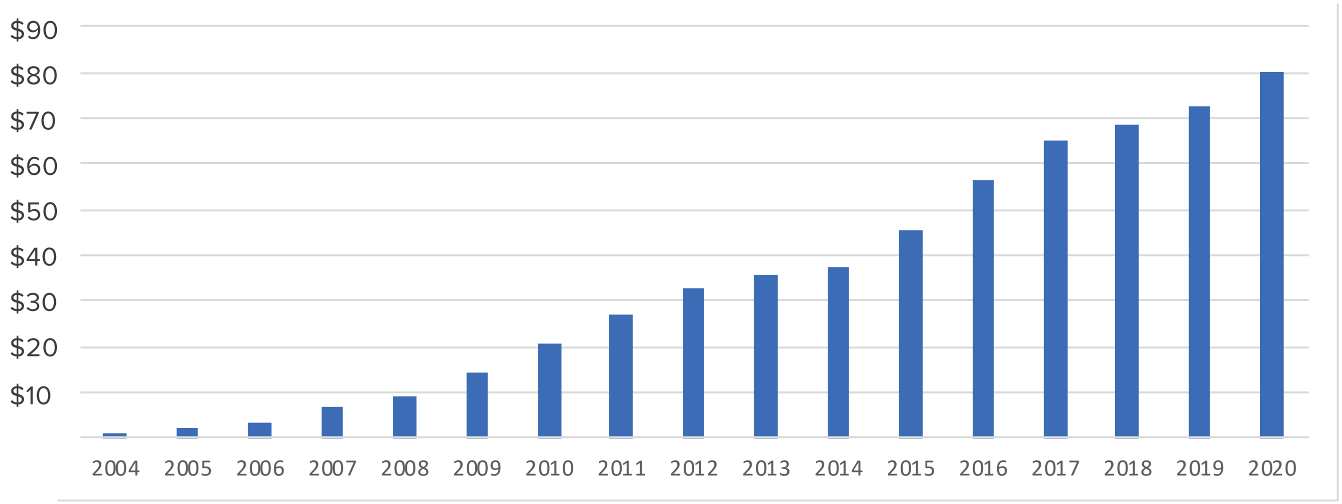
Mike Pyle, MBA, ICD.D.
Chief Executive Officer

STRONGER TOGETHER

Resilience & diversity continue to validate our investment strategy

"The value of EIC's diversification has never shone as brightly as it did in 2020."

Annual Dividends (000,000'S)



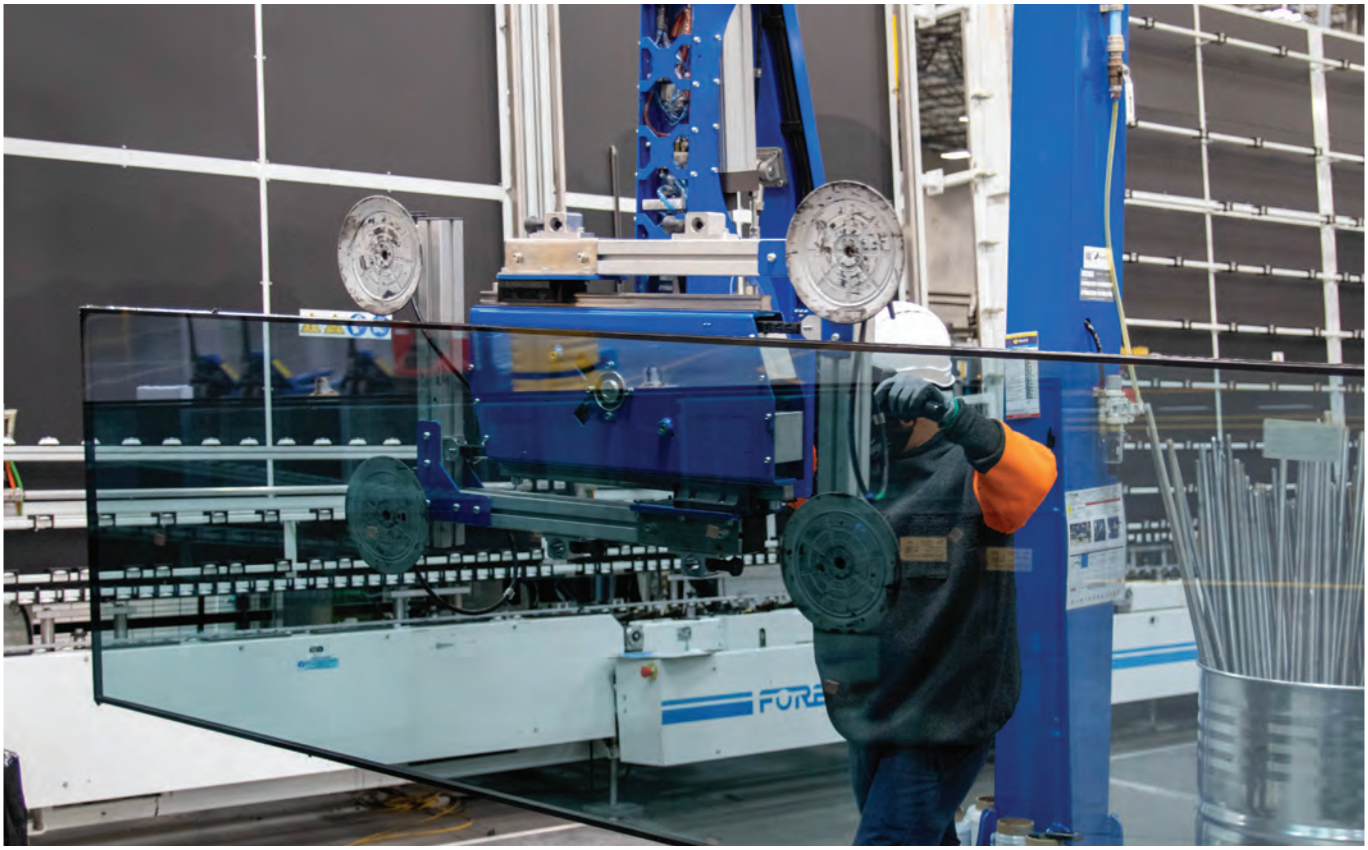
STABLE AND GROWING DIVIDENDS

At EIC, meeting expectations is built into both the design and culture of our company. Despite the challenges we've faced this year, we fulfilled our longstanding commitment of providing our shareholders with stable and growing dividends.

> "We've delivered our dividend while maintaining essential service for the communities that count on us."

The diversity of our enterprise and the efforts of our people allowed us to honour this commitment while strengthening the company. Over the course of the year, we have materially improved our financial position by reducing net debt and completing strategic acquisitions to build our business for the future.

Most importantly, we've delivered our dividend while maintaining essential service for the communities that count on us and being there for our customers. Maintaining our dividend while extending our reputation as a responsible partner is a signature accomplishment for 2020.



Quest Window Systems facility in Dallas, Texas

BUILDING VALUE THROUGH OUR SUBSIDIARIES

EIC's strength lies in our ability to unlock the entrepreneurial potential we have at our subsidiaries.

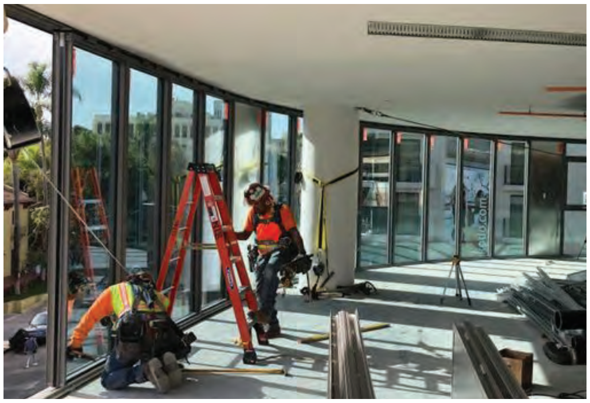
We've continued to see the benefits of that approach through 2020, winning important international contracts at PAL Aerospace, ramping up production at our new Quest Windows plant in Texas and sharing in the success of previous investments across the EIC family which have contributed to our strong bottom line.

Our success this year, in the face of challenging and unpredictable economic circumstances, is a testament to the strong management teams we have in place and encourages us to continue investing responsibly for the future.

PAL Airlines Dash 8 Q400

EXPANDING AND DIVERSIFYING OUR INVESTMENTS

L.V. Control Manufacturing designed equipment



W.I.S. window installation in Los Angeles, CA

Quest Window Systems fabrication process

EIC's proven approach to identifying and completing accretive acquisitions continues to drive value and strategically position the company and our subsidiaries for long term success.

In 2020 EIC benefitted from a full year of results from LV Control, whose industry specific knowledge and unique product offering continue to make them world leaders in agriculture process control.

We also fortified our position in Quest Windows through the strategic acquisitions of both Advanced Window Inc. in October 2019 and Window Installation Specialists Inc. in August 2020. These vertically integrated acquisitions enhance Quest's competitive advantage in their field, positioning the company as a single point of accountability for window production and installation.

Fundamental to the success of our acquisitions is our ability to access the collective strength of our organization to welcome new additions into the EIC family. We pride ourselves on fostering entrepreneurial spirit throughout our organization and we are always looking for our next great success story.

BUILT TO CONTRIBUTE

AT EIC we understand that the nature of our operations gives us the ability to make unique positive contributions to the communities we serve. The ability to leverage our operations to deliver COVID-19 vaccines to remote communities, to safely transport essential Indigenous Services Canada health care providers to fly in communities across the country, to contribute to local search and rescue initiatives and to manufacture essential medical equipment is not accidental – we are able to do the right thing because we plan and invest to put us in position to do the right thing.

Knowing that EIC companies are committed to a principled approach to our business, and that we're often able to help our customers and communities in times of need, is the most rewarding part of the EIC story.

That spirit of contribution is knit into the fabric of the EIC family of companies. It shows itself in our business initiatives like our commitment to zero waste manufacturing at our new Quest facility in Texas. It shows itself in our investments, like our aviation assets that regularly allow us the privilege of intervening directly to save lives in the communities we serve. Most importantly, it shows itself in our people, who are excited to work at EIC companies and eager to see how we can help next.

> "We are able to do the right thing because we plan and invest to put us in position to do the right thing."

The strategic way EIC has built our portfolio of air assets often means that we are uniquely capable of getting the job done. In multiple instances this year, it's also meant that our fixed-wing and rotary aircraft have been called on to make invaluable contributions to search and rescue efforts that prevented serious injury and ultimately saved lives. We're proud of our employees who answered these calls for assistance, and proud to be a company capable of contributing in this way for the communities where we operate.

February 17, 2021

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PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 2020 ("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, 2020. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FORWARD-LOOKING STATEMENTS

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

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

The information contained or incorporated by reference in this report identifies additional factors that could affect the operating results and performance of the Corporation and its subsidiaries. Assumptions about the performance of the businesses of the Corporation and its subsidiaries are considered in setting the business plan for the Corporation and its subsidiaries and in setting financial targets. Should one or more of the risks materialize or the assumptions prove incorrect, actual results, performance, or achievements of the Corporation and its subsidiaries may vary materially from those described in forward-looking statements.

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

EXCHANGE INCOME CORPORATION

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

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

(ii) to maximize shareholder value through on-going active monitoring of and investment in its operating subsidiaries; and

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

Segment Summary

The Corporation's operating segments are strategic business units that offer different products and services. The Corporation has two operating segments: Aerospace & Aviation and Manufacturing.

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

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

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2020	per share basic	per share fully diluted	2019	per share basic	per share fully diluted
For the year ended December 31						
Revenue	$ 1,149,629			$ 1,341,374		
EBITDA(1)	284,535			328,813		
Net Earnings	28,055	$ 0.80	$ 0.78	83,636	$ 2.58	$ 2.49
Adjusted Net Earnings(1)	47,176	1.35	1.31	102,127	3.15	2.97
Adjusted Net Earnings payout ratio(1)		169%	174%		71%	75%
Free Cash Flow(1)	198,400	5.66	5.03	245,772	7.58	6.55
Free Cash Flow less Maintenance Capital Expenditures(1)	113,331	3.23	2.94	126,075	3.89	3.48
Free Cash Flow less Maintenance Capital Expenditures payout ratio(1)		71%	78%		57%	64%
Dividends declared	80,012	2.28		72,742	2.2275	
FINANCIAL POSITION	December 31, 2020			December 31, 2019		
Working capital	$ 323,625			$ 307,912		
Capital assets	950,037			965,018		
Total assets	2,294,184			2,266,557		
Senior debt	794,194			719,559		
Equity	685,946			729,843		
SHARE INFORMATION	December 31, 2020			December 31, 2019		
Common shares outstanding	35,471,758			34,703,237		
	December 31, 2020			December 31, 2019		
Weighted average shares outstanding during the period - basic	35,048,953			32,437,022		

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

SIGNIFICANT EVENTS

Normal Course Issuer Bid ("NCIB")

On February 19, 2020, the Corporation renewed its NCIB. Under the renewed NCIB, purchases can be made during the period commencing on February 22, 2020, and ending on February 21, 2021. The Corporation can purchase a maximum of 1,736,542 shares and daily purchases will be limited to 27,411 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital. During the uncertain times created by the COVID-19 pandemic, the Corporation has chosen to conservatively manage its liquidity and not make purchases under the NCIB despite the volatility in the Corporation's common shares.

SARS-CoV-2 ("COVID-19")

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

Government Financial Aid

Governments around the world have announced significant financial support for businesses in light of the COVID-19 pandemic. The Corporation reviewed all programs in each jurisdiction in which it operates. Most notably, the Corporation qualified for the Canada Emergency Wage Subsidy ("CEWS").

Once the qualification criteria for the CEWS were made available, the Corporation immediately made plans to keep as many of its employees as possible and to minimize layoffs. During the year ended December 31, 2020, the Corporation recorded $64.0 million in subsidies under the CEWS. The CEWS permitted EIC to retain a workforce, which otherwise would have been significantly reduced because of the uncertainty created by COVID-19 and the corresponding drop in demand for the Corporation's products and services, most notably in our airline subsidiaries. Many employees were either called back after being laid off or avoided being laid off altogether as the CEWS acted as a flow through of wages to those employees whose work had either disappeared or had been deferred. In addition, the subsidies received, in conjunction with modest support from the Government of Nunavut, allowed the Corporation to maintain service at a reduced level to our Indigenous customers at a time when the routes were not economically feasible due to an extreme drop off in passenger volumes (at the onset of COVID-19, approximately 90% on some routes). Without the subsidies received, the Corporation would have sought to make up a significant portion of the subsidies received through layoffs and other means of cost reductions such as a significant reduction in the frequency of service.

Moncton Flight College

On March 16, 2020, the government of New Brunswick ordered the shutdown of all non-essential businesses including educational facilities effective March 17, 2020, due to the COVID-19 pandemic. As a result, Moncton Flight College was forced to close its facilities and switch to online only learning, where possible. On April 24, 2020, New Brunswick relaxed its state of emergency allowing Moncton Flight College to resume phased in flight operations on April 25, 2020, with additional precautionary measures in place.

Credit Facility Amendment

On July 15, 2020, the Corporation amended its credit facility. The amendment increased the senior leverage ratio maximum from 4.0 to 5.0 for the fiscal quarters ending December 31, 2020, through September 30, 2021. Inclusive of all announcements to date, EIC expects to remain within its original 4.0 covenant and is currently at 2.69.

Consistent with EIC's historical balance sheet management, the Corporation continues to be proactive in managing its liquidity so that should an opportunity present itself, EIC can execute where others may not be able. The increased covenant provides the Corporation the flexibility to draw further capital in the future to take advantage of opportunities as they are uncovered.

Acquisition of Window Installation Specialists, Inc. ("WIS")

On July 31, 2020, the Corporation acquired all of the shares of Window Installation Specialists, Inc. ("WIS") for US $45.0 million. WIS is a full-service glazing company specializing in sales, consultation, installation, and service of pre-glazed fenestration products. The operational focus for WIS is the West Coast of the United States. The total purchase price before normal post-closing adjustments included US $38.0 million in cash paid at closing and shares of the Corporation issued at closing with a value of US $7.0 million.

Intelligence, Surveillance & Reconnaissance ("ISR") Contract Award

During the third quarter, Provincial, together with its Netherlands partner, JetSupport Holding, was awarded a contract to provide and support Maritime Surveillance Aircraft for the Netherlands Coastguard. This new contract, executed under the authority of the Ministry of Defence of the Netherlands, will see Provincial and JetSupport Holding modify and deliver two fully missionized DHC-8 aircraft, provide crew training on all systems and support the operation of the aircraft for an initial 10-year period with an option to extend for two additional one-year terms. Work began during the fourth quarter of 2020 on adapting the aircraft and service begins in the second quarter of 2022.

Subsequent Event – Provincial and Federal Funding Agreement

On February 1, 2021, subsequent to the end of the 2020 year, the Corporation was notified that the Provinces of Manitoba and Ontario together with the Federal Government would be providing financial support to air operators servicing their respective remote communities to mitigate losses incurred in continuing to deliver essential supplies and services to those regions. While the ultimate amount the Corporation will receive has not been finalized, the Corporation is eligible to receive a maximum of $10.5 million under these funding agreements for the period from July 1, 2020 to December 31, 2020. The provision of support relates to an agreement that did not exist at December 31, 2020 and therefore no amount has been accrued at December 31, 2020.

2. ANNUAL RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the year ended December 31, 2020, and the comparative 2019 period.

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

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

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

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

REVENUE AND EBITDA

On a consolidated basis, the Corporation generated revenue of $1.1 billion, a decrease of $191.7 million, or 14% from the comparative year. The Aerospace & Aviation segment revenue decreased by $287.4 million and the Manufacturing segment revenue increased by $95.7 million.

EBITDA of $284.5 million was generated by the Corporation during the period, a decrease of $44.3 million from the comparative year. The decrease in EBITDA is attributed to the impact of COVID-19, which impacted both the Aerospace & Aviation and Manufacturing segments and is discussed in more detail below.

During the year, the Corporation's head office costs decreased by $4.6 million or 18% from the prior year primarily due to decreased performance-based compensation. Voluntary salary reductions, reduced travel costs, and decreased professional fees also resulted in lower head office costs compared to the prior period.

The Corporation was eligible for the CEWS offered by the Government of Canada and received $64.0 million under this program during the period. The Corporation continued to use the proceeds from the CEWS to offset salary costs that would have otherwise been reduced without the CEWS program, and to help offset increased safety costs across both segments and costs associated with inefficiencies in the Manufacturing segment.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment decreased by $287.4 million to $687.3 million.

Revenue in the Legacy Airlines and Provincial decreased by $122.2 million or 18% from the comparative year due to lower passenger demand as a result of the COVID-19 pandemic. Passenger volumes in the airlines were higher than in the comparative year through mid-March 2020 but were offset by an immediate and severe drop in traffic starting in the second half of March due to travel restrictions imposed by governments to stop the spread of COVID-19. Passenger volumes experienced some gradual recovery through the second and third quarters, leveling off toward the end of the third quarter, although the scale of improvement varied by geographic area depending on travel restrictions and quarantine periods specific to the region. Volumes softened significantly subsequent to the end of the third quarter due to increases in COVID-19 cases and enhanced travel restrictions imposed by Provincial and First Nations governments. Cargo volumes increased over the prior year and remained strong after the onset of COVID-19 with communities continuing to receive essential goods and supplies. Charter operations benefitted from the movement of healthcare providers for Indigenous Services Canada and from other COVID-19 relates activities such as rapid response team and COVID-19 test sample movement, thereby offsetting reductions in certain traditional charter activities. Medevac volumes remained relatively stable to the prior year after an initial slowdown at the onset of the COVID-19 pandemic. A severe blizzard in Newfoundland and Labrador in January, which culminated in the issuance of a state of emergency for more than a week, impacted Provincial's results. The inclement weather shut down the airport resulting in no revenue being earned during this time. Additionally, Moncton Flight College was shut down for the second half of March and part of the second quarter due to the COVID-19 pandemic as the government ordered closures of educational facilities in New Brunswick. The demand for Provincial's aerospace operations were largely unaffected by the pandemic as much of the work performed is subject to long-term contracts with governments around the world. The only exception was the Force Multiplier aircraft, which was idle during the second quarter as governments globally focused on the pandemic and procurement processes for utilization of the Force Multiplier were put on hold. The Force Multiplier was back in service in both the third and fourth quarters.

Regional One's revenues for the current year decreased by $165.3 million or 54%. As seen in the table below, this was driven by a decrease in sales and service revenue and lease revenue from the comparative period.

Regional One Revenue	Year Ended December 31,	2020	2019
Sales and service revenue		$ 106,001	$ 220,665
Lease revenue		32,924	83,523
		$ 138,925	$ 304,188

Sales and service revenue decreased by 52% from the comparative year. The sales of whole aircraft and engines were materially impacted during the year due to COVID-19. Prior to the onset of the pandemic, there were a number of transactions pending that have now either been postponed or cancelled altogether due to the impact of COVID-19 as airlines around the world look to preserve capital. Revenue from parts sales was not impacted to the same magnitude as other revenue sources during the year.

Lease revenue decreased by $50.6 million or 61% in the current year. The leasing portfolio experienced lower utilization of aircraft by customers starting in March and continued throughout 2020 as the impacts of COVID-19 reduced hours flown by lessees. Also, several large assets were returned due to a customer bankruptcy in the third quarter of 2019 were more challenging to redeploy at historical returns, resulting in decreased lease revenue compared to the prior year.

In the Aerospace & Aviation segment, EBITDA decreased $81.1 million or 27% to $218.1 million.

EBITDA in the Legacy Airlines and Provincial decreased by $15.0 million or 8% from the comparative year. In general, the decreases in revenue, which were primarily driven by the impacts of COVID-19, drove the reduction in EBITDA. Growth in scheduled services positively impacted EBITDA compared to the prior period throughout the first two and a half months of 2020 until COVID-19 associated air travel restrictions were mandated by multiple levels of government due to the pandemic. At the outset of the pandemic, the Corporation quickly adapted its operations to help mitigate the impacts of government-mandated COVID-19 travel restrictions and implemented cost reduction measures such as scheduled frequency reductions, labour rationalization and other cost reduction strategies across all operational areas. The Corporation provides essential services to the communities it serves as air transportation is the only way that people and goods can get to or from many of these communities. Consequently, it is imperative that the Corporation maintains regular, albeit reduced, scheduled flights to these areas. Complete termination of our service to these communities is deemed by the Corporation to not be an option. As such, the Corporation worked collaboratively with the Government of Nunavut and the Federal Government to help support the Nunavut scheduled passenger operation to ensure continued regular essential service into the Nunavut region. The support received helped to mitigate further service and frequency reduction that would have otherwise been implemented. In addition, the Corporation was able to access funds under the CEWS program, which ensured that we would be able to continue to provide the essential services to our communities and to retain more employees than we would have otherwise without the program. We are committed to the safety of our employees, customers, and the communities we serve, and enhanced safety protocols have been put in place resulting in higher costs across the segment. The aerospace operations operated largely unaffected by COVID-19, other than incurring costs to operate safely in a pandemic environment.

Regional One's EBITDA decreased $66.1 million or 61% from the prior year. A significant reduction in demand for its leased aircraft and engines, which generates much higher margins than other lines of business, and a reduction in the sales and service revenue stream contributed to decreased EBITDA compared to the prior year. This was driven by regional airlines around the world experiencing lower passenger volumes compared to the prior year.

Manufacturing Segment

The Manufacturing segment revenue increased by $95.7 million or 26% to $462.3 million and EBITDA increased by $32.2 million or 58% over the prior year to $88.0 million.

All of the Corporation's subsidiaries within the Manufacturing segment have been deemed essential businesses during the COVID-19 pandemic and have been operating. Social distancing has reduced the efficiency and throughput in the short term despite robust demand. Increased employee screening and frequency of cleaning and sanitization of the facilities are all realities the manufacturing subsidiaries are facing in light of COVID-19, and will continue to impact efficiency for an unknown period of time. Within the segment, several of the subsidiaries have heeded the government's call to manufacturers to produce and supply PPE and medical supplies required by medical professionals during the pandemic.

EBITDA at Quest was higher than the prior year reflecting the acquisition of AWI in the fourth quarter of 2019 and acquisition of WIS in the third quarter of 2020, for which there is no comparative in the prior year. Our installation businesses in the United States have performed above our expectations since acquisition. The increase was partially offset by continued inefficiencies at the production facilities driven by COVID-19 related absenteeism and elongation of job schedules.

The balance of the segment collectively experienced an increase in EBITDA, which was aided by the acquisition of LV Control in the fourth quarter of 2019. Excluding the impact from LV Control, the remaining subsidiaries within the segment generated an increase in EBITDA over the prior period. Demand continues to be strong while the benefit of CEWS helps to offset higher safety costs associated with COVID-19, including reduced efficiencies from social distancing protocols implemented in all plants and higher operating costs from sanitization and personal protective equipment. In Alberta, many companies have delayed or cancelled their large capital projects due to low oil prices, which, together with the impact of COVID-19, has negatively impacted the EBITDA of the Alberta Operations. As a result, the Corporation has taken a write down of intangible assets against the Alberta Operations as discussed further in *Section 9 – Critical Accounting Estimates and Judgments.*

NET EARNINGS

Year Ended December 31,		2020		2019
Net Earnings	$	28,055	$	83,636
Net Earnings per share	$	0.80	$	2.58

Net Earnings was $28.1 million, a decrease of $55.6 million from the prior year. The Corporation generated lower EBITDA compared to the prior year as discussed above, which contributed to the variance to the prior year. In addition, increased depreciation on assets purchased through acquisition and Growth Capital Expenditures resulted in a $10.6 million increase in depreciation expense compared to 2019. An impairment loss of $6.1 million was recorded at the Corporation's Alberta Operations during the first quarter of 2020 due to the impacts of the current state of the oil and gas industry and COVID-19 (*Section 9 – Critical Accounting Estimates and Judgments)*. In the prior year, the remeasurement of contingent consideration increased Net Earnings by $10.6 million, which is $10.4 million higher than in the current year. Partially offsetting these negative impacts on Net Earnings was a $7.0 million reduction in interest expense and a $3.2 million reduction in acquisition costs.

Income tax expense has decreased by $7.3 million. The effective rate of tax is higher than in the prior year and is reflective of losses generated in lower tax rate jurisdictions, offset by earnings in higher tax rate jurisdictions. In addition, the remeasurement of contingent consideration was significantly higher in the prior year and gave rise to a gain of $10.6 million that was not taxable, decreasing the effective rate of tax in the 2019 comparative year. Current income tax expense increased during the year primarily due to lower tax depreciation being available in the period from reduced capital expenditures in 2020.

Net Earnings per share decreased by 69% to $0.80 from the prior year due to lower Net Earnings generated in the period. The weighted average shares outstanding increased by 8% over the prior year, which also reduced Net Earnings per share. 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,		2020		2019
Net Earnings	$	28,055	$	83,636
Acquisition costs, net of tax		1,548		4,049
Amortization of intangible assets, net of tax		12,828		13,283
Interest accretion on acquisition contingent consideration		272		1,068
Accelerated interest accretion on redeemed debentures, net of tax		-		91
Impairment loss, net of tax		4,473		-
Adjusted Net Earnings	$	47,176	$	102,127
per share - Basic	$	1.35	$	3.15
per share - Diluted	$	1.31	$	2.97

Adjusted Net Earnings decreased by $55.0 million from the prior year. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $12.8 million in intangible asset amortization, $1.5 million in acquisition costs, and $0.3 million in interest accretion on contingent consideration (all net of tax), and a $4.5 million net of tax add-back of an impairment loss (*Section 9 – Critical Accounting Estimates and Judgments*).

Adjusted Net Earnings per share decreased to $1.35 from $3.15 in the prior year due to lower Adjusted Net Earnings generated in the period. The weighted average number of shares outstanding increased by 8% over the prior year, which also reduced Adjusted Net Earnings per share. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

Year Ended December 31,		2020		2019
Cash flows from operations	$	259,974	$	217,237
Change in non-cash working capital items		(38,455)		45,058
Acquisition costs, net of tax		1,548		4,049
Principal payments on right of use lease liabilities		(24,667)		(20,572)
	$	198,400	$	245,772
per share - Basic	$	5.66	$	7.58
per share - Diluted	$	5.03	$	6.55

The Free Cash Flow generated by the Corporation during the year was $198.4 million, a decrease of $47.4 million, or 19% from the comparative year. The main reasons for this decrease are the $44.3 million decrease in EBITDA, an increase in current tax expense, and increased principal payments on right of use lease liabilities, partially offset by a decrease in interest expense. Free Cash Flow is discussed further in *Section 13 – Non-IFRS Financial Measures and Glossary*.

Because of the decrease in Free Cash Flow described above, Free Cash Flow per share decreased by 25% to $5.66. Free Cash Flow per share was also impacted by the 8% increase in the weighted average shares outstanding in the current year compared to the prior year. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

3. FOURTH QUARTER RESULTS

The following section analyzes the financial results of the Corporation for the three months ended December 31, 2020, and the comparative three-month period in 2019.

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

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

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 $301.7 million, a decrease of $61.6 million or 17% from the comparative period. The Aerospace & Aviation segment revenue decreased by $76.8 million and the Manufacturing segment revenue increased by $15.2 million.

EBITDA generated by the Corporation during the fourth quarter was $82.0 million, a decrease of $6.8 million or 8% from the comparative three-month period. The overall decrease is due to the impact of COVID-19, as discussed further below. The head office costs of the Corporation decreased by $2.1 million from the comparative period primarily due to lower performance-based compensation during the fourth quarter of 2020.

Aerospace & Aviation Segment

In the Aerospace & Aviation segment, revenue decreased by $76.8 million or 30% to $175.9 million.

Revenue in the Legacy Airlines and Provincial decreased by $30.5 million or 17% from the comparative three-month period. The primary reasons for the decrease compared to the prior period are largely consistent with the drivers for the year to date increase discussed above. Decreases across the subsidiaries' airline operations were partially offset by increases within Provincial's aerospace operations and an increase in charter operations compared to the prior period.

Regional One's revenue decreased by 59% from the comparative three-month period. This was driven by decreases in both revenue streams due to the impact of COVID-19.

Regional One Revenues	Three Months Ended December 31,	2020	2019
Sales and service revenue		$ 27,594	$ 59,125
Lease revenue		4,431	19,187
		$ 32,025	$ 78,312

Revenue at Regional One continued to be impacted by COVID-19 due to factors consistent with the discussion in the annual discussion. This has resulted in reductions in both revenue streams, as detailed in the table above. During the fourth quarter, Regional One benefitted from the sale of larger assets, improving results compared to the second and third quarters of 2020.

In the Aerospace & Aviation segment, EBITDA decreased by $19.4 million or 24%.

The fourth quarter of 2020 outperformed management's expectations for two reasons and was driven by the Aerospace & Aviation segment. Demand for ISR assets and charter services exceeded our expectations. Similarly, the level of financial support from territorial and federal governments for which we qualified exceeded previous expectations given the operating environment in the fourth quarter.

EBITDA contributed by the Legacy Airlines and Provincial increased by $1.1 million or 2%. While the airline operations continued to feel the impact of COVID-19, the aerospace operations more than made up for these reductions. This includes the aforementioned revenue drivers for Provincial's aerospace operations, and also contract price and scope escalators within those operations that both positively impacted the current period compared to the prior period. The factors impacting the airline operations are consistent with the annual discussion above, with the negative impacts of COVID-19 during the quarter being partially offset by the receipt of government assistance and increased demand for charter services.

Regional One contributed EBITDA of $8.9 million for the quarter, a decrease of 70% from the prior period. As discussed above, the impact of COVID-19 on all lines of business decreased EBITDA compared to the prior period. The sales of larger assets during the fourth quarter improved EBITDA when compared to the second and third quarters of 2020.

Manufacturing Segment

The Manufacturing segment revenue increased by $15.2 million or 14% to $125.8 million and EBITDA increased by $10.5 million or 72% over the prior period to $24.9 million.

As detailed in the annual discussion above, Quest benefitted compared to the prior period from the acquisition of AWI partway through the fourth quarter of 2019 and the acquisition of WIS in the third quarter of 2020. The reasons for the growth of the balance of the segment is consistent with the annual discussion above.

NET EARNINGS

Three Months Ended December 31	2020	2019
Net Earnings	$ 13,479	$ 25,283
Net Earnings per share	$ 0.38	$ 0.74

Net Earnings for the three months ended December 31, 2020, was $13.5 million, a decrease of $11.8 million from the comparative period. The Corporation generated lower EBITDA compared to the prior period as discussed above, which contributed to the variance. In addition, depreciation expense increased by $1.7 million as a result of the investments made in Growth Capital Expenditures throughout 2019 and 2020. Intangible asset amortization increased by $1.8 million due to the recent acquisition activity of the Corporation. In the prior period, the remeasurement of contingent consideration increased Net Earnings by $3.5 million and did not recur in 2020 (*Section 9 – Critical Accounting Estimates and Judgments)*. Partially offsetting these negative impacts on Net Earnings was a $1.7 million reduction in interest expense.

Income tax expense decreased by $0.3 million in the fourth quarter of 2020 compared to the same period in 2019. The effective rate of tax is higher than in the prior year and is reflective of losses generated in lower tax rate jurisdictions, offset by earnings in higher tax rate jurisdictions. In addition, the remeasurement of contingent consideration in the prior period gave rise to a gain that was not taxable, decreasing the effective rate of tax in the 2019 comparative period. Current income tax expense increased during the year primarily due to lower tax depreciation being available in the period from reduced capital expenditures in 2020.

Net Earnings per share decreased by 49% from the prior period to $0.38. The weighted average shares outstanding increased by 4% over the prior period, which also reduced Net Earnings per share. 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		2020		2019
Net Earnings	$	13,479	$	25,283
Acquisition costs, net of tax		466		797
Amortization of intangible assets, net of tax		4,835		3,492
Interest accretion on acquisition contingent consideration		67		185
Adjusted Net Earnings	$	18,847	$	29,757
per share - Basic	$	0.53	$	0.88
per share - Diluted	$	0.52	$	0.81

Adjusted Net Earnings decreased by $10.9 million or 37% from the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $4.8 million in intangible asset amortization, $0.1 million in interest accretion on contingent consideration, and $0.5 million in acquisition costs (all net of tax).

Adjusted Net Earnings per share decreased by 40% from the prior period to $0.53. The weighted average shares outstanding increased by 4% over the prior period, which also reduced Net Earnings per share. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Three Months Ended December 31		2020		2019
Cash flows from operations	$	63,888	$	66,066
Change in non-cash working capital items		2,370		7,077
Acquisition costs, net of tax		466		797
Principal payments on right of use liabilities		(7,227)		(5,309)
	$	59,497	$	68,631
per share - Basic	$	1.68	$	2.02
per share - Fully Diluted	$	1.48	$	1.75

The Free Cash Flow generated by the Corporation for the fourth quarter of 2020 was $59.5 million, a decrease of $9.1 million or 13% from the comparative period. The primary reason for the decrease is the 8% decrease in EBITDA and an increase in current tax expense, partially offset by a decrease in interest costs during the period.

Because of the decrease in Free Cash Flow discussed above, Free Cash Flow per share decreased by 17% from the prior period to $1.68. Free Cash Flow per share was also impacted by the 4% increase in the weighted average shares outstanding in the current period compared to the prior period. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

4. INVESTING ACTIVITIES

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

ACQUISITIONS

Window Installation Specialists, Inc.

On July 31, 2020, the Corporation acquired all the shares of WIS. WIS is a full-service glazing company specializing in sales, consultation, installation, and service of pre-glazed fenestration products on the West Coast of the United States.

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

Consideration given:		
Cash	$	51,042
Issuance of 346,945 shares of the Corporation at $27.10 per share		9,402
Preliminary working capital settlement at close		537
Total purchase consideration	$	60,981

CAPITAL EXPENDITURES

	Year Ended December 31, 2020							
CAPITAL EXPENDITURES		Aerospace & Aviation		Manufacturing		Head Office		Total
Maintenance Capital Expenditures	$	81,101	$	2,326	$	1,642	$	85,069
Growth Capital Expenditures		44,404		3,519		-		47,923
	$	125,505	$	5,845	$	1,642	$	132,992
	Year Ended December 31, 2019							
CAPITAL EXPENDITURES		Aerospace & Aviation		Manufacturing		Head Office		Total
Maintenance Capital Expenditures	$	114,415	$	4,141	$	1,141	$	119,697
Growth Capital Expenditures		111,261		8,063		-		119,324
	$	225,676	$	12,204	$	1,141	$	239,021

Maintenance Capital Expenditures for the year ended December 31, 2020, decreased by 29% from the prior period. The first quarter of 2020 saw a significant increase over the comparative period in 2019, which was consistent with the guidance provided with the Corporation's year end 2019 results. The first quarter of 2019 was impacted by the timing of maintenance events and was lower than normally would be expected in the first quarter of the year. Maintenance Capital Expenditures are generally weighted more towards the first quarter as heavy overhauls and engine maintenance events are scheduled at a time when demand is lowest in the airline subsidiaries. 2020 was no different, with several heavy overhauls and engine maintenance events scheduled for the first quarter. In addition, the fleet of aircraft operated by the airlines has increased, resulting in increased Maintenance Capital Expenditures to maintain the growing fleet of aircraft absent the impacts of COVID-19. Once the impacts of COVID-19 for the aviation industry became apparent, the Corporation began to defer capital spending where appropriate, but this came after more than two months of scheduled maintenance had been completed. Flight hours were reduced due to the pandemic and the timing of Maintenance Capital Expenditures is directly impacted by flying time for the aircraft and engines. The reduction in flight hours during the second, third, and fourth quarters led directly to a 48% reduction in the required Maintenance Capital Expenditures compared to the second, third and fourth quarters of 2019. 2020 was also impacted by a weaker Canadian dollar, which increased Maintenance Capital Expenditures as the majority of these investments are in US dollars.

Aerospace & Aviation Segment

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the year ended December 31, 2020, were $63.9 million, a decrease of 14% from 2019. Maintenance Capital Expenditures in the second, third and fourth quarters decreased materially compared to the prior year as the Corporation benefitted from work performed earlier in the year and reduced flying volumes, which both resulted in lower required maintenance. During the year ended December 31, 2020, the Legacy Airlines and Provincial invested

$57.5 million in Growth Capital Expenditures. The vast majority of these expenditures related to the Department of Fisheries and Oceans contract and Netherlands Coast Guard ISR contract for Provincial, and a small increase in capacity in the Legacy Airlines, which was committed to before the onset of COVID-19.

Regional One's Maintenance Capital Expenditures for the year ended December 31, 2020, were $17.2 million, a decrease of 57% from the prior year due to lower reinvestment requirements. The COVID-19 pandemic has left its fleet of aircraft and engines underutilized, and as a result, the available green time on those aircraft is not being consumed at the same rate as in past quarters. Consistent with historical practice, depreciation expense was used as a proxy for Maintenance Capital Expenditures in the first quarter and increased over the same three months in the prior period due to Growth Capital Expenditures made throughout the 2019 year. In the second, third, and fourth quarters, the actual costs of maintaining the fleet were significantly lower than the depreciation expense recorded during the comparative period. Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Starting in the second quarter, the actual expenditures on assets already owned have been used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

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

Regional One Lease Portfolio	December 31, 2020		December 31, 2019	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	58 (1)	51	58	46

Note 1) The aircraft total above includes 10 airframes that do not have engines to be leased out in conjunction with engines owned by Aero Engines LLC, the joint venture between the Corporation and SkyWest.

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

During the year ended December 31, 2020, the Corporation's investment in excess of Maintenance Capital Expenditures in Regional One remained relatively flat compared to the beginning of the year. Regional One's negative Growth Capital Expenditures of $13.1 million were almost entirely offset by a corresponding increase in Regional One's inventory, which is discussed further below in *Investment in Working Capital*. This increase in inventory and negative Growth Capital Expenditures includes the transfer of several large assets from capital assets to inventory during the fourth quarter as indicated in the Outlook section of the 2020 third quarter report. This modest reduction of the investment into Regional One shows the discretionary nature of further net investment into Regional One's business.

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

The Corporation's negative Growth Capital Expenditures reflects purchases during the year being more than offset by disposals and transfers of assets to inventory for part out. The Corporation has been actively searching for opportunities as a result of the COVID-19 pandemic and made some purchases during the period where the expected returns exceed historical norms. The Corporation will continue to diligently manage ongoing capital expenditures at Regional One during these uncertain times while at the same time looking for opportunities that may arise from distressed sellers. More information on future capital expenditures is available in *Section 6 – Outlook.*

Manufacturing Segment

Maintenance Capital Expenditures in the Manufacturing segment primarily relate to the replacement of production equipment or components of that equipment and can vary significantly from year to year. Certain manufacturing assets have long useful lives and therefore can last for many years before requiring replacement or significant repair.

For the year ended December 31, 2020, Maintenance Capital Expenditures of $2.3 million were made by the Manufacturing segment, a decrease of $1.8 million from the prior period. The variance from the prior period relates primarily to investments made at Quest's Canadian plant in the prior period.

During the year ended December 31, 2020, Growth Capital Expenditures of $3.5 million were made by the Manufacturing segment. Substantially all of the investments were made in Quest's new US plant and additional equipment to support WesTower's growing wireline line of business.

INVESTMENT IN WORKING CAPITAL

During the year ended December 31, 2020, the Corporation generated $38.5 million in cash from working capital. Details of the investment in working capital are included in Note 24 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

During the year ended December 31, 2020, the Corporation benefitted from a significant collection of government receivables. During the fourth quarter of 2019, the Corporation experienced slow payment of receivables from a significant government customer. Due to a cybersecurity breach at the customer, the customer was unable to process payments for an extended period of time, which was rectified during the first quarter of 2020.

In addition to government receivables discussed above, the Corporation generated a significant cash inflow from accounts receivable during the year across its Aerospace & Aviation segment. Regional One made two large collections during the year for sales that occurred in prior periods. Accounts receivable from prior periods, where more normal demand existed, were collected in the year and were replaced with sales at lower levels, resulting in decreased working capital required to support the current level of sales.

The Corporation continued to invest in Regional One's inventory of parts and aircraft for resale as Regional One has demonstrated an ability to generate exceptional returns on investment. The investment during the period was $12.2 million, which will support increased part sales in the future and is largely driven by transfers from capital assets during the period as disclosed in the third quarter report. Regional One's past investment in inventory has consistently provided accretive growth from increased parts revenue.

In the Manufacturing segment, the Corporation invested working capital to support Quest's US expansion as the plant ramped up during the year.

5. DIVIDENDS AND PAYOUT RATIOS

The payment of stable and growing dividends to shareholders is a cornerstone goal of the Corporation which is achieved through the consistent execution of its core strategy of diversification, disciplined investment in its subsidiaries, and disciplined acquisition of companies with defensible and steady cash flows.

Dividends

			2020 Dividends			2019 Dividends
Month	Record date	Per share	Amount	Record date	Per Share	Amount
January	January 31, 2020	$ 0.19	$ 6,596	January 31, 2019	$ 0.1825	$ 5,719
February	February 28, 2020	0.19	6,599	February 28, 2019	0.1825	5,724
March	March 31, 2020	0.19	6,606	March 29, 2019	0.1825	5,744
April	April 30, 2020	0.19	6,612	April 30, 2019	0.1825	5,877
May	May 29, 2020	0.19	6,621	May 31, 2019	0.1825	5,882
June	June 30, 2020	0.19	6,634	June 28, 2019	0.1825	5,887
July	July 31, 2020	0.19	6,707	July 31, 2019	0.1825	5,890
August	August 31, 2020	0.19	6,715	August 30, 2019	0.19	6,127
September	September 30, 2020	0.19	6,722	September 30, 2019	0.19	6,128
October	October 30, 2020	0.19	6,728	October 31, 2019	0.19	6,583
November	November 30, 2020	0.19	6,732	November 29, 2019	0.19	6,587
December	December 31, 2020	0.19	6,740	December 31, 2019	0.19	6,594
Total		$ 2.28	$ 80,012		$ 2.2275	$ 72,742

Dividends declared for the year ended December 31, 2020, increased over the comparative period because of the increase in the dividend rate per month in the current period. The Corporation increased the monthly dividend rate per share by $0.0075 during the third quarter of 2019 (4% increase) to $2.28 per annum.

The Corporation's Board of Directors have put in place enhanced processes to review the Corporation's dividend payments during the uncertain times brought on by the COVID-19 pandemic. The Board of Directors reviews both short- and long-term cash flow and financial forecasts to assess the Corporation's ability to pay its monthly dividends and fulfill the Corporation's legal requirements with respect to paying dividends. The Corporation is focused on optimizing cash flow while continuing to pay a dividend to shareholders where it is appropriate to do so.

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

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

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

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

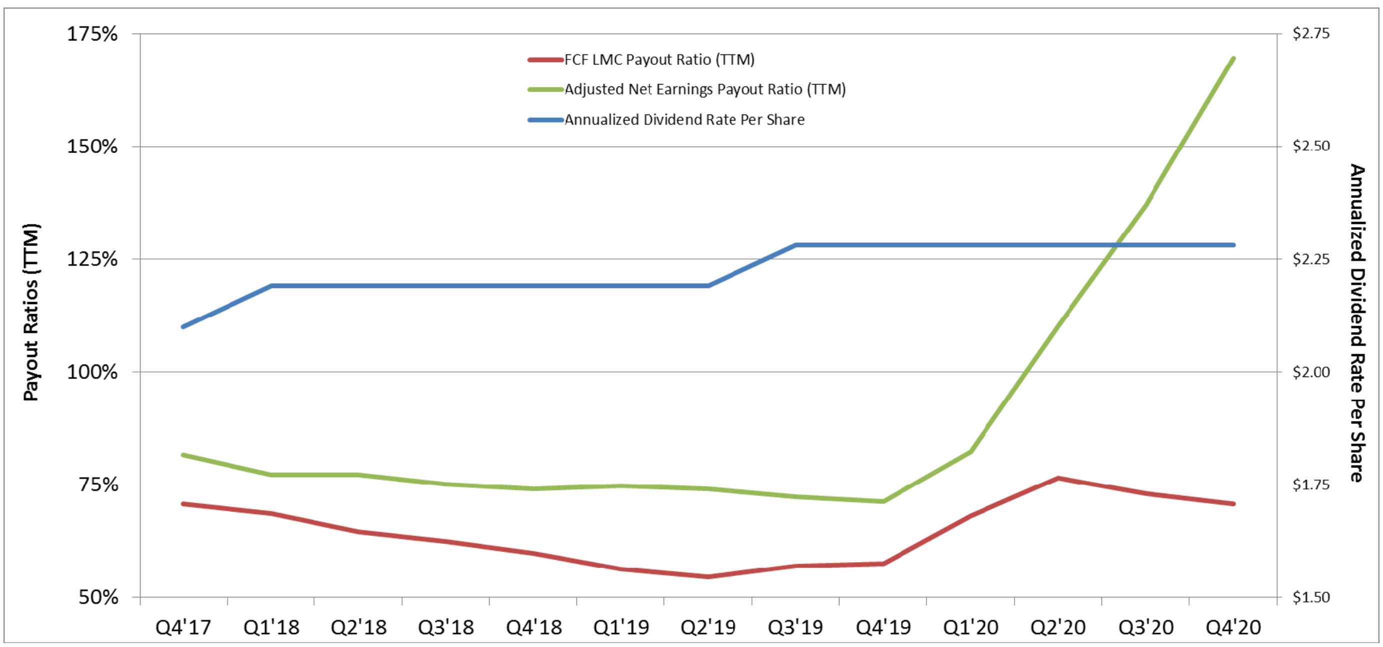
Payout Ratios

Basic per Share Payout Ratios for the Corporation	2020		2019	
Periods Ended December 31	Three Months	Trailing Twelve Months	Three Months	Trailing Twelve Months
Adjusted Net Earnings	*107%*	*169%*	*65%*	*71%*
Free Cash Flow less Maintenance Capital Expenditures	*49%*	*71%*	*52%*	*57%*

The Corporation's payout ratios were impacted by COVID-19, which resulted in both trailing twelve-month payout ratios increasing at December 31, 2020. The Free Cash Flow less Maintenance Capital Expenditures payout ratio increased to 71% at December 31, 2020, from 57% at December 31, 2019. During a global pandemic where passenger volumes initially fell approximately 90%, the Corporation was still able to fund its Maintenance Capital Expenditures, its dividends in full, and have cash flow left over to pay down debt. This has materially exceeded all guidance provided to the market during this time. The Adjusted Net Earnings payout ratio increased over the prior year to 169% from 71%.

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

The graph that follows shows the Corporation's historical Free Cash Flow less Maintenance Capital Expenditures trailing twelve-month payout ratio and Adjusted Net Earnings trailing twelve-month payout ratio on the left axis. On the right axis, the annualized dividend rate per share is shown.



6. OUTLOOK

As the pandemic continues to evolve, the uncertainty and unforeseen circumstances persist. There are many questions that have yet to be answered, which will have a significant impact on our operations. The timing of the vaccine rollout, the availability of rapid testing, the spread of new variants, and the regional and national regulations will all have an impact on each and every one of our operations. Our leaders have positioned their operations to have both flexibility and optionality to respond to this uncertainty; however, it is clear the pandemic will continue to have a major impact on our operations. The best answer to how EIC will perform in this uncertain environment is a look at how we performed in the most uncertain year of all time - the year of the COVID-19 pandemic.

The end of the year provides an opportunity for this reflection. From a financial standpoint, as demonstrated in this report, we concluded the year stronger than going into the year. Since the onset of the pandemic, we were able to pay down debt and invest in our operations, while maintaining our dividend. This financial strength was attributed to our strong Free Cash Flow less Maintenance Capital Expenditures as well as management of our working capital, and highlights both the diversity of our operations and the resiliency of our operators. Certain revenue streams were decimated, but our operators reacted swiftly, managing costs and executing on new opportunities while still delivering vital services. EIC became an industry leader in safety protocols in order to continue to deliver our essential services, while protecting our employees and customers. Too often investors do not appreciate EIC for the distinct nature of its operations. EIC is often lumped in with airlines as a whole, which masks the unique aviation services we provide and the diversity of our operations. The financial results achieved during the pandemic highlight this accomplishment, especially in our ability to pay our dividend while decreasing our debt, both in the same year publicly traded airlines burned through millions of dollars every day.

Cash is king. It speaks to investors and tells a compelling story. However, another metric speaks strongly to other stakeholders: employment. There are headlines daily from airlines, unions, industry associations and others addressing the carnage in the aviation industry, especially in Canada. Hundreds of thousands of jobs have been lost across Canada and there is little encouragement when or if these jobs will return. EIC implemented significant layoffs in the early days of the pandemic as our operators reacted swiftly to the lower demand in certain revenue streams and the uncertainty. However, we are proud that across the entirety of EIC, we have close to the same number of employees at the end of 2020 as we had when the year started. This is no small feat and highlights the diversity and strength of our operations. But an even more significant feat is employment in our Aerospace & Aviation segment, which at the end of the year was within 5% of the levels at the beginning of 2020. While there is still lower employment in certain areas of our operations, a large portion of the decrease in employees from earlier in the year has been recovered. Look at the headlines, consider what EIC has done in our Aerospace & Aviation segment and you will start to understand the uniqueness of our operations. So while the uncertainty is heightened, EIC is confident we will manage through it again.

The rise in COVID-19 infections in the fourth quarter coupled with concerns about new variants of the virus have resulted in an adverse impact on our operations as a whole. New lockdowns, curfews and travel restrictions not only impacted demand, but also operating efficiencies. Within our aviation businesses this has lowered demand for passenger travel and hampered the inflow of foreign students at our flight school. Demand for parts, engines and aircraft at Regional One is also affected as global passenger numbers have declined again. The recent changes with the pandemic have delayed the expected recovery of these markets; however, other areas of our aviation business continue to perform well. We are delivering record levels of cargo into the remote communities we service. Our air operators also have delivered new services, such as moving health care workers into these remote communities through a contract with the Government of Canada, providing COVID-19 evacuation charters, and all our air operators have been part of the vaccine distribution at a provincial and territorial level. Our maritime surveillance operations ended 2020 with a record number of flight hours flown, and this momentum will carry into 2021. Looking past demand, the increasing COVID-19 infections across all geographies has presented operational challenges. Reconfigured manufacturing facilities, less production space, increased sanitization, and social distancing all have led to higher costs and impacted production. Several of our manufacturing facilities are in regions with high infection rates, leading to higher absenteeism and turnover. This not only results in higher costs but also creates challenges meeting production schedules.

For these reasons, the first quarter of 2021 will be a challenging quarter for EIC. In addition to the heightened impact of the current stage of the pandemic, the first quarter is our seasonally slowest quarter of the year and the impact of the virus was only felt for less than one month of the comparable period. The significant impact of the current stage of the pandemic will continue for the short-term, but we are encouraged by positive indicators across our markets as we look further into 2021. Additionally, we expect to see a quicker recovery in our markets than in the general aviation market, similar to the recovery we saw in the summer and into the fall of 2020.

The vaccine has started to be distributed throughout the world. While the timing and speed of the vaccination programs vary greatly by region, we are encouraged this process has started, and that there are multiple vaccines approved. Throughout Canada, remote populations have been deemed a priority and are part of the first stage of the vaccine rollout. As a result of being inoculated these communities will be able to return to normalcy sooner, including travel. Travel in the north is an essential service, as customers travel for medical appointments and services that are not available in their communities. These customers have deferred this travel, so we are expecting a fairly quick rebound in passenger travel compared to the airline industry at large. The other area that has been most impacted by the pandemic is the demand at Regional One. The second wave of the pandemic, the variant concerns, and the resulting regulations have undoubtedly pushed the recovery in overall passenger travel out further. However, Regional One is seeing their customers prepare for increased flying. They are increasing their readiness by starting pilot training, making inquiries for parts packages, and initiating fleet discussions. Regional One's business is focused on smaller, regional aircraft. The demand for smaller jets should increase faster than larger jets, as airlines seek to utilize the smaller jets to match market demand. Furthermore, many of the airlines' financial condition have deteriorated during the pandemic, resulting in airlines carrying less inventory and lowering their ability to purchase aircraft, which should help to drive demand for Regional One's parts and leasing services. Although demand is expected to be soft in the first quarter based on the state of the pandemic, we see optimism in our operations as the year progresses.

The vaccine rollout will also help our Manufacturing segment to address increased absenteeism and the resulting production challenges. Demand throughout most of our Manufacturing segment has remained strong throughout the pandemic. Positive developments, such as the rollout of 5G and higher spending on capital projects in the US post-election should drive further demand. The area of demand that has been most impacted by COVID-19 is at Quest. Construction projects' schedules have been stretched to deal with the health protocols in different regions and therefore, the start of jobs have been delayed. This will lead to production gaps and lower revenue for Quest in 2021, as it is not possible to backfill these holes in the production cycle given the long lead times on these projects. Long-term demand is strong for high rise residential buildings; however this timing issue will have a negative impact on revenues in 2021.

Despite the remarkable challenges of 2020, EIC was still able to strategically grow in 2020. We closed the acquisition of WIS in the third quarter, were awarded a ten year ISR contract in the Netherlands, completed the modification of the aircraft for the DFO contract, added Q400 aircraft to our fleet to meet larger capacity demands, and added EMS rotary wing aircraft to expand our medevac capabilities, to name a few. These successes support our industry leading position and will lead to growth in 2021 and beyond. We also laid the ground-work for further success, with a bid for the Royal Malaysia Air Force Maritime Patrol Aircraft Program in December and the announcement that we had teamed with SkyAlyne to pursue the upcoming bid for the Royal Canadian Air Force's Future Aircrew Training bid. Our companies are leaders, we support their entrepreneurial spirit and they have responded to the challenges of 2020 by both meeting the immediate needs of our customers and employees, while strategically growing their operations through long-term decision making.

2021 will undoubtedly be another challenging year. Given the current pandemic environment, we expect it to start slow. Gains will be made throughout the year as a greater portion of the population is inoculated and a large portion of our airline operations will benefit from priority vaccine rollouts in remote regions. There will undoubtedly be unforeseen challenges, but our history shows we can deal with these challenges. In fact, it shows we can thrive in this environment and create new opportunities.

Capital Expenditures

Maintenance Capital Expenditures are necessary to maintain the earning power of our subsidiaries. Maintenance Capital Expenditures had increased in line with the increased scope of our operations over the last number of years. As we experienced a decrease in our flight hours as a result of COVID-19 in 2020, required Maintenance Capital Expenditures reduced to match the level of flying. This resulted in much lower Maintenance Capital Expenditures in the last nine months of 2020 than experienced in 2019. This lower level of Maintenance Capital Expenditures is expected to persist into 2021 and will gradually increase as our flight hours increase. Compared to the fourth quarter of 2020, Maintenance Capital Expenditures will increase in the first quarter of 2021 as we will still perform a greater portion of our maintenance in the seasonally slower first quarter.

Growth Capital Expenditures in future periods will focus on the new Netherlands ISR contract and a new hangar in Winnipeg for the FWSAR contract. The modifications to aircraft for the Netherlands contract started in the fourth quarter of 2020 and will be finished in the second quarter of 2022. The construction on the new hangar for FWSAR will start in 2021.

As discussed in the last quarterly report, Regional One's leased aircraft are not flying as much as a result of COVID-19. Therefore, the green time is not being consumed on these aircraft. As a result, the actual capital expenditures on assets already owned has been used as the costs of maintaining the fleet starting in the second quarter of 2020. This will continue until such time as the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures.

A key tenet to EIC's business model is to continue to invest in our subsidiaries. As such, EIC will continue to assess prospects to grow through additional investment as opportunities are developed by our subsidiaries throughout the year. Regional One is the most fluid example as their business opportunities can arise and be acted upon in short order, as has been demonstrated in years past. The current environment is creating interesting opportunities for Regional One's leadership team with EIC's ability to support them with capital. Regional One's ability to be opportunistic is a key aspect of their business model and our long-term investment strategy.

7. LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position, Free Cash Flow, and capital resources remain strong and the Corporation has no long-term debt coming due until December 2022. A strong balance sheet, enhanced with the Corporation's equity offering during the fourth quarter of 2019 combined with the recent changes to the credit facility, have increased the Corporation's access to capital to make acquisitions, invest in its operating subsidiaries, and provides the ability to weather economic downturns.

Since the onset of COVID-19, the Corporation has taken several steps to manage its liquidity through the crisis and continued to execute on the plans put in place earlier in the year. The Corporation's diligent management of both capital expenditures and working capital has left the Corporation in an excellent position. Since the onset of the pandemic, the Corporation has generated sufficient cash flow to cover its Maintenance Capital Expenditures, its dividend to shareholders, and all Growth Capital Expenditures, which will contribute to future growth in Free Cash Flow. Working capital over that period generated $37.3 million in cash for the Corporation, showing that working capital investments in prior periods were required to support increased revenues and as revenues decreased, so did working capital requirements. The combination of Free Cash Flow in excess of all capital expenditures, dividends, cash inflow from working capital, and the impact of foreign exchange resulted in a reduction of debt, net of cash, since March 31, 2020, of $52.4 million, even after the $51.0 million cash consideration for the acquisition of WIS during the third quarter. During a pandemic, the Corporation invested in the future, both through Growth Capital Expenditures and the acquisition of WIS, paid its dividend, and reduced its debt, net of cash, in the process. This is in stark contrast to other entities with exposure to the airline industry and speaks volumes to the effectiveness of EIC's diversified operations and balance sheet management during even the most trying business environments.

The Corporation took several steps to ensure it had the liquidity required during the uncertain economic times created by the COVID-19 pandemic. In a period of worldwide uncertainty, like many other large corporations, EIC made a draw on its credit facility to ensure access to capital should it be required without an imminent need for the cash in the first quarter. The Corporation did not expect a material cash burn and the draw was simply a precautionary measure. Throughout the remainder of the year, the Corporation made several repayments on its credit facility. In addition, the Corporation took several other steps to help manage its liquidity during the COVID-19 pandemic. These actions have included workforce rationalization, compensation reductions, delays in non-essential capital expenditures, route adjustments, and the Corporation availing itself of the CEWS.

At December 31, 2020, the Corporation's key financial covenant for its credit facility is its senior leverage ratio, and its facility allows for a maximum of 5.0x. The Corporation's leverage ratio has increased as a result of the reduction in EBITDA compared to 2019 due to the impact of COVID-19. During the third quarter, the Corporation amended its credit facility to increase its allowable senior leverage ratio to from 4.0x to 5.0x for the quarters ending December 31, 2020, through September 30, 2021. The Corporation does not, at this time, expect to require covenant relief but sought temporary waivers as a precautionary measure. Inclusive of all announcements to date, EIC expects to be within its original 4.0x covenant and is currently at 2.69x. Consistent with EIC's historical balance sheet management, the Corporation was proactive in managing its liquidity so that should an opportunity present itself, EIC is able to execute where others may not be able. Going forward, the increased covenant provides the Corporation the flexibility to draw additional capital to take advantage of opportunities as they are uncovered.

At December 31, 2020, the Corporation has liquidity of approximately $860 million through cash on hand, its credit facility, and the credit facility accordion feature, which when combined with no expected material cash burn, puts the Corporation in a very strong liquidity position. The Corporation has started making investments in the fourth quarter of 2020 for its ISR contract award with the Netherlands Coast Guard and these investments will continue in 2021.

As at December 31, 2020, the Corporation had a cash position of $69.9 million (December 31, 2019 - $22.1 million) and a net working capital position of $323.6 million (December 31, 2019 - $307.9 million) which represents a current ratio of 2.10 to 1 (December 31, 2019 – 2.10 to 1). Working capital increased as a result of funds drawn on the Corporation's credit facility to hold in cash during these uncertain economic times and the acquisition of WIS. The draw made during the first quarter was mostly repaid during the subsequent quarters. Partially offsetting the increased cash balance is a significant reduction in working capital during the period, including a reduction in Accounts Receivable during 2020.

<u>Overview of Capital Structure</u>

The Corporation's capital structure is summarized below.

	December 31 2020	December 31 2019
Total senior debt outstanding (principal value)	$ 797,444	$ 723,049
Convertible debentures outstanding (par value)	335,725	335,725
Common shares	731,343	709,546
Total capital	$ 1,864,512	$ 1,768,320

<u>Credit facility</u>

The size of the Corporation's credit facility as at December 31, 2020, is approximately $1.3 billion, with $1.1 billion allocated to the Corporation's Canadian head office and US $150 million allocated to EIIF Management USA, Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of December 31, 2020, the Corporation had drawn $190.0 million and US $477.1 million (December 31, 2019 - $211.9 million and US $393.6 million).

The Corporation's long-term debt, net of cash, increased by $26.8 million since December 31, 2019. The increase is attributable to the acquisition of WIS during the third quarter of 2020 and was partially offset by cash flow generated during the year. In addition, the strengthening of the Canadian dollar since December 31, 2019, decreased the Canadian converted amount of its US dollar long-term debt outstanding.

During the period, the Corporation used derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same term unless both parties agree to extend the swap for an additional month. By entering into the swap, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the US dollar borrowings as it will be exchanged for the same Canadian equivalent in one month. At December 31, 2020, US $257.2 million (December 31, 2019 – US $187.8 million) of the Corporation's US denominated borrowings are hedged with these swaps.

During the second quarter, the Corporation amended its interest rate swap with members of its lending syndicate. The amendment reduced the effective fixed interest rate under the swap and extended the maturity of the swap to May 15, 2024.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at December 31, 2020, and changes in the amounts of convertible debentures outstanding during the year ended December 31, 2020:

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

Par value	Balance, beginning of year	Issued	Converted	Redeemed / Matured	Balance, end of year
Unsecured Debentures - June 2016	$ 68,975	$ -	$ -	$ -	$ 68,975
Unsecured Debentures - December 2017	100,000	-	-	-	100,000
Unsecured Debentures - June 2018	80,500	-	-	-	80,500
Unsecured Debentures - March 2019	86,250	-	-	-	86,250
Total	$ 335,725	$ -	$ -	$ -	$ 335,725

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the year ended December 31, 2020:

	Date issued	Number of shares
Shares outstanding, beginning of year		34,703,237
Issued under dividend reinvestment plan (DRIP)	various	319,265
Issued under employee share purchase plan	various	69,654
Issued under deferred share plan	various	30,618
Issued to Window Installation Specialists, Inc. vendor on closing	July 31, 2020	346,945
Issued under First Nations community partnership agreements	November 2, 2020	2,039
Shares outstanding, end of year		35,471,758

The Corporation issued 319,265 shares under its dividend reinvestment plan during the period and received $9.4 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued 69,654 shares under its Employee Share Purchase Plan during the period and received $2.3 million for those shares in accordance with the Employee Share Purchase Plan.

On July 31, 2020, the Corporation issued 346,945 shares with a value of $9.4 million to the vendor of WIS.

The weighted average shares outstanding during the three and twelve months ended December 31, 2020, increased by 4% and 8%, respectively, compared to the prior period. The increase is attributable to debentures that have converted into shares during the first half of 2019, shares issued for the Corporation's October 2019 common share offering, and shares issued in connection with the acquisitions of LV Control, AWI, and WIS. The increase is partially offset by shares repurchased and cancelled under the Corporation's NCIB throughout 2019.

Normal Course Issuer Bid

On February 19, 2020, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,736,542 shares, representing 5% of the issued and outstanding shares as at February 14, 2020. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on February 22, 2020, and ending on February 21, 2021. The maximum number of shares that can be purchased by the Corporation daily is limited to 27,411 shares, other than block purchase exemptions.

During the twelve months ended December 31, 2020, the Corporation did not make any purchases under its NCIB and therefore still has the full 1,736,542 shares available for repurchase.

The Corporation sought renewal of the NCIB because it believes that, from time to time, the market price of its shares may not fully reflect the value of the shares. The Corporation believes that, in such circumstances, the purchase of shares represents an accretive use of capital. During the uncertain times created by the COVID-19 pandemic, the Corporation has chosen to conservatively manage its liquidity and not make purchases under the NCIB despite the volatility in the Corporation's common shares. Management's intention is to renew the NCIB annually as part of normal course and plans to apply for a renewal of its NCIB when the current NCIB expires on February 21, 2021.

Schedule of Financial Commitments

The following are the financial commitments of the Corporation and its subsidiaries at December 31, 2020:

	Total	Less Than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	$ 797,444	$ -	$ 797,444	$ -
Convertible debentures (par value)	335,725		249,475	86,250
Lease payments excluded from right of use lease liability	6,143	2,399	3,118	626
Right of use lease liability payments (undiscounted value)	111,092	25,646	45,614	39,832
	$ 1,250,404	$ 28,045	$ 1,095,651	$ 126,708

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. These leases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. The Corporation's head office relocated in December 2019 to a premise not controlled by a director of the Corporation. Therefore, there are no related party lease costs for the head office of the Corporation in 2020. The total costs incurred in 2020 for related party leases was $3.9 million (2019 – $3.9 million) and the lease term maturities range from 2021 to 2028.

Key Management Compensation

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

Compensation expensed for key management during the 2020 year and the comparative 2019 year is detailed in the table below. Share based compensation vests over a period of up to three years and is expensed over that period.

Year ended December 31,	2020	2019
Salaries and short-term benefits	$ 3,372	$ 4,967
Share-based compensation expense	3,902	4,107
	$ 7,274	$ 9,074

Co-investments with CRJ Capital Corp.

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

During 2020, CRJ Capital Corp. invested US $1.8 million (2019 - US $4.0 million), generating returns paid or payable to CRJ Capital Corp. of US $2.1 million (2019 - US $0.3 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, 2020, was US $11.5 million (December 31, 2019 - US $13.5 million). At December 31, 2020, US $0.5 million is recorded as accounts payable due to CRJ Capital Corp. (December 31, 2019 - US $0.2 million accounts payable to CRJ Capital Corp.).

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Accounting Estimates

Business Combinations

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

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

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, order backlog, certifications, software intellectual property ("IP"), and trade names. To determine the fair value of 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 uses the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates, and anticipated average income tax rates.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the year, the estimated liability for additional purchase consideration associated with Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $0.2 million (2019 – $10.6 million) and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

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

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

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

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

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

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans, and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation or amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2020, would result in an increase of approximately $7.2 million (2019 - $6.0 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.

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

Intangible Assets

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

In light of the COVID-19 pandemic and the state of the oil and gas industry, management used a discounted cash flow model to assess the recoverability of the indefinite lived intangible assets at the Corporation's subsidiaries exposed to this sector in the first quarter of 2020. The unprecedented drop in oil prices exacerbated by a decrease in demand due to the COVID-19 pandemic has caused many companies to delay or cancel large capital projects. Therefore, the demand for products provided by the Corporation's operations in Alberta is expected to be depressed for an extended period of time. As a result of the assessment, the Corporation recorded a $6,117 impairment charge against intangible assets during the first quarter of 2020.

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

The Corporation has concluded that, besides the impairment identified above, there are no impairments of its indefinite lived intangible assets as a result of this assessment as at December 31, 2020.

Goodwill

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

The Corporation used its forecasted EBITDA based on its approved budget and used its best estimate of market participant EBITDA multiples (Level 3 within the fair value hierarchy). The EBITDA multiple used for the Aerospace & Aviation segment was 8.0x (2019 – 8.0x) and was 7.5x (2019 – 7.5x) for the Manufacturing segment. The Corporation will, at times, perform various scenario and sensitivity analysis when calculating the recoverable amounts of CGUs which may include alternative models and assumptions.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2020.

Deferred Income Taxes

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

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

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

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

10. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for years ended December 31, 2020, and 2019 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation’s 2020 consolidated financial statements.

11. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design and operating effectiveness of the Corporation’s internal controls over financial reporting as at December 31, 2020, and has concluded that the internal controls over financial reporting are effective.

WIS was acquired on July 31, 2020. 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 WIS. WIS had revenue of $40.0 million included in the consolidated results of the Corporation for the period ended December 31, 2020. As at December 31, 2020, it had current assets of $31.1 million, non-current assets of $53.2 million, current liabilities of $12.5 million, and non-current liabilities of $0.4 million.

There have been no other material changes to the Corporation's internal controls during the 2020 year that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were effective as at December 31, 2020.

12. RISK FACTORS

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

RISK GOVERNANCE

The Corporation maintains a formalized framework whereby it applies an ongoing systematic approach to managing conditions of uncertainty by applying policies, procedures, or practices in the analysis, evaluation, control, and communication of its key risks. This Enterprise Risk Management ("ERM") framework is a top-down driven initiative that strives to promote a culture of risk awareness and where possible, integrates risk management into strategic, financial, and operational objectives from the head office level through to its Subsidiaries. This ongoing process includes an assessment of current risk exposures, risk mitigation activities currently in place to address such exposures, and additional risk mitigation activities to consider going forward. Furthermore, any new risks are discussed and appropriately addressed at such time.

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

COVID-19 RELATED RISKS

In late 2019, a novel strain of coronavirus known as COVID-19 emerged in China, and subsequently spread around the world, disrupting economic, social, and political landscapes. COVID-19 was declared a worldwide pandemic by the World Health Organization on March 11, 2020. Both the duration of this pandemic and the continued extent of its impacts are currently uncertain with respect to broader global implications and on the Corporation's operations. Several restrictive measures have been taken by governments and organizations around the world in an effort to mitigate the spread and slow the speed of transmission of the COVID-19 virus. These measures have had a direct impact on the Corporation by disrupting or suspending certain of its operations. This resulted in reductions in cash flows from operations despite the mitigation measures taken by the Corporation.

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

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

External

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

Operational

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

Financial

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

Human Capital

- Loss of key leadership personnel at either the Corporation's head office level or Subsidiary level, whether it be through contracting the virus or observing emergency response measures, could impact the strategic direction of the business in the short-term.
- The restrictive measures to slow the spread of the COVID-19 outbreak that have been implemented, or recommended, by various federal, provincial, state and local governmental authorities could have a direct impact on employees' continued ability to work.
- Increased labour-related matters could result from having to maintain alignment in labour agreements and laws with COVID-19 protocols.

KEY RISKS

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 Sales Prices of Aviation Related Assets • Fluctuations in Purchase Prices of Aviation Related Assets • Warranty Risk • Global Offset Risk • Intellectual Property Risk
Financial	• Availability of Future Financing • Income Tax Matters • Commodity Risk • Foreign Exchange • Interest Rates • Credit Facility and the Trust Indentures • Dividends • Unpredictability and Volatility of Securities Pricing • Dilution Risk • Credit Risk
Human Capital	• Reliance on Key Personnel • Employees and Labour Relations • Conflicts of Interest

EXTERNAL RISKS:

Economic and Geopolitical Conditions

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

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

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

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

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

Competition

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

The airline Subsidiaries currently focus on niche markets in Manitoba, Ontario, Nunavut, Newfoundland and Labrador, Quebec, Nova Scotia, 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 decreased need, and decreased revenues to Provincial, for its customization business.

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

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

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

Government Funding for First Nations Health Care

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

Access to Capital

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

Market Trends and Innovation

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

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

General Uninsured Loss

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

Climate

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

Acts of Terrorism

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

Pandemic

The spread of contagious disease could have a significant impact on passenger demand for air travel, cause shortages of employees to staff the Corporation's facilities, interrupt supplies from third parties upon which the Corporation relies, and ultimately, its ability to continue full operations. The spread of contagious disease, depending on the severity, could also impact supply chains around the world and could negatively impact the Corporation's ability to access inputs required for its operations. The Corporation can never predict the likelihood of a pandemic event occurring nor the impact it could have on operations. A pandemic could have a significant impact on the Corporation's business, results from operations and financial condition.

Level and Timing of Defence Spending

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

Government-Funded Defence and Security Programs

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

OPERATIONAL RISKS:

Significant Contracts and Customers

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

The loss of any one of these significant contracts or customers could have a negative impact on the operations and cash flow of the Corporation.

Operational Performance and Growth

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

Laws, Regulations, and Standards

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

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

Transport Canada further issued interim orders throughout 2020, which extend into 2021, outlining COVID-19 industry requirements for ensuring both aviation and public safety. The interim orders included the completion of passenger health checks and temperature screening, the requirement to wear face masks, and aircraft deplaning protocols. EIC Aviation companies continue as industry leaders in ensuring the safety of the travelling public and monitoring for impacts of such changes on operations.

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

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

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

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

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

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

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

Certain of our subsidiaries regularly engage in business transactions with US-based suppliers and customers. The United States-Mexico-Canada Agreement was officially enacted on July 1, 2020, replacing the previous North American Free Trade Agreement. Among the possible risks are the possibilities of new tariffs, the increased difficulty associated with the movement of goods and people across the border, and changes to access to work permits by employees. Furthermore, such events can have a more pervasive impact on our risk position by influencing variables within other key risks (e.g. select commodities, interest rates, etc.). This could negatively impact the operations and financial condition of our Subsidiaries.

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

Acquisition Risk

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

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

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

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

Concentration and Diversification Risk

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

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

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

Maintenance Costs

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

Access to Parts and Relationships with Key Suppliers

The Subsidiaries are at times dependent on the continued efficient supply of component parts, fuel, and raw materials from various suppliers. Any shortage of supply 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 actions, penalties, and/or claims against the Subsidiaries.

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

Dependence on Information Systems and Technology

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

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

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

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

International Operations Risks

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

- military conflicts, civil strife, and political risks;
- export regulations that could erode profit margins or restrict exports;
- compliance with applicable anti-bribery laws;
- the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;
- contract award and funding delays;
- potential restrictions on transfers of funds;

- import and export duties and value-added taxes;
- foreign exchange risk;
- transportation delays and interruptions;
- uncertainties arising from foreign local business practices and cultural considerations; and
- travel restrictions.

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

Fluctuations in Sales Prices of Aviation Related Assets

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

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

Fluctuations in Purchase Prices of Aviation Related Assets

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

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

Warranty Risk

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

Global Offset Risk

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

Intellectual Property Risk

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

FINANCIAL RISKS:

Availability of Future Financing

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

Income Tax Matters

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

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

Commodity Risk

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

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

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

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

Foreign Exchange

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

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

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

Interest Rates

As at December 31, 2020, 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 $6.3 million pre-tax (ignoring the impact of changes in foreign exchange rates) per annum for the credit facility based on the amounts outstanding as at December 31, 2020. The terms of the credit facility allow for the Corporation to choose the base interest rate between prime, bankers' acceptances, or London Inter-Bank Offer Rate (LIBOR). The Corporation manages the base rate used on the outstanding facility and seeks financing terms in individual arrangements that are most advantageous. The Corporation considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps on a portion of its debt to manage this risk. The Corporation's outstanding debentures have fixed interest rates that are not affected by changes in rates.

Credit Facility and the Trust Indentures

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

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

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

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

Dividends

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

Unpredictability and Volatility of Securities Pricing

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

Dilution Risk

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

Credit Risk

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

HUMAN CAPITAL RISKS:

Reliance on Key Personnel

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

Employees and Labour Relations

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

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

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

Conflicts of Interest

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

13. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

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

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

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

Maintenance and Growth Capital Expenditures: Maintenance Capital Expenditures is defined as the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and, prior to the onset of COVID-19, depreciation recorded on assets in the Corporation's leasing pool. Other capital expenditures are classified as Growth Capital Expenditures as they will generate new cash flows and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

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

Regional One's purchases of operating aircraft within its lease portfolio are capital expenditures and, prior to the onset of COVID-19, the process used to classify those expenditures as either growth or maintenance is based on the depreciation of that portfolio. Aircraft that are leased to third parties are being consumed over time, therefore reinvestment is necessary to maintain the ability to generate future cash flows at existing levels. This depletion of the remaining green time of these aircraft was historically represented by depreciation. For the first quarter of 2020, and in the comparative periods, an amount equal to Regional One's depreciation is included in the Corporation's consolidated Maintenance Capital Expenditures. Only net capital expenditures more than depreciation are classified as Growth Capital Expenditures. If there were no purchases of capital assets during the period by Regional One, Maintenance Capital Expenditures would still be equal to depreciation recorded on its leased assets and Growth Capital Expenditures would be negative, representing the depletion of potential future earnings and cash flows. The aggregate of Maintenance and Growth Capital Expenditures always equals the actual cash spent on capital assets during the period. This ensures that the payout ratio reflects the necessary replacement of Regional One's leased assets.

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

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

Investors are cautioned that 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 2018 through to 2020.

		2020		2019		2018
Revenues	$	1,149,629	$	1,341,374	$	1,203,392
Expenses(1)		865,094		1,012,561		925,627
EBITDA	$	284,535	$	328,813	$	277,765
Total non-operating expense		256,480		245,177		206,996
Net Earnings	$	28,055	$	83,636	$	70,769
Net Earnings per share						
Basic	$	0.80	$	2.58	$	2.25
Diluted		0.78		2.49		2.18
Adjusted Net Earnings	$	47,176	$	102,127	$	92,360
Basic		1.35		3.15		2.94
Diluted		1.31		2.97		2.80
Dividends declared	$	80,012	$	72,742	$	68,460
Per share		2.28		2.2275		2.175
Free Cash Flow	$	198,400	$	245,772	$	223,363
Per share basic		5.66		7.58		7.10
Per share fully diluted		5.03		6.55		6.22
Free Cash Flow less Maintenance Capital Expenditures	$	113,331	$	126,075	$	114,367
Per share basic		3.23		3.89		3.64
Per share fully diluted		2.94		3.48		3.38
Financial Position						
Working capital	$	323,625	$	307,912	$	301,141
Total assets		2,294,184		2,266,557		1,957,298
Total long-term liabilities(2)		1,215,245		1,153,905		1,013,635
Total liabilities		1,608,238		1,536,714		1,340,051
Share Information						
Common shares outstanding as at December 31,		35,471,758		34,703,237		31,316,006
Weighted average common shares outstanding during the year - basic		35,048,953		32,437,022		31,457,420

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 excludes any unusual non-operating one-time items.

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

The following summary reflects quarterly results of the Corporation:

	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 (1) Q4	2019 (1) Q3	2019 (1) Q2	2019 (1) Q1	2018 Q4
Revenue	$ 301,710	$ 297,286	$ 243,657	$ 306,976	$ 363,287	$ 355,164	$ 325,907	$ 297,016	$ 315,737
EBITDA	81,971	83,235	62,075	57,254	88,748	89,002	87,237	63,826	69,507
Net Earnings	13,479	17,244	2,630	(5,298)	25,283	28,990	21,875	7,488	18,446
Basic	0.38	0.49	0.08	(0.15)	0.74	0.90	0.68	0.24	0.59
Diluted	0.37	0.48	0.07	(0.15)	0.71	0.83	0.65	0.23	0.57
Adjusted Net Earnings	18,847	20,626	5,645	2,058	29,757	33,073	26,573	12,724	24,670
Basic	0.53	0.59	0.16	0.06	0.88	1.03	0.83	0.41	0.79
Diluted	0.52	0.57	0.16	0.06	0.81	0.93	0.78	0.40	0.75
Free Cash Flow ("FCF")	59,497	57,886	42,268	38,749	68,631	67,166	65,729	44,246	59,763
Basic	1.68	1.64	1.21	1.12	2.02	2.08	2.05	1.41	1.91
Diluted	1.48	1.45	1.09	1.01	1.75	1.78	1.75	1.25	1.66
FCF less Maintenance Capital Expenditures	41,270	44,350	25,412	2,299	36,935	36,885	34,533	17,722	33,743
Basic	1.17	1.26	0.73	0.07	1.09	1.14	1.08	0.57	1.08
Diluted	1.05	1.23	0.71	0.06	0.99	1.03	0.97	0.55	0.98
Maintenance Capital Expenditures	18,227	13,536	16,856	36,450	31,696	30,281	31,196	26,524	26,020
Growth Capital Expenditures	14,434	6,807	12,301	14,381	29,790	32,060	16,392	41,082	31,578

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

ADDITIONAL INFORMATION

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

Independent auditor's report

To the Shareholders of Exchange Income Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Exchange Income Corporation and its subsidiaries (together, the Corporation) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Cost of sales recognition – Regional One's aviation parts for resale

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

The Corporation's aviation parts for resale inventories carrying value was $141.2 million as at December 31, 2020. A portion of the $82.3 million of inventories expensed and recorded within aerospace and aviation expenses - excluding depreciation and amortization of related to the Corporation's aviation parts for resale cost of sales for the year ended December 31, 2020. In the normal course of the Corporation's business, it may acquire entire aircraft or components of an aircraft for breakdown into saleable parts.

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

We considered this a key audit matter due to the magnitude of the matter and significant judgment applied by management when developing the average cost to sale percentage estimate. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating evidence relating to the determination of the expected selling price. The audit effort involved the use of professionals with specialized skill and knowledge.

</td><td>

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

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

</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – Estimated costs to complete long-term construction contracts at AWI, Provincial, Stainless and WesTower for uncompleted contracts as at year-end *Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates and judgments and note 17 – Construction contracts to the consolidated financial statements* The Corporation recognized revenue of $370.9 million from uncompleted long-term construction contracts for the year ended December 31, 2020 related to revenue recognized over time, including revenue from long-term construction contracts at Advanced Window Specialists, Inc. (AWI), Provincial Aerospace Ltd. (Provincial), Stainless Fabrication Inc. (Stainless) and WesTower Communications Ltd. (WesTower). For AWI, Provincial, Stainless and WesTower, revenue is recognized over time using an input-based measure such as the ratio of actual costs incurred to date over estimated total costs. Management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material and subcontracting costs, as applicable. We considered this a key audit matter due to the significant judgment applied by management in determining the estimated costs to complete long-term construction contracts. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the estimated costs to complete these long-term construction contracts at AWI, Provincial, Stainless and WesTower for uncompleted contracts as at year-end, which included the following: - Evaluated the appropriateness of management's input-based method and tested the mathematical accuracy of the ratio of actual costs incurred to date over estimated total costs at completion. - Tested the underlying data used by management in the input-based method. - For a sample of uncompleted long-term construction contracts at the beginning of the year, performed look-back procedures and compared the originally estimated costs to actual costs incurred on similar completed contracts. - For a sample of uncompleted long-term construction contracts as at year-end, evaluated the reasonableness of significant assumptions used by management with respect to estimated labour costs, material and subcontracting costs by: o Testing the estimated costs to complete by comparing the costs initially budgeted for the completed phases of the contracts to the actual costs incurred for those phases; and o Inquiring with management, including project managers, regarding the status of contracts and the estimates of costs to complete.

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of indefinite life intangible assets – Water Blast and Water Blast North Dakota brand names
 	
Refer to note 3 − Significant accounting policies, note 5 − Critical accounting estimates and judgments, and note 11 − Intangible assets and goodwill to the consolidated financial statements.
 	
At December 31, 2019, the Water Blast and Water Blast North Dakota brand names represented $6.1 million of the Corporation's indefinite life intangible assets. Indefinite life intangible assets are included in the related cash-generating unit (CGU) and are tested for impairment annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable. Management assesses the impairment of indefinite life intangible assets by comparing the carrying amount of each CGU to its recoverable amount. The recoverable amounts of the CGUs were based on value in use using a discounted cash flow model. Management applied significant judgment in estimating the recoverable amounts of the Water Blast and Water Blast North Dakota CGUs, which included the use of significant assumptions with respect to future growth rates and discount rates.
 	
For the year ended December 31, 2020 management recorded an impairment charge of $6.1 million against the Water Blast and Water Blast North Dakota brand names.
 	
We considered this a key audit matter due to the significant judgment applied by management when developing the recoverable amount estimates of the Water Blast and Water Blast North Dakota CGUs. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and in evaluating audit evidence relating to the significant assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge.
	Our approach to addressing the matter included the following procedures, among others:
	
	Tested how management developed the recoverable amount estimates for the Water Blast and Water Blast North Dakota CGUs, which included the following:
	
	- Evaluated the appropriateness of and tested the mathematical accuracy of management's discounted cash flow models.
	- Tested the underlying data used in management's discounted cash flow models.
	- Evaluated the reasonableness of management's significant assumptions related to future growth rates by:
	    o considering the current and past performance of the Water Blast and Water Blast North Dakota CGUs;
	    o considering consistency with external market and industry data; and
	    o considering consistency with evidence obtained in other areas of the audit.
	
	- Professionals with specialized skill and knowledge were used to assist in the evaluation of management's discounted cash flow models and the discount rate assumptions.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
February 17, 2021

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at		December 31 2020		December 31 2019
ASSETS				
CURRENT				
Cash and cash equivalents	$	69,862	$	22,055
Accounts receivable		263,885		281,856
Amounts due from customers on construction contracts (Note 17)		21,372		26,698
Inventory (Note 7)		235,870		224,876
Prepaid expenses and deposits		27,967		31,185
Income taxes receivable		-		1,569
		618,956		588,239
OTHER ASSETS (Note 8)		75,347		80,201
CAPITAL ASSETS (Note 9)		950,037		965,018
RIGHT OF USE ASSETS (Note 10)		90,483		108,677
INTANGIBLE ASSETS (Note 11)		161,772		164,658
GOODWILL (Note 11)		397,589		359,764
	$	2,294,184	$	2,266,557
LIABILITIES				
CURRENT				
Accounts payable and accrued expenses	$	214,504	$	210,496
Income taxes payable		5,253		-
Deferred revenue		27,973		31,704
Amounts due to customers on construction contracts (Note 17)		24,997		14,847
Current portion of right of use lease liability (Note 10)		22,604		23,280
		295,331		280,327
LONG-TERM DEBT (Note 12)		794,194		719,559
OTHER LONG-TERM LIABILITIES		31,427		33,173
LONG-TERM RIGHT OF USE LEASE LIABILITY (Note 10)		73,794		90,575
CONVERTIBLE DEBENTURES (Note 13)		315,830		310,598
DEFERRED INCOME TAX LIABILITY (Note 26)		97,662		102,482
		1,608,238		1,536,714
EQUITY				
SHARE CAPITAL (Note 14)		731,343		709,546
CONVERTIBLE DEBENTURES - Equity Component (Note 13)		13,214		13,214
CONTRIBUTED SURPLUS		9,837		9,837
DEFERRED SHARE PLAN		16,893		15,854
RETAINED EARNINGS				
Cumulative Earnings		499,624		471,569
Cumulative Dividends (Note 15)		(576,932)		(496,920)
Cumulative impact of share cancellation under the NCIB (Note 14)		(26,122)		(26,122)
		(103,430)		(51,473)
ACCUMULATED OTHER COMPREHENSIVE INCOME		18,089		32,865
		685,946		729,843
	$	2,294,184	$	2,266,557

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

Approved on behalf of the directors by:

Duncan Jessiman, Director

Signed

Donald Streuber, Director

Signed

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF INCOME

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

For the years ended December 31		2020		2019
REVENUE				
Aerospace & Aviation	$	687,321	$	974,739
Manufacturing		462,308		366,635
		1,149,629		1,341,374
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		372,250		544,243
Manufacturing expenses - excluding depreciation and amortization		320,703		264,151
General and administrative		172,141		204,167
		865,094		1,012,561
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		284,535		328,813
Depreciation of capital assets (Note 9)		139,898		129,328
Amortization of intangible assets (Note 11)		17,573		18,196
Finance costs - interest		47,000		54,020
Depreciation of right of use assets (Note 10)		25,374		22,501
Interest expense on right of use lease liabilities		3,934		4,500
Acquisition costs		1,816		5,046
Impairment loss (Note 5)		6,117		-
Other (Note 5)		(177)		(10,624)
EARNINGS BEFORE INCOME TAXES		43,000		105,846
INCOME TAX EXPENSE (RECOVERY) (Note 26)				
Current		17,007		11,790
Deferred		(2,062)		10,420
		14,945		22,210
NET EARNINGS	$	28,055	$	83,636
NET EARNINGS PER SHARE (Note 18)				
Basic	$	0.80	$	2.58
Diluted	$	0.78	$	2.49

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		2020		2019
NET EARNINGS	$	28,055	$	83,636
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax recovery of $(8) and $(19), respectively.		(11,595)		(29,660)
Net gain (loss) on hedge of net investment in foreign operations, net of tax expense of nil and nil, respectively.		2,972		9,775
Net gain (loss) on hedge of restricted share plan, net of tax expense (recovery) of $(273) and $230, respectively.		(740)		625
Net gain (loss) on interest rate swap, net of tax expense (recovery) of $(2,002) and $2, respectively.		(5,413)		6
		(14,776)		(19,254)
COMPREHENSIVE INCOME	$	13,279	$	64,382

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

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)

	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Retained Earnings: Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2019	$ 588,498	$ 11,954	$ 9,693	$ 13,525	$ 387,933	$ (424,178)	$ (25,053)	$ 52,119	$ 614,491
Shares issued to acquisition vendors	9,360	-	-	-	-	-	-	-	9,360
Prospectus offering, (Note 14)	77,596	-	-	-	-	-		-	77,596
Convertible debentures									
Converted into shares (Note 14)	25,087	(1,093)	-	-	-	-	-	-	23,994
Issued (Note 14)	-	2,497	-	-	-	-	-	-	2,497
Matured/Redeemed	-	(144)	144	-	-	-	-	-	-
Shares issued under dividend reinvestment plan	7,417	-	-	-	-	-	-	-	7,417
Shares issued under First Nations community									
partnership agreements	321	-	-	-	-	-	-	-	321
Deferred share plan vesting (Note 20)	-	-	-	2,806	-	-	-	-	2,806
Deferred share plan issuance	477	-	-	(477)	-	-	-	-	-
Shares issued under ESPP	1,913	-	-	-	-	-	-	-	1,913
Shares cancelled under NCIB	(1,123)	-	-	-	-	-	(1,069)	-	(2,192)
Comprehensive income	-	-	-	-	83,636	-	-	(19,254)	64,382
Dividends declared (Note 15)	-	-	-	-	-	(72,742)	-	-	(72,742)
Balance, December 31, 2019	$ 709,546	$ 13,214	$ 9,837	$ 15,854	$ 471,569	$ (496,920)	$ (26,122)	$ 32,865	$ 729,843
Balance, January 1, 2020	$ 709,546	$ 13,214	$ 9,837	$ 15,854	$ 471,569	$ (496,920)	$ (26,122)	$ 32,865	$ 729,843
Shares issued to acquisition vendors (Note 6)	9,402	-	-	-	-	-	-	-	9,402
Shares issued under dividend reinvestment plan (Note 14)	9,427	-	-	-	-	-	-	-	9,427
Shares issued under First Nations community	50	-	-	-	-	-	-	-	50
partnership agreements	-	-	-	-	-	-	-	-	-
Deferred share plan vesting (Note 20)	-	-	-	1,645	-	-	-	-	1,645
Deferred share plan issuance (Note 14)	606	-	-	(606)	-	-	-	-	-
Shares issued under ESPP (Note 14)	2,312	-	-	-	-	-	-	-	2,312
Comprehensive income	-	-	-	-	28,055	-	-	(14,776)	13,279
Dividends declared (Note 15)	-	-	-	-	-	(80,012)	-	-	(80,012)
Balance, December 31, 2020	$ 731,343	$ 13,214	$ 9,837	$ 16,893	$ 499,624	$ (576,932)	$ (26,122)	$ 18,089	$ 685,946

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

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

For the years ended December 31	2020	2019
OPERATING ACTIVITIES		
Net earnings for the year	$ 28,055	$ 83,636
Items not affecting cash:		
Depreciation of capital assets (Note 9)	139,898	129,328
Amortization of intangible assets (Note 11)	17,573	18,196
Depreciation of right of use assets (Note 10)	25,374	22,501
Accretion of interest	6,898	7,032
Long-term debt discount	137	220
Impairment loss (Note 5)	6,117	-
Gain on disposal of capital assets	(1,939)	(1,220)
Deferred income tax expense (recovery)	(2,062)	10,420
Deferred share program share-based vesting (Note 20)	1,645	2,806
Other	(177)	(10,624)
	221,519	262,295
Changes in non-cash current and long-term working capital items (Note 24)	38,455	(45,058)
	259,974	217,237
FINANCING ACTIVITIES		
Proceeds from long-term debt, net of issuance costs (Note 12)	177,908	201,883
Repayment of long-term debt (Note 12)	(100,118)	(185,635)
Principal payments on right of use lease liabilities (Note 10)	(24,667)	(20,572)
Proceeds from issuance of convertible debentures, net of issuance costs (Note 13)	-	82,091
Redemption of convertible debentures Note 13)	-	(3,130)
Issuance of shares, net of issuance costs	11,739	86,162
Payment for repurchase of shares under NCIB (Note 14)	-	(2,192)
Cash dividends (Note 15)	(80,012)	(72,742)
Other	-	3,000
	(15,150)	88,865
INVESTING ACTIVITIES		
Purchase of capital assets	(141,650)	(250,555)
Proceeds from disposal of capital assets	13,263	15,844
Purchase of intangible assets	(4,605)	(4,310)
Investment in other assets	(4,985)	(8,502)
Cash outflow for acquisitions, net of cash acquired	(51,046)	(61,259)
Payment of contingent acquisition consideration and working capital settlements	(7,255)	(15,000)
	(196,278)	(323,782)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,546	(17,680)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,055	42,970
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(739)	(3,235)
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 69,862	$ 22,055
Supplementary cash flow information		
Interest paid	$ 41,317	$ 46,293
Income taxes paid	$ 9,711	$ 13,357

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

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

1. ORGANIZATION

Exchange Income Corporation ("EIC" or the "Corporation") is a diversified, acquisition-oriented corporation focused on opportunities in the aerospace, aviation, and manufacturing sectors. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 101 – 990 Lorimer Boulevard, Winnipeg, Manitoba, Canada R3P 0Z9.

As at December 31, 2020, the principal operating subsidiaries of the Corporation are Calm Air International LP, Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Custom Helicopters Ltd., Regional One Inc., EIC Aircraft Leasing Limited, Provincial Aerospace Ltd., CANLink Aviation Inc. ("Moncton Flight College"), Quest Window Systems Inc., Quest USA Inc., WesTower Communications Ltd., Ben Machine Products Company Incorporated, Stainless Fabrication, Inc., LV Control Mfg. Ltd., Water Blast Manufacturing LP, and Overlanders Manufacturing LP. Regional One Inc., Quest USA Inc., and Stainless Fabrication, Inc. are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

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

<u>SARS-CoV-2 ("COVID-19")</u>

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has resulted in governments around the world imposing severe travel restrictions and social distancing measures to limit the spread of the virus. The travel restrictions have materially impacted the subsidiaries within the Aerospace & Aviation segment and the social distancing requirements have negatively impacted the efficiency of the subsidiaries in the Manufacturing segment.

The Corporation is unable to predict with accuracy the duration of the virus, actions governments will take, and customer sentiment during and after the pandemic with any certainty. The recent development and deployment of vaccines could result in more travel around the world. The Corporation has made varying assumptions as discussed further in Note 5.

In the Aerospace & Aviation segment, travel restrictions and required quarantine periods have had a material impact on passenger traffic, and demand for the Corporation's aircraft and aftermarket parts at Regional One, Inc. and EIC Aircraft Leasing Limited has lessened as the pandemic has spread throughout the world. Moncton Flight College was forced to shut down on March 17, 2020, when the government in New Brunswick ordered non-essential businesses to close their facilities, including educational facilities, and reopened on April 25, 2020. In the Manufacturing segment, social distancing and additional actions to keep our employees safe have reduced manufacturing efficiency and reduced throughput in the production facilities. The Corporation has also incurred additional costs associated with personal protective equipment, sanitization, and other safety costs across both segments as a result of COVID-19. These impacts, among others as a result of COVID-19, reduced Revenue, Cash Flows from Operations (before the impact of working capital), and Net Earnings during 2020.

The Corporation took several steps to ensure it had the liquidity required during the uncertain economic times created by the COVID-19 pandemic as discussed in Note 12 and Note 23.

2. BASIS OF PREPARATION

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

The consolidated financial statements were approved by the Board of Directors of the Corporation for issue on February 17, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) *Basis of Measurement*

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

b) *Principles of Consolidation*

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, including those identified in Note 1. All 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 affect those returns through its power over those entities. Subsidiaries are fully consolidated from the date on which control is obtained by the Corporation and are de-consolidated from the date that control ceases.

c) *Revenue Recognition*

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

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

Aerospace & Aviation Segment

i. Aftermarket parts sales

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

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

ii. Aircraft and engine sales

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

iii. Aircraft and engine lease revenue

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

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

iv. Surveillance and aircraft modification services

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

v. Software development and sales of software licenses

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

vi. Charter, passenger flight, medevac, and cargo services

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

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

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

vii. Fixed Base Operations (“FBO”) sales and services

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

viii. Pilot Training

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

Manufacturing Segment

i. Sale of equipment and manufactured goods

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

ii. Manufactured window sales

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

iii. Tower construction services

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

iv. Stainless tank sales

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

d) Expenses

Aerospace & Aviation expenses – excluding depreciation and amortization

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

Manufacturing expenses – excluding depreciation and amortization

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

e) Government Grants

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

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

f) Foreign Currency Translation

Functional and presentation currency

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

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

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

Transactions and balances

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

g) *Cash and Cash Equivalents*

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

h) *Financial Instruments*

Recognition

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

Classification

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

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

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

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

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

Measurement

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

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

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

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

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

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

Impairment

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

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

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

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

Hedge Accounting and Derivatives

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

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

Hedges of a net investment in a foreign operation

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

Financial Liabilities

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

Derivative financial instruments

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

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

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

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

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

i) Inventory

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

The Corporation classifies its inventory into the following categories:

- Parts and other consumables: this includes the inventory of the Aerospace & Aviation segment subsidiaries and represents items utilized in the operations and repair of the aircraft and items purchased for resale, as applicable.
- Raw materials: this includes items used in the manufacturing of products by the Manufacturing segment subsidiaries that have no labour work performed on them.
- Work in process: this includes items that have begun to be utilized in production by the Manufacturing segment subsidiaries.
- Finished goods: this includes items that have completed the manufacturing process and are available for sale or items purchased for resale by the Manufacturing segment subsidiaries, including consignment inventory held at certain entities in the Manufacturing segment.
- Aviation parts for resale: Cost for aviation parts and components is established based upon the price paid for the inventory, including any costs of purchase, costs of conversion, and other costs to bring such inventories to their present location and condition. Regional One’s parts inventory carrying value is subsequently impacted by the use of the average cost to sales percentage method at expected selling prices to record cost of sales. The average cost to sales percentage is based on historical profitability or from contracted rates under certain procurement arrangements. Remanufactured inventory cost is based upon the price paid for the cores and also includes expenses incurred for freight, direct manufacturing costs, third party repair costs, and overhead, as applicable.

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

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

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

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

k) *Intangible Assets*

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

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

The 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.

l) *Goodwill*

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

m) *Impairment of Long-Lived Assets*

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

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

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

n) *Current and Deferred Income Taxes*

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

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

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit nor loss. Deferred income tax is provided on temporary differences arising on investment in subsidiaries and associates, except, in the case of subsidiaries where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are reviewed annually and reduced to the extent it is no longer probable that sufficient profits will be available to allow all or part of the asset to be recovered.

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

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

o) *Employee Benefits*

<u>Share-Based Compensation – Deferred Share Plan</u>

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

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

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

Share-Based Compensation – Restricted Share Plan

During 2018, the Corporation replaced its deferred share plan with a restricted share plan for employees of the Corporation. The plan consists of individuals being granted “restricted shares” which are essentially phantom shares. The first grant under this new plan occurred in March 2019. The restricted shares granted to employees of the Corporation vest on December 15 of the year that is two years following the applicable award date. The Corporation records an expense over the vesting period relating to the fair value of the initial grant and any changes in the value of the Corporation's share price will result in a fair value measurement adjustment in the Consolidated Statement of Income.

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

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

Share-Based Compensation – Employee Share Purchase Plan

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

Pension Plan

The Corporation has pension-related costs associated with the defined contribution pension plans to which certain personnel are entitled. The Corporation's accounting policy is to expense contributions as earned during the period when the contributions become payable and are recorded within general and administrative expenses. During 2020, the Corporation recorded defined contribution pension plan costs of $4,714 (2019 – $4,979).

p) *Provisions*

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

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

q) *Borrowing Costs*

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

r) *Leases and Right of Use Assets*

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

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

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

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

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

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.

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Accounting Estimates

Business Combinations

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

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

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, order backlog, certifications, software intellectual property ("IP"), and trade names. To determine the fair value of 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 uses the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates, and anticipated average income tax rates.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the year, the estimated liability for additional purchase consideration associated with Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $177 (2019 – $10,624) and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

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

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

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

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

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

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans, and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation or amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2020, would result in an increase of approximately $7,190 (2019 - $6,015) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

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

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

Intangible Assets

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

In light of the COVID-19 pandemic and the state of the oil and gas industry, management used a discounted cash flow model to assess the recoverability of the indefinite lived intangible assets at the Corporation's subsidiaries exposed to this sector in the first quarter of 2020. The unprecedented drop in oil prices exacerbated by a decrease in demand due to the COVID-19 pandemic has caused many companies to delay or cancel large capital projects. Therefore, the demand for products provided by the Corporation's operations in Alberta is expected to be depressed for an extended period of time. As a result of the assessment, the Corporation recorded a $6,117 impairment charge against intangible assets during the first quarter of 2020.

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

The Corporation has concluded that, besides the impairment identified above, there are no impairments of its indefinite lived intangible assets as a result of this assessment as at December 31, 2020.

Goodwill

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

The Corporation used its forecasted EBITDA based on its approved budget and used its best estimate of market participant EBITDA multiples (Level 3 within the fair value hierarchy). The EBITDA multiple used for the Aerospace & Aviation segment was 8.0x (2019 – 8.0x) and was 7.5x (2019 – 7.5x) for the Manufacturing segment. The Corporation will, at times, perform various scenario and sensitivity analysis when calculating the recoverable amounts of CGUs which may include alternative models and assumptions.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2020.

Deferred Income Taxes

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

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

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

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

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

6. ACQUISITIONS

Window Installation Specialists, Inc.

On July 31, 2020, the Corporation acquired all the shares of Window Installation Specialists, Inc. ("WIS"). WIS is a full-service glazing company specializing in sales, consultation, installation, and service of pre-glazed fenestration products.

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

Consideration given:		
Cash	$	51,042
Issuance of 346,945 shares of the Corporation at $27.10 per share		9,402
Preliminary working capital settlement at close		537
Total purchase consideration	$	60,981

The purchase price included an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments. The preliminary purchase price allocation will be finalized in 2021 when the final settlement of working capital and other post-closing adjustments will occur. The preliminary allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Cash	$	533
Accounts receivable		21,538
Amounts due from customers on construction contracts		537
Inventory		17
Prepaid expenses and deposits		362
Capital assets		28
Right of use assets		517
Intangible assets		17,354
		40,886
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		13,771
Amounts due to customers on construction contracts		6,200
Income taxes payable		617
Right of use lease liabilities		517
Fair value of identifiable net assets acquired		19,781
Goodwill		41,200
Total purchase consideration	$	60,981

Of the $17,354 acquired intangible assets, $9,698 was assigned to backlog, $3,895 was assigned to customer relationships, and $3,761 was assigned to trade name. The customer relationship and backlog intangible assets are subject to amortization while the trade name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies, and the profitability of the acquired business.

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

7. INVENTORIES

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

	December 31 2020	December 31 2019
Parts and other consumables	$ 48,402	$ 46,720
Aviation parts for resale	141,235	132,150
Raw materials	22,533	36,590
Work in process	3,783	4,032
Finished goods	19,917	5,384
Total inventory	$ 235,870	$ 224,876

During 2020, inventory from the Aerospace & Aviation segment with a value of $82,884 (2019 – $139,518) was recorded as an expense within the Aerospace & Aviation expenses – excluding depreciation and amortization, and inventory from the Manufacturing segment with a value of $117,750 (2019 – $106,257) was recorded as an expense within Manufacturing expenses – excluding depreciation and amortization.

8. OTHER ASSETS

The other assets of the Corporation consist of the following:

	December 31 2020	December 31 2019
Long-term prepaid expenses and security deposits	$ 1,929	$ 1,700
Long-term receivables	5,458	13,653
Long-term holdback receivables	5,060	5,687
Equity method investments	41,019	36,483
Other investments - Fair value through OCI (Note 23)	7,975	5,889
Derivative financial instruments - Fair value through profit and loss (Note 23)	-	1,221
Loan to Wasaya	12,363	13,000
Loan to Nunatsiavut Group of Companies	1,543	2,568
Total other assets	$ 75,347	$ 80,201

The Corporation is invested in four equity accounted investments in non-trading entities at December 31, 2020. The investment in Aero Engines, LLC is discussed below. The Corporation's ownership percentages in the entities are 25%, 33%, 49% and 49%, and the carrying values at December 31, 2020 are $10,826 (2019 – $10,098), $10,301 (2019 – $9,533), $4,095 (2019 - $3,892) and $15,797 (2019 - $12,960), respectively. The reporting period end for the equity accounted investments is December 31. These entities have total assets of $140,113 (2019 - $141,149) and total liabilities of $51,645 (2019 - $63,381) at December 31, 2020. The entities had revenues of $171,021 (2019 - $173,083) and net income of $20,881 (2019 - $17,147) for the year ended December 31, 2020. These investments, for which fair market value is not available, have been included within the equity method investments line above.

The Corporation is invested in non-trading entities that are accounted for at fair value through OCI. At December 31, 2020, the carrying value of these entities is $7,975 (2019 - $5,889).

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

The Corporation as part of its construction contracts with customers have amounts that are held back and therefore not expected to be collected within twelve months. As at December 31, 2020, the long-term hold backs due from customers was $5,060 (2019 - $5,687) and are recorded within Other Assets.

Aero Engines, LLC

In the prior period, the Corporation announced that it had completed a joint venture with SkyWest, Inc. ("SkyWest") to acquire, lease, and sell CF34 engines. During the prior year, the Corporation invested in a 25% share of a joint venture which purchased 14 engines and accounts for its investment using the equity method.

9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

						December 31, 2020
		Cost		Accumulated Depreciation		Net Book Value
Land	$	8,275	$	-	$	8,275
Buildings		130,780		38,889		91,891
Aircraft frames		392,535		126,765		265,770
Aircraft engines		215,555		102,946		112,609
Aircraft propellers and rotors		50,183		20,940		29,243
Aircraft landing gear		41,960		14,067		27,893
Aircraft rotable parts		68,925		28,561		40,364
Equipment		152,251		99,645		52,606
Other		13,381		9,004		4,377
Leasehold improvements		17,017		8,392		8,625
		1,090,862		449,209		641,653
Assets for lease to third parties (aircraft and engines)		428,917		120,533		308,384
Total	$	1,519,779	$	569,742	$	950,037

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

Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Depreciation	Exchange Differences	Ending
							Year Ended December 31, 2020
Land	$ 8,292	$ -	$ -	$ -	$ -	$ (17)	$ 8,275
Buildings	93,553	-	2,516	(334)	(3,800)	(44)	91,891
Aircraft frames	234,281	-	57,984	(763)	(25,732)	-	265,770
Aircraft engines	113,487	-	27,783	(502)	(28,159)	-	112,609
Aircraft propellers and rotors	29,146	-	6,615	(133)	(6,385)	-	29,243
Aircraft landing gear	26,065	-	4,875	-	(3,047)	-	27,893
Aircraft rotable parts	37,479	-	13,127	(42)	(10,270)	70	40,364
Equipment	57,206	28	9,132	(542)	(12,742)	(476)	52,606
Other	4,062	-	1,759	-	(1,434)	(10)	4,377
Leasehold improvements	8,875	-	874	-	(1,266)	142	8,625
	612,446	28	124,665	(2,316)	(92,835)	(335)	641,653
Assets for lease to third parties (aircraft and engines)	352,572	-	16,985	(9,008)	(47,063)	(5,102)	308,384
Total	$ 965,018	$ 28	$ 141,650	$ (11,324)	$ (139,898)	$ (5,437)	$ 950,037

During the year, the Corporation had net transfers of $22,601 from capital assets to inventory (December 31, 2019 - $10,207 from capital assets to inventory). The Corporation transfers capital assets out of the lease portfolio into inventory for part out and resale when it is determined beneficial to do so as part of the normal life cycle of older aircraft. In addition, the Corporation may also transfer assets from inventory to capital assets to increase the future economic benefit of its operating aircraft. The net of these transfers is included within the Additions/Transfer column.

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

	Cost	Accumulated Depreciation	Net Book Value
			December 31, 2019
Land	$ 8,292	$ -	$ 8,292
Buildings	128,744	35,191	93,553
Aircraft frames	343,041	108,760	234,281
Aircraft engines	197,930	84,443	113,487
Aircraft propellers and rotors	47,358	18,212	29,146
Aircraft landing gear	37,472	11,407	26,065
Aircraft rotable parts	59,697	22,218	37,479
Equipment	146,119	88,913	57,206
Other	11,695	7,633	4,062
Leasehold improvements	16,708	7,833	8,875
	997,056	384,610	612,446
Assets for lease to third parties (aircraft and engines)	433,728	81,156	352,572
Total	$ 1,430,784	$ 465,766	$ 965,018

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

Year Ended December 31, 2019							
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 8,327	$ -	$ 9	$ -	$ -	$ (44)	$ 8,292
Buildings	95,310	-	2,769	(78)	(4,310)	(138)	93,553
Aircraft frames	198,919	-	61,350	(1,975)	(24,013)	-	234,281
Aircraft engines	101,463	-	38,736	(401)	(26,311)	-	113,487
Aircraft propellers and rotors	26,622	-	8,962	(309)	(6,129)	-	29,146
Aircraft landing gear	27,018	-	2,693	(152)	(3,494)	-	26,065
Aircraft rotable parts	26,846	-	23,017	(107)	(12,277)	-	37,479
Equipment	53,410	619	15,000	(339)	(10,653)	(831)	57,206
Other	3,937	100	1,499	-	(1,138)	(336)	4,062
Leasehold improvements	8,475	660	1,039	-	(1,137)	(162)	8,875
	550,327	1,379	155,074	(3,361)	(89,462)	(1,511)	612,446
Assets for lease to third parties (aircraft and engines)	327,364	-	92,638	(11,263)	(39,866)	(16,301)	352,572
Total	$ 877,691	$ 1,379	$ 247,712	$ (14,624)	$ (129,328)	$ (17,812)	$ 965,018

The Corporation has adjusted prior year amounts in the tables above to conform with current year presentation. The total carrying value of capital assets has not changed, only the allocation within the categories above.

10. LEASES

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

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

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

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

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

Right of Use Lease Liability	December 31, 2020	December 31, 2019
Opening balance	$ 113,855	$ 122,906
Additions to right of use lease liabilities	7,697	13,159
Disposals of right of use assets and derecognition of lease liabilities	(113)	(307)
Principal payments on right of use lease liabilities	(24,667)	(20,572)
Exchange differences	(374)	(1,331)
Closing balance	$ 96,398	$ 113,855
Current portion	$ 22,604	$ 23,280

During the year, the Corporation expensed $8,291 (December 31, 2019 - $7,065) in leases that did not meet the thresholds for recognition under IFRS 16. These leases were either low value, less than twelve months or contained variable payments that fell outside of the scope of the standard.

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

Undiscounted Right of Use Lease Liability Payments	December 31, 2020	December 31, 2019
Less than 1 year	$ 25,646	$ 27,333
Between 1 year and 5 years	45,614	59,057
More than 5 years	39,832	44,479
	$ 111,092	$ 130,869

11. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2020, and 2019:

			December 31, 2020
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 86,222	$ -	$ 86,222
Finite Life Assets			
Customer contracts and relationships	95,344	55,457	39,887
Certifications	8,951	551	8,400
Information technology systems	17,164	5,200	11,964
Backlog	39,951	31,673	8,278
Other	11,815	4,794	7,021
Total	$ 259,447	$ 97,675	$ 161,772

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

								Year Ended December 31, 2020
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Impairment	Amortization	Exchange Differences	Ending
Indefinite Life Assets								
Brand name	$ 88,709	$ 3,761	$ -	$ -	$ (6,014)	$ -	$ (234)	$ 86,222
Finite Life Assets								
Customer contracts and relationships	42,720	3,895	-	-		(6,678)	(50)	39,887
Certifications	8,427	-	-	-		(27)	-	8,400
Information technology systems	9,741	-	4,413	(14)	(103)	(1,217)	(856)	11,964
Backlog	6,854	9,698	-	-		(8,274)	-	8,278
Other	8,207		192	-		(1,377)	(1)	7,021
Total	$ 164,658	$ 17,354	$ 4,605	$ (14)	$ (6,117)	$ (17,573)	$ (1,141)	$ 161,772

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

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

The Corporation has brand name indefinite life assets for the operations of Bearskin, Calm Air, Custom, WesTower, Regional One, Provincial, Ben Machine, CarteNav, Quest, Moncton Flight College, LV Control, AWI, and WIS. 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.

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

During the first quarter, the Corporation recorded an impairment charge against intangible assets within its operations in Alberta. See Note 5 for further discussion.

Goodwill		2020		2019
Balance, beginning of year	$	359,764	$	320,678
Goodwill from business acquisitions		41,200		42,281
Measurement period adjustment - settlement of working capital and other		172		-
Translation of goodwill of foreign operations		(3,547)		(3,195)
Balance, end of year	$	397,589	$	359,764

As a result of the foreign currency translation policy for the consolidation of Stainless, Water Blast North Dakota, Regional One, Team J.A.S., AWI, and WIS as described in Note 3, the goodwill recorded in Stainless (US $14,751), in Water Blast North Dakota (US $476), in Regional One (US $30,105), Team J.A.S (US $929), Advanced Window (US $8,164), and Window Installation Specialists (US $30,673) 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, 2020 (Note 5). As at December 31, 2020, there was no impairment of goodwill or indefinite life intangible assets based on management's assessment with the exception of the impairment noted above.

12. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt as at December 31, 2020, and December 31, 2019:

		December 31 2020		December 31 2019
Revolving term facility:				
Canadian dollar amounts drawn	$	190,000	$	211,900
United States dollar amounts drawn (US$477,100 and US$393,555, respectively)		607,444		511,149
Total credit facility debt outstanding, principal value		797,444		723,049
less: unamortized transaction costs		(3,087)		(3,190)
less: unamortized discount on outstanding Banker's Acceptances		(163)		(300)
Long-term debt	$	794,194	$	719,559

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, 2020.

On July 15, 2020, the Corporation amended its credit facility. The amendment increased the senior leverage ratio maximum from 4.0 to 5.0 for the fiscal quarters ending December 31, 2020, through September 30, 2021. This amendment was sought by the Corporation as a precautionary measure to ensure that the Corporation had access to capital and additional flexibility during the uncertain times brought on by the COVID-19 pandemic.

Interest expense recorded by the Corporation during the year ended December 31, 2020, for long-term debt was $23,352 (2019 – $31,303).

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

Credit Facility

The following is the continuity of long-term debt for the year ended December 31, 2020:

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

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

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

13. CONVERTIBLE DEBENTURES

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

Summary of the debt component of the convertible debentures:

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

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

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

During the year ended December 31, 2020, convertible debentures totaling a face value of $nil were converted by the holders at various times into nil shares of the Corporation (2019 – $24,730 face value into 780,112 shares). Interest expense recorded during the 2020 year for the convertible debentures was $23,376 (2019 - $22,350).

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

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

March 2014 Unsecured Convertible Debenture Offering

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

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

The March 2014 Unsecured convertible debentures have nil (2019 - nil) of principal outstanding as at December 31, 2020, and were redeemed April 26, 2019, as described above.

June 2016 Unsecured Convertible Debenture Offering

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

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

The June 2016 Unsecured convertible debentures have $68,975 (2019 - $68,975) of principal outstanding as at December 31, 2020, and mature in June 2023.

December 2017 Unsecured Convertible Debenture Offering

Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $51.50.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the shares for the 20 trading days ending five days prior to the maturity date. The debentures are not redeemable until after December 31, 2020. After December 31, 2020, but prior to December 31, 2021, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after December 31, 2021, but prior to the maturity date, the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

The December 2017 Unsecured convertible debentures have $100,000 (2019 - $100,000) of principal outstanding as at December 31, 2020, and mature in December 2022.

June 2018 Unsecured Convertible Debenture Offering

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

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

The June 2018 convertible unsecured debentures have $80,500 (2019 - $80,500) of principal outstanding as at December 31, 2020, and mature in June 2025.

March 2019 Unsecured Convertible Debenture Offering

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

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

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

Convertible Debentures Equity Component

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

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

Summary of the equity component of the convertible debentures:

		December 31 2020		December 31 2019
Unsecured Debentures - 2016	$	3,261	$	3,261
Unsecured Debentures - 2017		3,590		3,590
Unsecured Debentures - 2018		3,866		3,866
Unsecured Debentures - 2019		2,497		2,497
Convertible Debentures - Equity Component, end of year	$	13,214	$	13,214

All convertible debentures outstanding at December 31, 2020, represent direct unsecured debt obligations of the Corporation.

14. SHARE CAPITAL

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

	Number of Shares		2020 Amount
Share capital, beginning of year	34,703,237	$	709,546
Issued under dividend reinvestment plan	319,265		9,427
Issued under employee share purchase plan	69,654		2,312
Issued under deferred share plan	30,618		606
Issued under First Nations community partnership agreements	2,039		50
Issued to Window Installation Specialists, Inc. vendor on closing (Note 6)	346,945		9,402
Share capital, end of year	35,471,758	$	731,343

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

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

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

On February 19, 2020, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,736,542 shares, representing 5% of the issued and outstanding shares as at February 14, 2020. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on February 22, 2020, and ending on February 21, 2021. The maximum number of shares that can be purchased by the Corporation daily is limited to 27,411 shares, other than block purchase exemptions. As a matter of normal course, the Corporation intends to renew the NCIB in 2021 when the current NCIB expires.

During the year ended December 31, 2020, the Corporation did not make any purchases of shares. In the prior year, the Corporation purchased the shares at an average cost of $37.41 per share for an aggregate consideration of $2,192, excluding tax of less than $1. All the shares purchased in the prior period were cancelled. The excess of the cost over the average book value of $1,069 for purchases made in 2019 was charged to retained earnings.

During the year, the Corporation issued shares to the vendors of Window Installation Specialists, Inc. On July 31, 2020, the Corporation issued 364,945 shares with a value of $9,402 as part of the acquisition of WIS (Note 6).

15. DIVIDENDS DECLARED

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

Cumulative dividends during the 2020 year and the comparative 2019 year are as follows:

Year Ended December 31		2020		2019
Cumulative dividends, beginning of year	$	496,920	$	424,178
Dividends during the year		80,012		72,742
Cumulative dividends, end of year	$	576,932	$	496,920

The amounts and record dates of the dividends during the 2020 year and the comparative 2019 year are as follows:

					2020 Dividends					2019 Dividends
Month	Record date		Per share		Amount	Record date		Per Share		Amount
January	January 31, 2020	$	0.19	$	6,596	January 31, 2019	$	0.1825	$	5,719
February	February 28, 2020		0.19		6,599	February 28, 2019		0.1825		5,724
March	March 31, 2020		0.19		6,606	March 29, 2019		0.1825		5,744
April	April 30, 2020		0.19		6,612	April 30, 2019		0.1825		5,877
May	May 29, 2020		0.19		6,621	May 31, 2019		0.1825		5,882
June	June 30, 2020		0.19		6,634	June 28, 2019		0.1825		5,887
July	July 31, 2020		0.19		6,707	July 31, 2019		0.1825		5,890
August	August 31, 2020		0.19		6,715	August 30, 2019		0.19		6,127
September	September 30, 2020		0.19		6,722	September 30, 2019		0.19		6,128
October	October 30, 2020		0.19		6,728	October 31, 2019		0.19		6,583
November	November 30, 2020		0.19		6,732	November 29, 2019		0.19		6,587
December	December 31, 2020		0.19		6,740	December 31, 2019		0.19		6,594
Total		$	2.28	$	80,012		$	2.2275	$	72,742

After December 31, 2020, and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.19 per share for January and February 2021.

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

16. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment provides airline services to communities in Manitoba, Ontario, Nunavut, and eastern Canada and also sells aircraft, engines, and aftermarket parts to regional airline operators around the world. In addition, Provincial's aerospace business designs, modifies, maintains, and operates custom sensor-equipped aircraft. Moncton Flight College provides pilot training services. The Manufacturing segment consists of niche specialty manufacturers in markets throughout Canada and the United States. The results of WIS are included in the Manufacturing segment results subsequent to the date of acquisition (Note 6).

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

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

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

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

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

	Aerospace & Aviation	Manufacturing	Head Office(1)	Consolidated
				For the period ended December 31, 2020
Total assets	$ 1,623,340	$ 548,476	$ 122,368	$ 2,294,184
Net capital asset additions	122,310	5,037	1,040	128,387
Indefinite lived intangible assets	53,852	32,370	-	86,222
Goodwill	218,164	179,425	-	397,589

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

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)

Revenues

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

Revenue Streams		December 31 2020		December 31 2019
Aerospace & Aviation Segment				
Sale of goods - point in time	$	119,826	$	237,749
Sales of services - point in time		565,783		730,885
Sale of goods and services - over time		1,712		6,105
Manufacturing Segment				
Sale of goods - point in time		93,184		82,356
Sale of goods and services - over time		369,124		284,279
Total revenue	$	1,149,629	$	1,341,374

The following is the geographic breakdown of revenues for the year ended December 31, 2020, and the 2019 comparative year, based on the location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Year Ended December 31		2020		2019
Canada	$	702,303	$	803,261
United States		292,843		294,378
Europe		16,129		68,898
Other		138,354		174,837
Total revenue for the year	$	1,149,629	$	1,341,374

	As at December 31, 2020				As at December 31, 2019			
		Capital Assets		Goodwill		Capital Assets		Goodwill
Canada	$	622,302	$	289,242	$	573,053	$	289,253
United States		79,211		108,347		84,203		70,511
Europe		248,524		-		294,612		-
Other		-		-		13,150		-
	$	950,037	$	397,589	$	965,018	$	359,764

Contract Assets		December 31 2020		December 31 2019
Accounts receivable, including long-term portion	$	274,403	$	301,196
Amounts due from customers on construction contracts		21,372		26,698
Total	$	295,775	$	327,894
Current	$	285,257	$	308,554
Non-current	$	10,518	$	19,340

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

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

Contract Liabilities		December 31 2020		December 31 2019
Customer loyalty programs - Airlines	$	940	$	1,247
Deferred revenue, net of customer loyalty programs		27,033		30,529
Amounts due to customers on construction contracts		24,997		14,847
Total	$	52,970	$	46,623
Current	$	52,970	$	46,623

Contract liabilities relating to construction contracts are balances due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognized.

17. CONSTRUCTION CONTRACTS

The operations of Stainless, WesTower, Quest, AWI, and WIS within the Manufacturing segment and Provincial within the Aerospace & Aviation segment have long-term construction contracts where revenues are recognized over time. Under the terms of the contract, the Corporation has an enforceable right for payment for work performed. Revenue is recognized over time using an input or output based method. The input or output methods represent an appropriate measure of progress towards complete satisfaction of the performance obligation. During the year ended December 31, 2020, the Corporation recognized revenue on these types of long-term contracts totaling $370,902 (2019 – $290,384).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2020, and the 2019 comparative year:

As at December 31		2020		2019
Costs incurred on uncompleted contracts	$	277,366	$	119,627
Estimated earnings		53,723		21,246
		331,089		140,873
less: billings to date		(334,714)		(129,022)
Total	$	(3,625)	$	11,851
Amounts due from customers on construction contracts	$	21,372	$	26,698
Amounts due to customers on construction contracts		(24,997)		(14,847)
Total	$	(3,625)	$	11,851

18. EARNINGS PER SHARE

Basic earnings per share for the Corporation is calculated by dividing the Net Earnings by the weighted average number of common shares outstanding during the year.

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

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

The computation for basic and diluted earnings per share for the year ended December 31, 2020, and the comparative for the 2019 year are as follows:

Year Ended December 31		2020		2019
Net Earnings (Loss)	$	28,055	$	83,636
Effect of dilutive securities				
Convertible debenture interest		-		11,143
Diluted Net Earnings (Loss)	$	28,055	$	94,779
Basic weighted average number of shares		35,048,953		32,437,022
Effect of dilutive securities				
Deferred shares		928,471		870,972
Convertible debentures		-		4,785,736
Diluted basis weighted average number of shares		35,977,424		38,093,730
Net Earnings (Loss) per share:				
Basic	$	0.80	$	2.58
Diluted	$	0.78	$	2.49

19. EXPENSES BY NATURE

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

		2020		2019
Salaries, wages & benefits	$	275,505	$	332,256
Aircraft operating and sale expenses		238,773		384,622
Materials and installation costs		228,897		165,176
General and administrative		46,704		54,082
Building rent and maintenance		10,895		12,883
Communication and information technology		12,374		12,514
Advertising		2,981		4,058
Sub-contracting services		28,175		24,384
Other		20,790		22,586
	$	865,094	$	1,012,561

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

20. EMPLOYEE BENEFITS

Deferred Share Plan

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

	2020	2019
Deferred shares outstanding, beginning of year	870,972	824,798
Granted during the year	18,741	20,532
Granted through dividends declared during the year	69,376	51,211
Redeemed during the year	(30,618)	(18,220)
Forfeited during the year	-	(7,349)
Deferred shares outstanding, end of year	928,471	870,972
Vested portion of deferred shares outstanding, end of year	892,004	792,791

The fair value of the deferred shares granted during the 2020 year was $811 at the time of the grant (weighted average grant price of $43.25 per share) and was based on the market price of the Corporation's shares at that time (2019 – $669, weighted average grant price of $32.12 per share). During the 2020 year, the Corporation recorded a compensation expense of $1,645 for the Deferred Share Plan within head office expenses (2019 – $2,806).

Restricted Share Plan

During the year ended December 31, 2020, the Corporation granted 103,556 (2019 –105,588) restricted shares to certain personnel. The fair value of the restricted share units granted was $4,196 (2019 - $3,506) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the year ended December 31, 2020, the Corporation recorded compensation expense of $1,986 for the Corporation's Restricted Share Plan within the general and administrative expenses of head office (2019 - $1,106), with a corresponding liability recorded in Accounts Payable and Accrued Expenses.

Employee Share Purchase Plan

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

At the decision of the employee, any dividends paid on the additional shares over the vesting period are either paid to the employee upon vesting or additional shares are purchased for the employee at the vesting date.

During 2020, employees acquired 69,654 shares from Treasury at a weighted average price of $33.20 per share. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $841 based on the share price and monthly dividend rate at that time.

During 2019, employees acquired 49,265 shares from Treasury at a weighted average price of $38.83 per share. The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $649 based on the share price and monthly dividend rate at that time.

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 2020, the total expense recorded for the ESPP in head office expenses was $549 (2019 – $996). At December 31, 2020, the Corporation had $523 (2019 - $625) recorded within Accounts Payable and Accrued Expenses, representing the portion of additional shares that have vested at that date.

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

21. CONTINGENCIES AND COMMITMENTS

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

Commitments		December 31, 2020		December 31, 2019
Less than 1 year	$	2,399	$	3,400
Between 1 year and 5 years		3,118		4,623
More than 5 years		626		4,080
	$	6,143	$	12,103

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

The Corporation has letters of credit and surety bonds outstanding with varying maturities that are contingent on certain operational products and services being provided by the Corporation's subsidiaries. As of December 31, 2020, the total value of these letters of credit and surety bonds was $174,306 (2019 - $47,660). The increase over the prior year relates primarily to the Corporations window installation businesses (WIS and AWI).

22. RELATED PARTY TRANSACTIONS

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

Property Leases

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. These leases are recognized in the consolidated financial statements at the exchange amounts. The Corporation's head office relocated in December 2019 to a premise not controlled by a director of the Corporation. Therefore, there are no related party lease costs for the head office of the Corporation in 2020. The total costs incurred in 2020 under these leases was $3,868 (2019 – $3,938) and the lease term maturities range from 2021 to 2028.

Key Management Compensation

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

Compensation expensed for key management during the 2020 year and the comparative 2019 year is detailed in the table below. Share based compensation vests over a period of up to three years and is expensed over that period.

Year ended December 31,		2020		2019
Salaries and short-term benefits	$	3,372	$	4,967
Share-based compensation expense		3,902		4,107
	$	7,274	$	9,074

Co-investments with CRJ Capital Corp.

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

During the current period, CRJ Capital Corp. invested US $1,787 (2019 - US $4,014), generating returns paid or payable to CRJ Capital Corp. of US $2,091 (2019 - US $316). 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, 2020, was US $11,477 (December 31, 2019 - US $13,502). At December 31, 2020, US $545 is recorded as accounts payable due to CRJ Capital Corp. (December 31, 2019 - US $202 accounts payable due to CRJ Capital Corp.).

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

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

Currency Risk

The Corporation has US $477,100 or $607,444 (2019 - US $393,555 or $511,149) outstanding on its credit facility. The outstanding funds in USD result in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $82,500 (2019 - US $59,155) 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 $137,400 (2019 - US $146,600) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the year, the Corporation continued the use of derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same terms unless both parties agree to extend the swap for an additional month. By borrowing in US dollars, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in one month. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at December 31, 2020, was a financial liability of $4,433 (2019 - financial liability of $6,085). At December 31, 2020, the notional value of the swaps outstanding is US $257,200 (2019 - US $187,800). Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, $4,433 was reclassified from other comprehensive income in 2020 (2019 - $6,085). No hedge ineffectiveness was recorded during 2020 or 2019.

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, 2020, would have a nil (2019 - nil) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $6,074 (2019 - $5,111).

Interest Rate Risk

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

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances, or the London Inter Bank Offer Rate ("LIBOR"). At December 31, 2020:

- US $477,100 (2019 – US $393,100) was outstanding under US LIBOR, and
- nil (2019 – US $455) was outstanding under US Prime, and
- $190,000 (2019 – $211,900) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2020 a 1% increase in interest rates for the Corporation would decrease pre-tax net earnings by approximately $6,326 ($4,627 after-tax) (2019 - $5,367 ($3,923 after tax)).

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

The Corporation amended its interest rate swap with certain members of its lending syndicate whereby the Corporation has fixed interest rates on $190,000 of its Canadian credit facility debt during the year. The amendment reduced the effective fixed interest rate on the swap and extended the maturity by one year. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future payment of interest on Bankers' Acceptance debt that would impact profit or loss and therefore qualifies as a cash flow hedge. The interest rate swap classified as a long-term financial liability of $7,407 (2019 – long-term financial asset of $8) is recorded as a separate line within other comprehensive income. No hedge ineffectiveness was recorded in 2020 or 2019.

Other Price Risk

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

To mitigate the income statement impact of a change in the Corporation's share price, the Corporation entered into a derivative instrument for each of the 2019 and 2020 Restricted Share Plan grants, which fixes the cost of the plan for the Corporation. Any changes in fair value will either be paid to the counterparty or be paid to the Corporation by the counterparty at the vesting date. This derivative fixes the cost to the Corporation and does not impact the variability of the award received by the participant. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future settlement of restricted shares issued under the Restricted Share Plan that would impact profit or loss and therefore qualifies as a cash flow hedge. On a combined basis, the initial grant date fair value for the 2019 and 2020 programs was $7,702. The instruments are classified as a long-term financial liability of $43 (2019 – long-term financial asset of $1,213) and are recorded as a separate line within other comprehensive income.

Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, $116 was reclassified from other comprehensive income in 2020 (2019 - $358). No hedge ineffectiveness was recorded during 2020 or 2019.

Credit Risk

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

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

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

As at December 31, 2020, $53,871 (2019 - $53,732) of the receivables were outstanding for greater than 90 days. Approximately $6,872 (2019 – $3,660) of this relates to the Manufacturing segment and $46,999 (2019 – $50,072) relates to the Aerospace & Aviation segment. Management at each of the Corporation's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Corporation's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

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

As part of the partnership in Air Borealis, the Corporation loaned funds to one of its partners, NGC. The initial loan of $5,100 was subsequently repaid in part and the carrying value was $1,543 at December 31, 2020 (2019 – $2,568) and the loan is secured against the cash flows the borrower is entitled to from the partnership until the loan is repaid.

As part of the investment in Wasaya, the Corporation loaned $13,000 to Wasaya. The term of the loan is three years and principal repayments began in 2020 resulting in a carrying value at December 31, 2020 of $12,363 (2019 - $13,000). Any unpaid principal balance is due on maturity. The loan is secured against the underlying assets of Wasaya.

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

Liquidity Risk

Liquidity risk is the risk that the Corporation is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Corporation's growth is financed through a combination of the cash flows from operations, borrowings under existing credit facilities, and the issuance of either or a combination of debentures and equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows. Due to the nature of the business, the Corporation aims to maintain flexibility in funding by maintaining committed and available credit facilities (Note 12). During the year, the Corporation amended its credit facility as discussed in Note 12 to provide additional flexibility due to uncertainty created by COVID-19.

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	$ 214,504	$ 214,504	$ -	$ -
Long-term debt (principal value)	797,444	-	797,444	-
Convertible debentures (par value)	335,725	-	249,475	86,250
Contractual interest[1]	113,710	33,555	75,196	4,959
Total	$ 1,461,383	$ 248,059	$ 1,122,115	$ 91,209

Note 1) The contractual interest reflects the assumption that amounts outstanding and floating interest rates at December 31, 2020, will remain at current levels until maturity.

Fair Value of Financial Instruments

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

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

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

Recurring fair value measurements	Carrying Value December 31, 2019	Fair Value: Quoted prices in an active market Level 1	Fair Value: Significant other observable inputs Level 2	Fair Value: Significant unobservable inputs Level 3
Financial Assets				
Other long-term assets - Restricted Share hedge - Financial asset at fair value through profit and loss	$ 1,213	$ -	$ 1,213	$ -
Other long-term assets - Interest Rate Swap - Financial asset at fair value through OCI	8	-	8	-
Other assets - Fair value through OCI	5,889	-	-	5,889
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(12,411)	-	-	(12,411)
Other long-term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(6,085)	-	(6,085)	-
Fair Value Disclosures				
Other assets - Amortized cost	36,608	-	36,608	-
Long-term debt - Amortized cost	(719,559)	-	-	(723,049)
Convertible debt - Amortized cost	(310,598)	(350,918)	-	-

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

The following table summarizes the changes in the consideration liabilities recorded on the acquisitions of CarteNav, Quest, Moncton Flight College, Wings Over Kississing, LV Control, and AWI including any changes for settlements, changes in fair value, and changes due to foreign currency fluctuations:

Consideration Liability Summary For the periods ended	December 31 2020	December 31 2019
Opening	$ 12,411	$ 31,173
Accretion	272	1,068
Settled during the period	(7,255)	(15,000)
Change in estimate (Note 5)	(177)	(10,624)
Acquisition of LV Control	-	5,523
Acquisition of Advanced Window, including change in estimate	422	271
Translation loss	41	-
Ending	$ 5,714	$ 12,411

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

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

Included in the $5,714 above is the earn out liability for LV Control. During the year ended December 31, 2020, the Corporation settled the $6,437 earn out liability associated with Moncton Flight College. The Corporation also settled $16, US $525, and $81 for working capital amounts associated with Wings Over Kississing, AWI, and LV Control, respectively.

Financial Instrument Fair Value Disclosures

The fair values of cash and cash equivalents, accounts receivable, deposits, accounts payable, and accrued expenses approximate their carrying values due to their short-term nature.

As at December 31, 2020, 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 2.2%. The discount rate is determined by using a risk-free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument, and other indicators of the Corporation's credit-worthiness.

As at December 31, 2020, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $335,454 (December 31, 2019 - $350,918) with a carrying value of $315,830 (December 31, 2019 - $310,598).

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

24. CHANGES IN WORKING CAPITAL ITEMS

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

Year Ended December 31		2020		2019
Accounts receivable, including long-term portion	$	47,289	$	(35,958)
Amounts due from customers on construction contracts		5,625		(12,219)
Inventory		(14,400)		(13,756)
Prepaid expenses and deposits, including long-term portion		3,513		2,002
Accounts payable and accrued expenses, including long-term portion		(10,772)		18,110
Income taxes receivable/payable		6,218		(2,144)
Deferred revenue, including long-term portion		(3,750)		(1,155)
Amounts due to customers on construction contracts		4,732		62
Net change in working capital items	$	38,455	$	(45,058)

25. CAPITAL MANAGEMENT

The Corporation manages its capital to utilize prudent levels of debt. The Corporation's goal is to maintain its level of senior debt within a range of 1.5 – 2.5 times funded senior debt to adjusted Operating profit before Depreciation, Amortization, Finance Costs, and Other, normalized for the full year contribution of recent acquisitions. Due to the impact of COVID-19, the Corporation's leverage ratio has temporarily increased. COVID-19 has decreased Operating profit before Depreciation, Amortization, Finance Costs, and Other, compared to the prior year and the leverage ratio will remain at these levels until the impact of COVID-19 wanes.

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.

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

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

	December 31 2020	December 31 2019
Total senior debt outstanding (principal value)	$ 797,444	$ 723,049
Convertible debentures outstanding (par value)	335,725	335,725
Common shares	731,343	709,546
Total capital	$ 1,864,512	$ 1,768,320

There are certain requirements of the Corporation's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs, and other non-cash items ("EBITDA") ratio. Management considers these requirements in the decisions made in managing the level and make-up of the Corporation's capital structure. The Corporation has been in compliance with all of the financial covenants during the 2020 year. As previously discussed in Note 12, the Corporation amended its credit facility during the year to provide additional flexibility due to the uncertainty created by COVID-19.

Changes in the capital of the Corporation during the year ended December 31, 2020, are mainly attributed to the following that occurred during the year. First, the acquisition of WIS resulted in a cash payment of $51,579, which was funded using the Corporation's credit facility, and the issuance of shares with a value of $9,402. The Corporation's senior debt, net of cash, increased by $26,828 during the year as cash flow from operations partially offset the outflows for the acquisition of WIS and investments in other long term growth initiatives. The Corporation's cash balance increased by $47,807 during 2020.

26. INCOME TAX

Reconciliation of Effective Tax Rate

The tax on the Corporation's earnings 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:

	2020	2019
Earnings before provision for income taxes	$ 43,000	$ 105,846
Combined Canadian federal and provincial tax rates	27.0%	27.0%
Income tax expense at statutory rates	11,610	28,578
Increase (decrease) in taxes resulting from:		
Permanent differences	3,317	4,116
Realized capital gains (losses)	(3)	10
Accounting income not subject to tax	(48)	(2,869)
Impact of foreign jurisdiction differences	(276)	(7,519)
Derecognition (benefit) of deferred tax assets	-	125
Amounts in respect of prior periods	186	(269)
Other	159	38
Provision for income taxes	$ 14,945	$ 22,210

Unrecognized Deferred Tax Liabilities

At December 31, 2020, 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 $144,658 (2019 - $162,331).

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

Movement in Deferred Tax Balances during the Year

The movement in the net deferred income tax balances during the 2020 year and the 2019 comparative year are as follows:

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

Income taxes credited (charged) through the Statement of Income includes investment tax credits of $325 which were classified as reductions of the related expenditures incurred (2019 – $354).

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

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

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 2020	December 31 2019
Deferred tax liabilities	$ (97,662)	$ (102,482)

27. SUBSEQUENT EVENTS

Subsequent Event – Provincial and Federal Funding Agreement

On February 1, 2021, subsequent to the end of the 2020 year, the Corporation was notified that the Provinces of Manitoba and Ontario together with the Federal Government would be providing financial support to air operators servicing their respective remote communities to mitigate losses incurred in continuing to deliver essential supplies and services to those regions. While the ultimate amount the Corporation will receive has not been finalized, the Corporation is eligible to receive a maximum of $10,500 under these funding agreements for the period from July 1, 2020 to December 31, 2020. The provision of support relates to an agreement that did not exist at December 31, 2020 and therefore no amount has been accrued at December 31, 2020.

EIC

Exchange
Income
Corporation

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

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

Brad Bennett, C.M., O.B.C.

Gary Buckley
Chair, Compensation Committee

Polly Craik

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

Grace Schalkwyk

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

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

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

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Chief Executive Officer

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

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

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

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

Darwin Sparrow
Chief Operating Officer

David White
Executive Vice-President, Aviation

Dianne Spencer
Corporate Secretary

LEGAL COUNSEL

MLT Aikins LLP
Winnipeg, MB

AUDITORS

PricewaterhouseCoopers LLP
Winnipeg, MB

BANKERS

National Bank Financial

Canadian Imperial Bank of Commerce

The Toronto-Dominion Bank

The Bank of Nova Scotia

Bank of Montreal

ATB Financial

Laurentian Bank of Canada

HSBC Bank Canada

Raymond James Finance Company of Canada

Royal Bank of Canada

Wells Fargo Bank, N.A. Canadian Branch

TRANSFER AGENT

AST Trust Company (Canada)
Calgary, AB

STOCK EXCHANGE
LISTING & SYMBOL
TSX: EIF

VIRTUAL ANNUAL GENERAL MEETING

Date: May 14, 2021
Time: 10:30 am CT

See company website for access details

CORPORATE OFFICE

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WEBSITE LISTINGS FOR SUBSIDIARY COMPANIES

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Overlanders Manufacturing
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advancedwindow.net
wiswindows.com

Stainless Fabrication
stainlessfab.com

WesTower Communications
westower.ca

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