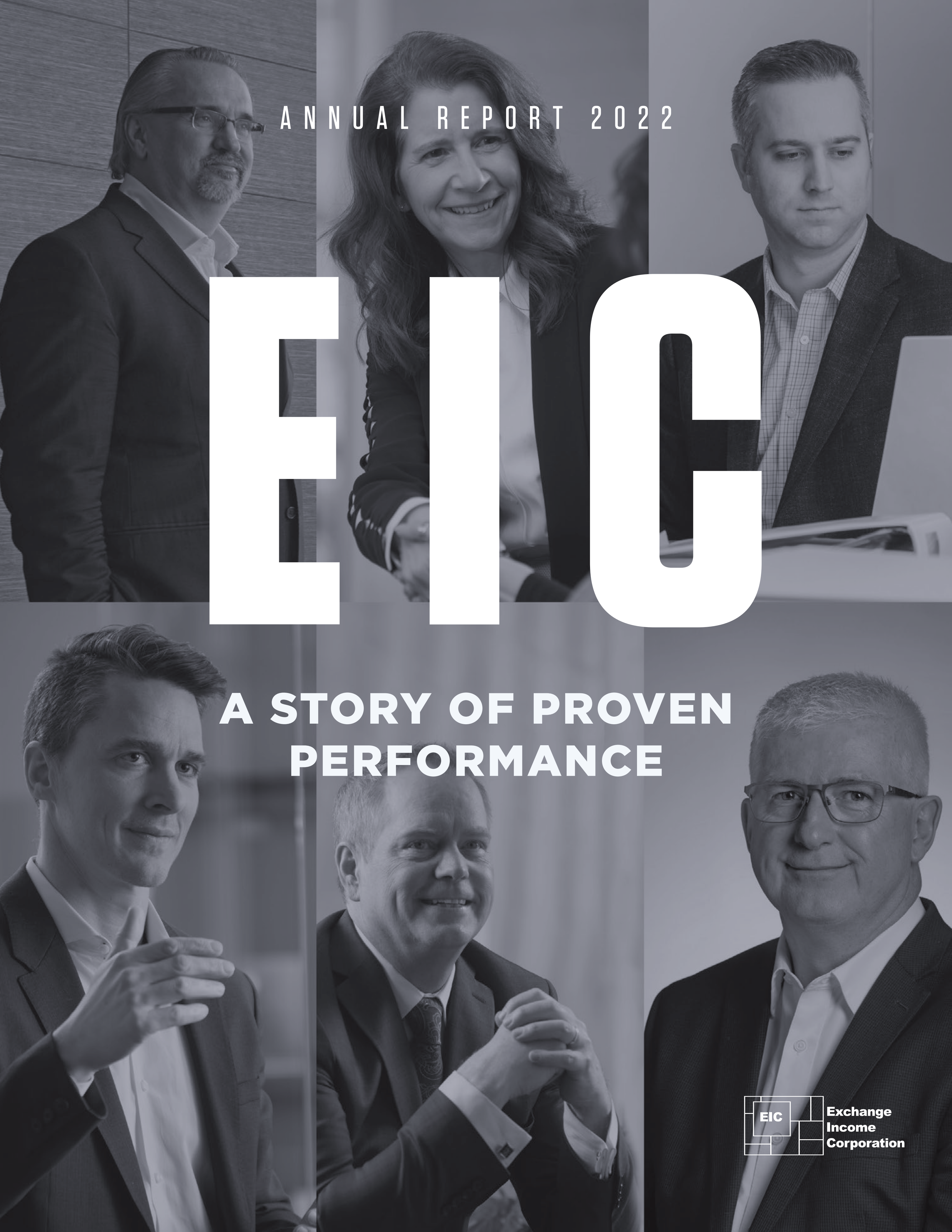


ANNUAL REPORT 2022

EIC

A STORY OF PROVEN PERFORMANCE

Exchange Income Corporation

ANNUAL REPORT 2022

EIC

Since inception:

Dividend Compounded Growth Rate of 5%

Average Annual Compounded Return to Shareholders of 20%

"Our ability to consistently outperform the market is a credit to our team and a testament to our strategy."

MIKE PYLE
Chief Executive Officer

WE CREATE VALUE WITH

PROVEN STABILITY

We take pride in the consistent returns we generate for our shareholders.

Our average compounded annual shareholder return since inception has been a remarkable 20%. We've built a stable, resilient company by carefully acquiring and empowering a diverse family of companies whose combined performance has driven a remarkable 5% CAGR in our dividend.

Our sustainable success is built on our long-held strategy of empowering the strong management teams we have in place at our subsidiaries and supporting their entrepreneurship through strategic investment and proven leadership from our corporate and board level.

	EIC RETURN	TSX RETURN	ARISTOCRAT RETURN
EIC Inception May 2004	20.36%	7.71%	7.57%
15 years	20.18%	5.38%	6.16%
10 years	14.73%	7.75%	7.59%
5 years	15.07%	6.87%	6.64%
1 year	31.79%	-5.75%	-3.66%

BUILDING VALUE WITH DISCIPLINE AND VISION

From EIC's inception, we've demonstrated our philosophy and ownership style builds value for our shareholders.

Our unified management team's adherence to the principles on which we were founded has enabled our success. In executing our strategy, we've proven our ability to identify, acquire, and grow companies.

By providing access to capital and applying long-term focus, we empower our strong management teams to facilitate growth and seize greater opportunity.

ADAM TERWIN
Chief Corporate Development Officer

As EIC continues to demonstrate the strength of our model, more vendors are taking notice of the positive impacts we have on the companies we've acquired.

With EIC, business owners know we'll work with them to protect their legacy and their people while maximizing their potential for long-term growth. They see how we empower management and make long-term strategic decisions. By providing opportunity, along with mentorship and strategic capital investment, we've shown we can attract more high-quality investments and build value for our company.

We apply the same formula to organic growth opportunities and have similar expectations for those returns. Following these principles, we'll continue delivering the consistent returns our shareholders expect.

EIC PHILOSOPHY

IDENTIFY STRONG MANAGEMENT TEAMS

ACQUIRE COMPANIES IN SUSTAINABLE, STRATEGIC BUSINESS LINES

FACILITATE OPPORTUNITY

BENEFIT FROM DIVERSIFIED, LONG-TERM GROWTH

EIC OWNERSHIP

EMPOWER MANAGEMENT

APPLY LONG-TERM VISION

PROVIDE STRATEGIC OVERSIGHT

FACILITATE ACCESS TO CAPITAL

BUILD SUCCESSION PLANS

> "When considering an acquisition, we look beyond the spreadsheets. We identify leaders who can take their business to the next level."
>
> DARWIN SPARROW
> Chief Operating Officer

MAXIMIZING ENTREPRENEURIAL POTENTIAL

Behind every EIC business are the great people building it.

When we look at a potential acquisition, one of our main considerations is the retention of talented individuals and teams who can thrive under our ownership style. Examples of this are found throughout EIC's portfolio because we foster long-term success rather than looking for quick payoffs.

Throughout the EIC family we've empowered people to make their success part of our own. Many are now shareholders in EIC because they believe in our success. We're always on the lookout for leaders who want to stay in the game and know EIC is the right team to help them win.

Butch Mizell, President & CEO
Stainless Fabrication
Acquired by EIC in 2008.

BUTCH MIZELL's partners at Stainless Fabrication wanted to transition out of the business, but Butch wanted to preserve the team they had formed and solidify the future of the company. Since being acquired by EIC, Butch retained and expanded his talented team growing the business and taking on new opportunities.

RAY MOHER sold Water Blast Manufacturing to EIC when he found he needed a partner to expand his company's large industry position. Despite turbulence in the Alberta marketplace, EIC has stood by its investment and helped Ray expand his operations across Western Canada.

Ray Moher, President & CEO
Water Blast Manufacturing
Acquired by EIC in 2007.

16 STAND-ALONE ACQUISITIONS

$1,245M

16 TUCK-IN ACQUISITIONS

$293M

ORGANIC OPPORTUNITIES

$1,050M

CAPITAL DEPLOYED

FOSTERING GROWTH WITH

DISCIPLINED INVESTMENT

EIC has proven our resilience year after year.

EIC's ability to consistently generate exceptional returns has been built with intention. We are prudent investors of capital who've built a solid balance sheet, allowing us to be responsive and opportunistic in expansion. When our shareholders see we've made investments in a new acquisition or by deploying growth capital, they know they're protected by our disciplined approach to spending.

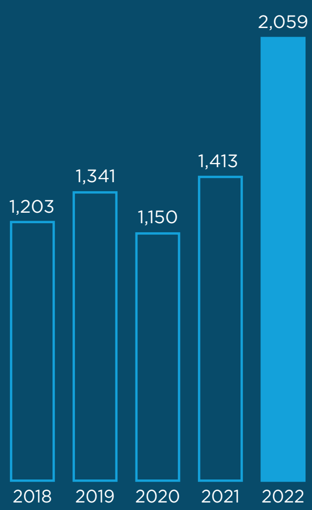
We're unapologetic about our willingness to use debt & equity capital, having demonstrated that by doing so we are able to consistently deliver growth for our shareholders on a per share basis.

> **"Investors know EIC's strong balance sheet delivers reliable results while giving us the ability to quickly capitalize on growth opportunities."**

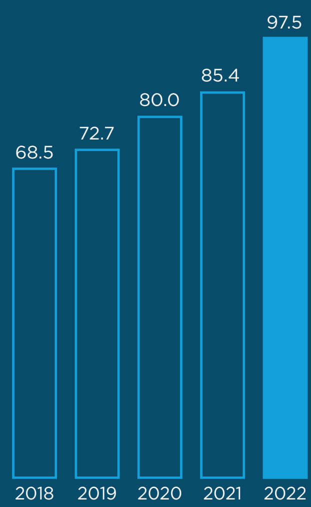
RICHARD WOWRYK
Chief Financial Officer

CONSISTENT STRATEGY, EXTRAORDINARY RESULTS

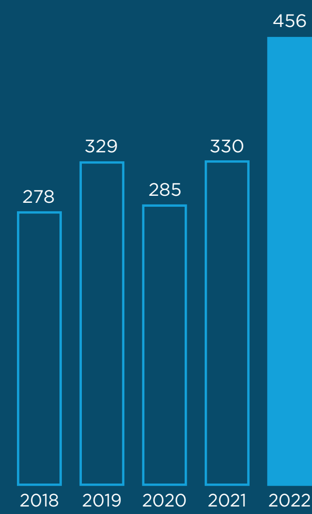
2022 RESULTS



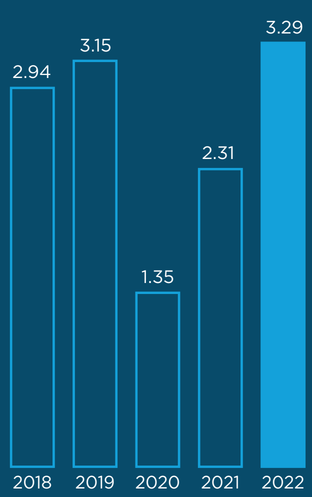
REVENUE
($ MILLIONS)



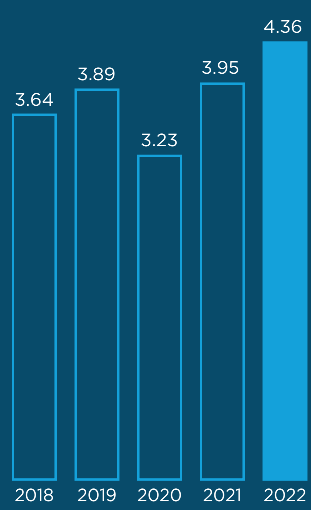
DIVIDENDS DECLARED
($ MILLIONS)



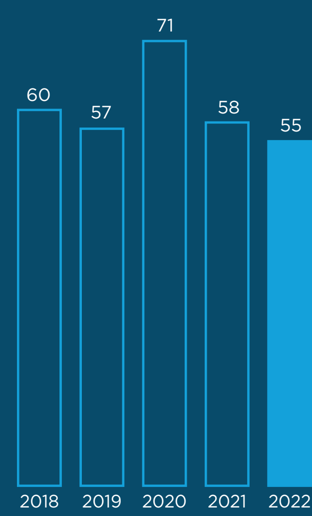
ADJUSTED EBITDA
($ MILLIONS)



ADJUSTED NET EARNINGS PER SHARE
($ PER SHARE)



FREE CASH FLOW LESS MAINTENANCE CAPEX PER SHARE
($ PER SHARE)



FREE CASH FLOW LESS MAINTENANCE CAPEX PAYOUT RATIO
(PERCENT)

NORTHERN MAT & BRIDGE

ACQUISITION SPOTLIGHT

Northern Mat & Bridge enables access and protection to some of Canada's most sensitive ecosystems.

We're extremely proud of how we've grown Northern Mat & Bridge from our beginnings in Grande Prairie to a company with hundreds of employees in locations across Canada. EIC is the right partner to help us bring our business to the next level, preserving our culture of excellence while we extend our operations to provide environmentally responsible solutions to even more customers and regions.

DARREN FRANCIS
CEO & President
Northern Mat & Bridge

Northern Mat & Bridge is the largest acquisition in EIC's history, making an immediately positive contribution to EIC's results and helping to grow adjusted EBITDA by a phenomenal 58% in the quarter after the acquisition closed.

Canada's first choice for providing safe, cost-effective access solutions for any industry, protecting the environment has always been the "why" behind Northern Mat & Bridge's business. The company practices responsible environmental stewardship in every aspect of its business, from choosing responsible wood suppliers who are committed to sustainable forest management to integrating carbon tracking and reduction initiatives and end-of-life wood product recycling to reduce environmental footprint even further.

The business is equally committed to meaningful engagement with Indigenous communities and people in whose territories it operates. Through these efforts, Northern Mat & Bridge has built mutually beneficial business relationships while deepening respect for Indigenous cultures and traditions and acknowledging the role it can play in economic reconciliation.

PROVIDING SUPPORT, BUILDING COOPERATION

PAL Aerospace's Dash-8 100 ISR Aircraft in operation for the Netherlands Coast Guard

EIC is successful when we're unlocking opportunity for our subsidiaries. We put our entrepreneurs in position to achieve goals they could not reach on their own.

CARMELE PETER
President

EIC is there when our companies need us.

Our business model is designed to help our businesses reach the next level, at the right time. EIC enhances the opportunities of our subsidiaries by leveraging the capabilities they hold within their current structure while providing financial resources and professional guidance.

Private companies are often constrained by both access to capital and their appetite for risk. That isn't the case for EIC subsidiaries. Access to capital enables our companies to make the calculated, empowered decisions that turn opportunity into success.

We provide a balance of disciplined strategy, fiscal oversight, and cooperation across the EIC family of companies. We encourage support for one another that builds entrepreneurial capacity, enables collaboration, and drives accomplishment that couldn't be realized by individual entities.

Mike Pyle photo by Ruth Bonneville, Winnipeg Free Press/Reprinted with permission

> "At EIC, doing the right thing is part of our DNA."
>
> **MIKE PYLE**
> Chief Executive Officer

OUR SUCCESS IS MEASURED BY MORE THAN NUMBERS

Remembering our responsibilities and knowing the positive contribution we can make is always top of mind at EIC.

Grounding our philosophy in long-term focus has built EIC's understanding of the need to make a positive impact in the communities in which our people live and work.

Integrating Environmental, Social, and Governance (ESG) considerations into our acquisition process, and into the ongoing operations of our subsidiaries, has a direct impact on creating value and mitigating risk for our stakeholders. We understand the positive influence that ethical and stable companies have on helping local communities, and we want to help build sustainable, responsible opportunity beyond the boundaries of our business.

Top: Pilot Pathway Inaugural Graduation Class

Bottom Left: VIP Kids at Winnipeg Jets Game

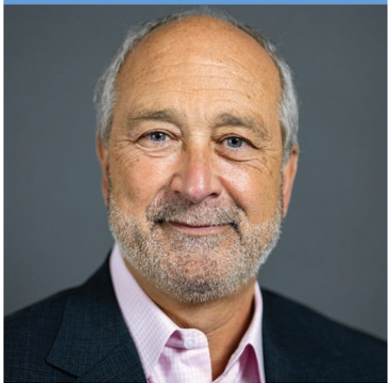
Bottom Right: Orange Glow at September 30 Winnipeg Blue Bomber Game in honor of the National Day for Truth & Reconciliation.

Left Page: Northern Mat & Bridge wooden access solution protecting environmentally sensitive swamp land.

As essential service providers and partners in Indigenous communities across Canada, we understand the importance of fostering true reconciliation. That's why we continually embed in our company a deep cultural respect for the communities in which we operate, backed by a commitment throughout our organization to ensuring we are enabling economic opportunity for the people we have the privilege of serving.

We strive every day to conduct all parts of our business with integrity, fairness, and respect.

We don't just say we care. We prove it every day.



CHAIRMAN'S MESSAGE

DON STREUBER

FCPA, FCA
Chairman,
Board of Directors

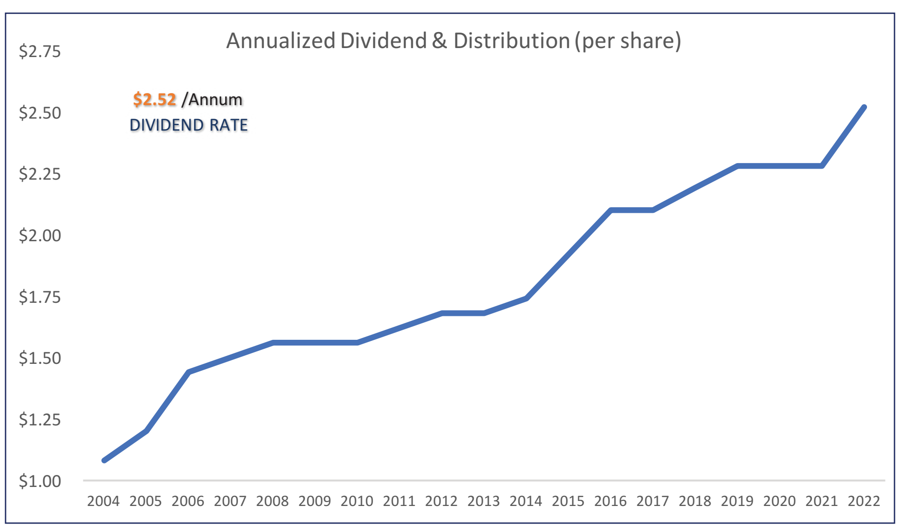
This is my first message to you as Chairman of EIC, following the retirement of The Honourable Gary Filmon who has led our Board since our inception. 2022 was one of the most successful in our 20-year history, generating new highs in virtually every financial metric, increasing our dividend twice, and providing our shareholders with an annual return of over 30%, in a year where most stock indices declined significantly. I do not intend to focus my discussion on the specifics of 2022, as I will leave that to our CEO, but instead would like to review our business model with you and discuss why it has been so effective. An examination of our model over the last 20 years will explain our commitment to it for the next 20.

EIC's strategic business model has not changed from the very beginning and is really quite simple, grounded on three key tenets. The most fundamental piece of the strategy is to provide a stable and growing dividend. We do this by taking a disciplined, accretive approach to acquiring companies with strong management teams and cultures in diverse industries. Once a company is acquired, we provide these entrepreneurial leaders with the financial resources to grow and seize opportunities when they are presented.

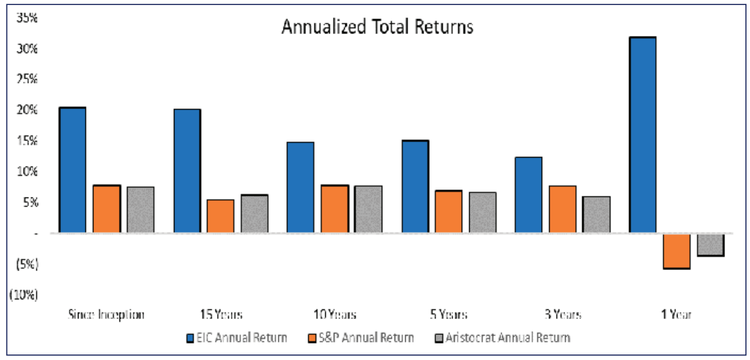
Our model is simple, concise, and powerful, but the key to our success has been driven by its consistent execution.

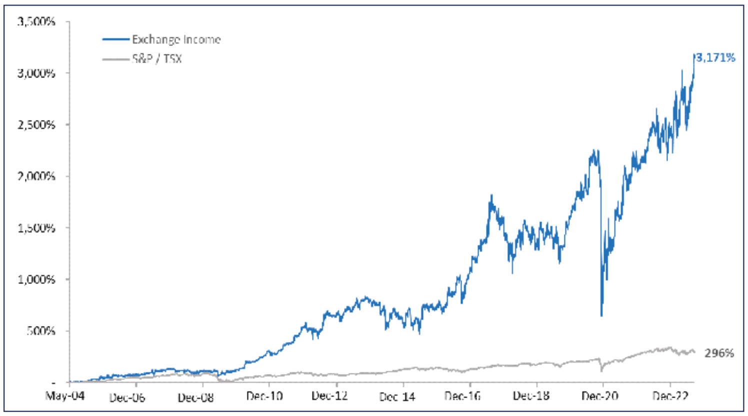
Since our beginnings as a capital pool company in 2002 and our first acquisition in 2004, we have been committed to growing through acquisition and organic investment in our subsidiaries. Our subsidiary companies have, without exception, excellent management teams which allow our head office team to focus on the growth of the overall enterprise and not on the day-to-day management of each operation. We have built a diverse group of companies focused in the Aerospace, Aviation, and Manufacturing sectors which has in turn provided remarkable resilience to our financial performance.

EIC has always described itself as a company focused on delivering a growing dividend to its shareholders, and we have been very successful in delivering ever increasing cash return to our shareholders. As set out in the chart below we have increased our dividend 16 times since 2004 and have maintained a dividend compounded annual growth rate (CAGR) of 5%, which is amongst the best on the TSX over this period.



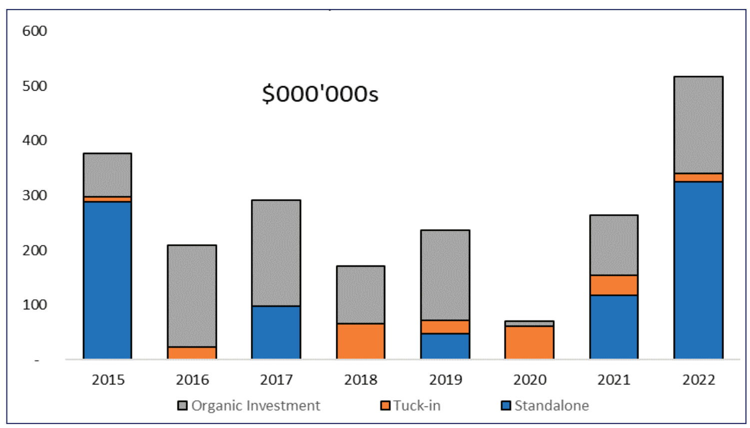
There is a misconception however that shareholders who are looking for growth will not be able to achieve it in an income vehicle like EIC. Our track record shows this is not the case. In the chart to the right you can see that since our first acquisition in 2004 we have averaged an annual compounded return to shareholders of 20%, which is almost three times the dividend invested return generated by the TSX or by the aristocrat index. This level of outperformance is not limited to this period as we have more than doubled the indexes for each of the 5, 10 and 15 year periods ending at December 31, 2022.

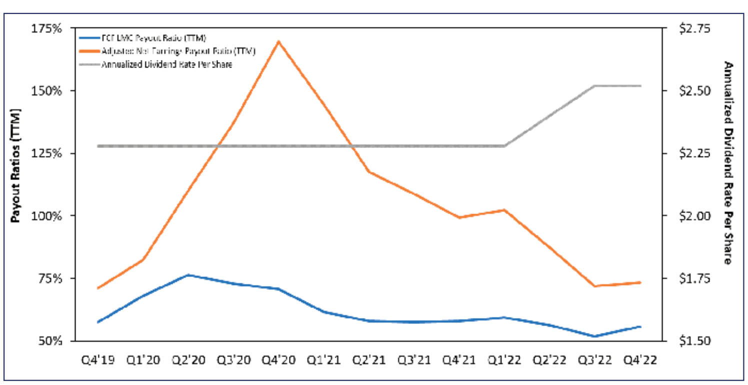




Here is another way to illustrate the strength of EIC's returns. The next chart shows that a dollar invested in the TSX index at the time of our IPO would have generated a value of $2.96 as at the end of December 2022. The same investment in EIC would have had a value of $31.71.

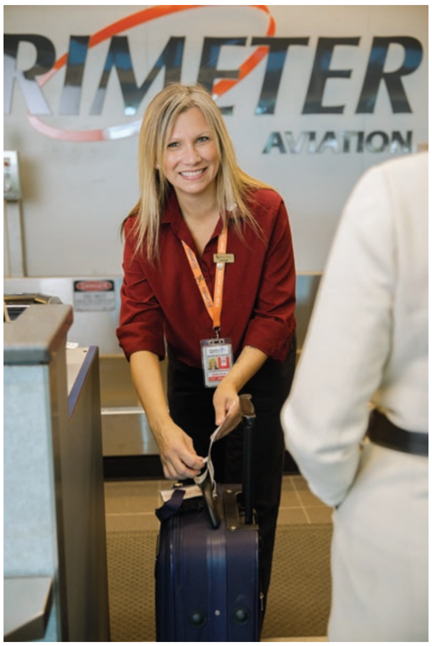
Our market capitalization has grown dramatically since our $8 million IPO in 2004 to $2.2 billion at the end of 2022 while our enterprise value has grown from $20 million to $3.7 billion over the same period. There is a school of thought that this growth is predominantly driven by the acquisitions of new subsidiaries, but this is not accurate. While we are active in the acquisition market, the investment we make into growing these companies through capital investment and smaller tuck in acquisitions that has driven substantial growth as well. This enables EIC to be opportunistic when enticing new acquisitions are uncovered, but also to continue to grow when no acquisition opportunities that meet our high standards are available. The chart to the right shows where we have invested our capital since 2015.





We are diversified across a number of companies in our two segments which has provided us with a very resilient cash flow stream through a wide variety of economic conditions. This has enabled us to maintain our dividend through a number of economic challenges over the last 18 years such as the financial crisis in 2008 to 2010 and most recently the pandemic. The last chart here shows that while our payout ratios rose during the pandemic, we always generated enough cash flow to fully fund our dividend. In fact, we continued to invest in tuck in acquisitions during this period and invested in Growth Capital Expenditures. These investments set the stage for the strong recovery in 2022. We raised our dividend twice in 2022 and still reduced our payout ratio to very strong levels.

CHAIRMAN'S MESSAGE (Continued)



Business models are simply a plan, a theory on how you intend to run your business. It is the execution of the plan that determines your success. We are blessed with an exceptional Board, management team and employees who are committed to executing on our plan and taking the best possible care of our customers. Many personal sacrifices were made throughout the pandemic to make sure that we met the needs of our customers while keeping everyone as safe as possible. I want to acknowledge the selfless efforts that were made before, throughout, and after the pandemic and the exceptional results they generated.

EIC has been committed to best practices in environmental stewardship, corporate governance, and social sustainability since our inception. ESG is very topical now, with the focus being on carbon footprint. In our opinion however, it is unfortunate that this has become about grandiose promises to reach net zero through technologies that don't even exist yet, or if they do, are a longtime from being economically feasible. Our airlines are the only bridge between northern Indigenous Communities and health care and supplies in the south. The aircraft we operate have a significant carbon footprint because unfortunately there is not an alternative power source for these aircraft. Furthermore, more environmentally friendly fuels are not available for us to utilize at this time. Rather than focus on unrealistic promises that there is currently no way to meet, we have chosen to invest in projects that are helpful to the environment immediately. We have developed multi-blade propellers to increase operational efficiency and thereby reduce carbon emissions. We have acquired a company whose temporary wood access roads enable development of all types of energy and natural resources, without the use of gravel access roads which leave a permanent scar on the land. We will of course invest in electric or hydrogen propulsion systems as soon as they are practical, but until that time, we will focus on change that makes an immediate difference.

Perimeter Aviation was our first acquisition in 2004. Its founder Bill Wehrle was adamant that we needed to invest back into the First Nation Communities that we service, and it has been a part of our DNA from the beginning. Through community partnership arrangements, we have provided profit sharing, free and discounted service, and investment capital for local economic or social development projects for almost 20 years. As discussed in greater detail in our CEO message, we have focused our efforts on Reconciliation through investment in our Bill Wehrle Scholarship Program, Tik Mason Pilot Pathway, and our partnership with the Winnipeg Blue Bombers to bring over 1,000 Indigenous people from across central Canada to attend a CFL game and bring attention to the need for not just reconciliation but economic reconciliation with our Indigenous peoples. Through the Blue Bomber and Atik Mason Pilot Pathway programs, we invest in excess of $2 million annually back into our relationships with our Indigenous partners and we look forward to not only continuing them in 2023 but expanding them.

We are exceptionally proud of our operating subsidiaries and have

CHAIRMAN'S MESSAGE (Continued)

historically described their operations in considerable detail in our public disclosure. As we have grown, this has made our operations seem complicated and difficult to understand which has in turn created some anxiety among potential investors. The operations fit neatly into our operating segments, and the colour we provide based on brand name or geography add unnecessary complication to understanding our operations and our results. To make our disclosures easier to digest and utilize we will be streamlining our discussions in 2023. As an example, rather than discussing our Perimeter results or our central Canada results, we will talk about our airlines in aggregate, thereby making our disclosures more user friendly.

I would like to take a moment to express my thanks to The Honourable Gary Filmon, our outgoing Chair who retired this year. Gary provided tremendous leadership through our voyage from an idea to a micro-cap on the TSX Venture Exchange, to today where we have a $3.7 billion enterprise value and are a member of the TSX Index. In our beginning, Gary shared the tremendous credibility he built as a long-term Premier of Manitoba with EIC and this was instrumental as we proved our business model. Throughout our growth, he ensured we stayed committed to our business model, but more importantly he helped us establish our corporate culture as the driver of our decision-making processes. This is something that will live on in the DNA of our company. Thank you Gary.

I am very pleased with our record results in 2022, but I think our track record over the last two decades is a stronger testament to the power of our business model and the consistent execution of it. The power of the model lies not in the fact that our subsidiaries never face challenges, because of course they do, but rather in the fact that by investing at the right price and limiting our financial leverage, the diversity of our portfolio carries us while we work to solve a particular problem. The model has generated remarkable returns through multiple economic crises from the financial crisis beginning in 2008 to the recent pandemic. It works and we will stay the course. I want to thank all of our stakeholders for their ongoing support, and I look forward to seeing many of you at our AGM in May.

Don Streuber, FCPA, FCA
Chairman, Board of Directors

CEO'S MESSAGE

MIKE PYLE

MBA, ICD.D.
Chief Executive Officer

Having our eyes set on the horizon and focusing on the future while managing the present has consistently been a cornerstone of our strategy at EIC. The benefit of this strategy has never been more apparent than in 2022. Throughout the COVID-19 pandemic, we were dedicated to keeping our customers and our staff safe, while continuing to provide the products and services that we are known for, all without compromising our ability to plan for and invest in the future. We were able to complete accretive tuck-in acquisitions, invest in strategic capital investments, and win significant new contracts, all of which contributed to the best year in our history. While we, like most companies, continued to feel the residual effects of inflation, supply chain interruptions, a historically tight labour pool, as well as the pinch of rising interest rates, we were able to generate record results in virtually every financial metric, while expanding our investment in social initiatives and, giving back to the communities we serve. It is important that we realize that the results in 2022 were driven by decisions made in previous periods and our success in 2023 and beyond will be derived from 2022 initiatives.

Let's start with a quick review of our 2022 financial results.

Highlights from EIC's 2022 Financial Performance

- **Revenue grew by 46% to $2 billion.**
- **Adjusted EBITDA increased by 38% to $456 million.**
- **Net Earnings grew 60% to $110 million while Net Earnings per share increased 48% to $2.72.**
- **Adjusted Net Earnings reached $133 million, up 55%, and Adjusted Net Earnings per share was $3.29, up 42%.**
- **Free Cash Flow reached $332 million, up 36%.**
- **Free Cash Flow less Maintenance Capital Expenditures grew by 20% to $176 million, and on a per share basis grew by 10% to $4.36.**
- **Payout ratio on a Free Cash Flow less Maintenance Expenditures basis improved to 55% from 58% and on an Adjusted Net Earnings basis improved to 73% from 99%. These improvements were despite two dividend increases totaling 11%, which increased the annualized dividend rate to $2.52.**

During the pandemic we worked very hard on managing our cashflow to enable us to maintain the dividend that our shareholders were expecting. Not only were we able to preserve our dividend, we also focused on growth. Between March 2020 and the end of 2021 we completed five tuck-in acquisitions, one platform acquisition, and invested $164 million in Growth Capital Expenditures within our existing operations. This set the stage for the exceptional performance that we experienced in 2022 and allowed us to increase our dividend on two separate occasions by a total of $0.24 or 11%. As our Chairman discussed in his message, this has preserved our dividend growth at a 5% CAGR since our inception, a performance metric which we are very proud of.

Our investment philosophy since inception has been about meeting targeted returns on the capital we deploy into diversified cash flow streams, rather than setting targets on the means by which that growth has to be achieved. This permits us to have exceptional flexibility to ensure that when we are investing for future growth, we are doing so because it is accretive to the bottom line, and not simply growth in the top line for growth's sake. The means by which we can deploy capital varies year over year, but includes large platform acquisitions, tuck-in acquisitions, and investments in our current operations through Growth Capital Expenditures.

We continued with our growth strategy in 2022 with two very different acquisitions which were at the opposite ends of our size comfort zone. We purchased a small company that is the leader in providing medical support to air and ground ambulance in Northern Alberta. The pandemic revealed that our medevac operations were even more resilient than we had hypothesized prior to COVID-19. With strong market penetration in the Maritimes, Manitoba, Nunavut and British Columbia, the purchase of Advanced Paramedic Ltd. ("APL") opened a new market for EIC in Alberta and facilitates future growth into the balance of Alberta, Yukon, and Northwest Territories. The team at APL are industry leaders in medical transport and have met the high expectations we had when we decided to acquire the company.

Northern Mat and Bridge ("Northern Mat") was acquired in May of 2022 for total consideration of $344 million, which was the largest in our history. Northern Mat provides temporary access solutions through the use of timber matting to remote and urban projects across Canada. When the projects are complete, the access roads are removed leaving very little if any lasting environmental footprint. Timber matting has become an environmental best practice, allowing for the elimination of gravel roads and culverts which are not easily removed and create long lasting environmental damage. I will return to EIC's environmental strategy generally later in this message, but for now it is important to understand that the company is more than a remarkable generator of cash flow, it is a supplier of environmental solutions.

EIC has always been focused on the management teams of our acquisition targets, and Northern Mat has a team that is in line with the best we have ever seen. Led by Darren Francis, the team has an impressive level of depth with decades of combined industry experience and an average tenure with the company of over a decade. They are well equipped to lead the company into the future. They were significant shareholders in the company prior to our purchase and took significant positions in EIC as part of this transaction.

Northern Mat is the largest player in timber matting business in Canada and is the only major company which is vertically integrated and manufactures its own matting products. Most other players either provide rental solutions or manufacture the mats for others. This vertical integration, in addition to reducing product costs, provides enhanced flexibility in times of rapid change in the demand for product in the marketplace.

When the company was purchased, it was valued based on the actual results achieved in the 4 years prior to our acquisition, excluding the anomaly of the first year of the pandemic in 2020. We knew that the performance in 2022 would exceed the historical average because of strong demand and long linear projects, particularly in the pipeline industry, which require a significant numbers of mats. The ability to ramp up production when others could not move as quickly gave Northern Mat the best year in its history. The outlook for 2023 remains strong as industry demand is expected to remain high. While enhanced supply from other industry players may soften the market somewhat, utilization of mat inventories is expected to remain strong.

During 2022, Provincial completed the modification of two Dash 8 100 aircraft and delivered those ISR equipped aircraft to the Netherlands Coast Guard. The second aircraft was delivered late in the fourth quarter and did not contribute to 2022 results, and the first contributed only in the fourth quarter. These aircraft are now fully operational and will contribute meaningfully in 2023 and beyond. We hope that this contract, our first to provide ISR services in Europe, will be a springboard to provide these types of services to other European governments. The modification of these aircraft took place over a period of 24 months and provides another example of our willingness to deploy capital into our operations when the return meets our return thresholds, even if that capital needs to be deployed well in advance. It is our focus on the long term that continues to provide long term shareholder value.

As the recovery in the aircraft leasing business from the impacts of the pandemic has been slower than we would have hoped due to a shortage of pilots, Regional One has seen activity within its engine lease portfolio pick up as of late. This includes a large pool of engines that will be leased to a third party in 2023 on a medium term lease. During 2022, Regional One made investments in its engine portfolio to prepare for this as engines start to come online towards the end of the first quarter of 2023, with delivery throughout the first half of 2023. As more pilots are trained globally, regional routes will start to see higher frequencies and our aircraft leasing portfolio will slowly complete its recovery from the impacts of the pandemic and the pilot shortage. It is expected this will take several quarters and likely won't be nearing full recovery until the end of 2023.

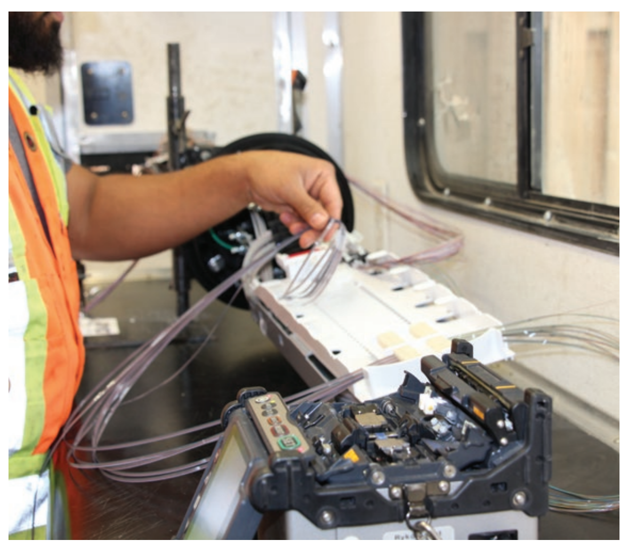
CEO'S MESSAGE (Continued)

While passenger volumes in certain markets are still below 2019 levels due to a backlog of medical and diagnostic appointments in the south, our overall charter operations and passenger volumes in eastern Canada have been very strong in 2022 and are above pre-pandemic levels. Our charter operations have been bolstered by new contracts we have won coupled with increased demand from the natural resource sector in general. In addition, we have expanded our route network in eastern Canada, which included increasing the gauge of aircraft operated by Provincial to include a fleet of Dash 8 Q400 aircraft. Both of these opportunities required additional investment in aircraft to meet these new demands. These Growth Capital Expenditures made throughout the year in our Legacy Airlines and Provincial contributed to our results for a portion of 2022 and will contribute for a full year in 2023.

One of the questions we are frequently asked with respect to our business model is how we keep management engaged after we purchase the business. In addition to EIC providing resources to support some of the less fun aspects of running a business (insurance, IT, taxes, compliance, and treasury to name a few), we provide the capital to help our leaders grow their business. Fostering the entrepreneurial spirit of our CEOs and their teams provides the opportunities to fuel our future growth and allows these leaders to focus on growing the business. It is this excitement of seeing how the investment in their businesses translates into growth that keeps these leaders, many of whom were the original owners of the business, within the EIC family for the long term. In addition to investment through Growth Capital Expenditures, we have seen the benefits achieved through investments of tuck-in acquisitions throughout our history – keeping management teams entrepreneurial and focused on growth, contributing in an accretive manner, diversifying our cash flows, and achieving returns in addition to the historical returns of the purchased entity through integration with EIC and its subsidiaries. The last 18 months have been no exception, as in addition to the acquisition of APL discussed above, we completed three tuck-in acquisitions in our Manufacturing segment.

WesTower's operations have ramped up over the last year as the investment in 5G has started across Canada. With the timing of significant investment cycles in telecom infrastructure subject to changes in technology, management at WesTower has been successfully diversifying its product offering away from solely new tower construction. The major way this diversification was achieved was through an expansion into wireline. There was a demand from the telecommunication companies to have one integrated supplier of both wireless and wireline offerings. In addition to some organic investments into wireline, WesTower management identified potential tuck-in acquisitions that would permit them to accelerate this expansion across the country. Late in 2021, we completed the acquisitions of Telcon and Ryko and the team spent the year integrating those operations and realizing the benefits of an integrated service offering to the large telcos in Canada. These acquisitions, along with growth within WesTower's historical lines of business, resulted in significant growth for WesTower year over year in 2022.

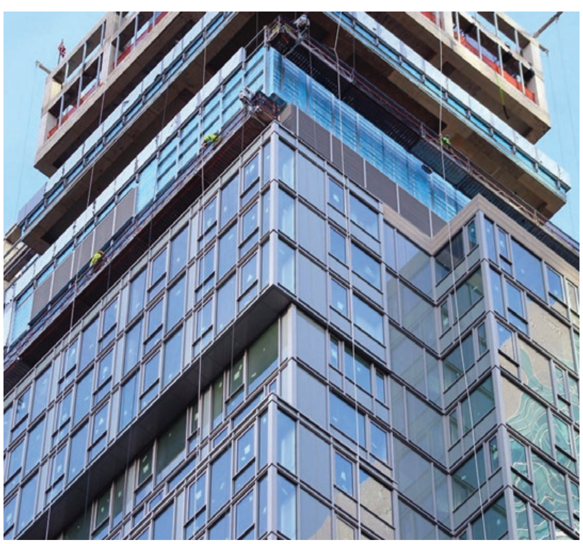
Similarly, in 2021 we acquired Macfab, a tuck-in for Ben Machine. Ben Machine has seen rapid growth over the last number of years and was nearing capacity. The purchase of Macfab allowed Ben Machine to not only take advantage of some production capacity at Macfab, but also diversify its customer base into the medical sector. In 2022, Ben Machine continued its growth as it realized synergies and deployed this additional capacity at Macfab. We are currently exploring similar opportunities to make tuck-in acquisitions to expand our precision metal fabrication footprint across the country while also looking for additional ways to integrate the entities we already own to drive further growth.



CEO'S MESSAGE (Continued)

In addition to the investments discussed above in our Legacy Airlines, we made significant investments in our rotary wing fleet during the year as we launched Trauma Flight. Trauma Flight is a partnership between Keewatin, our northern medevac provider, and Custom, our rotary wing helicopter company. Our operators identified a significant gap in the market where the current rotary wing medevac offerings in Manitoba were not servicing northern Indigenous communities. This meant that those in the North, particularly in remote Indigenous communities where there is no road or rail transportation into those communities, had to resort to less than ideal transportation in certain circumstances where a medical emergency existed. Once we received the necessary approvals from the government of Manitoba, we started providing rotary wing medevac services to northern Manitoba, providing those living in these comminutes quicker access to life saving medical treatment, and aligning the services with those that us living in southern Manitoba take for granted.

Regional One's parts and large asset sales have recovered well since the pandemic lows. Sales of parts are above pre-pandemic levels and the sales of large assets have been well above pre-pandemic levels as airlines around the world look to make up for lack of investment in their fleets over the last number of years. This has partially offset the impact of lower leasing throughout the year, as previously discussed. We are seeing positive signs of recovery in our leasing portfolio and will continue to invest to ensure it is positioned correctly for the eventual rebound in the regional aircraft market.



Quest was impacted the most by the pandemic and subsequent economic environment within our Manufacturing segment and continues to feel the impact of production gaps. Since the average book to build time is approximately 18 to 24 months for Quest's projects, this meant that initially Quest continued operating with relative normality as projects that were started pre-pandemic were completed in 2020 and early 2021. The temporary delay in certain projects due to the pandemic meant that gaps started to appear in the production schedule which will continue to take the remainder of 2023 to fully work through. That being said, we are expecting a significant increase in the contribution from Quest in 2023 as each quarter in 2022 saw the order book increase to a new record level, unimpacted by increased interest rates or a potential slowdown in the economy. What we did see, however, was a shift in some projects from condominiums to apartment buildings, which has no impact on Quest. We are excited about the long term prospects of the business and are currently exploring ways to deploy additional capital into Quest to fuel future growth.

A fundamental component of our business model is to maintain a strong liquid balance sheet to enable the company to take advantage of opportunities when they arise. 2022 was a turbulent time in the stock market, and most indices declined significantly over this period. Raising additional capital was challenging and many were not successful in strengthening their balance sheet with equity offerings. EIC completed an offering of common shares at the highest price in our history, $48.70, during the third quarter. Demand for the issue was very strong resulting in the underwriters exercising the full overallotment option bringing the issue to $115 million. As a result of this equity raise, despite approximately $360 million in acquisitions and investment of $125 million in Growth Capital Expenditures, the company finished the year with net debt to Adjusted EBITDA of 2.38 and available capital of over $1 billion. Even with the additional shares issued in this offering, our Net Earnings per share and Adjusted Net Earnings per share increased by 48% and 42%, respectively, to new highs.

EIC's commitment to the communities it serves has been interwoven within its operations since inception and has been a part of the companies we purchase since well before being acquired. This is extremely evident in our relationships and the dozens of community partnership agreements with the Indigenous communities across Canada – from coast to coast to coast and across both of our segments. We understand the seriousness of our responsibilities to the remote Indigenous communities we serve. We provide an essential service to the communities serviced by our airlines and without the work by our amazing teams across Canada, life in these communities would not be the same. Whether it is transporting critically ill patients on one of our medevac aircraft, flying in goods and fuel into the north, or transporting community members to southern centers for medical or other appointments, we are an essential link to Canada's north for the people that live there – which is why during the pandemic, even when certain routes were not economical, we continued to fly.

CEO'S MESSAGE (Continued)

As part of our ongoing investment in the communities we serve and to advance reconciliation efforts in Canada, we announced two new initiatives in 2022 and continued two others.

In April 2022, we announced that we would be opening up a seasonal flight school in Thompson, Manitoba. The program, the Atik Mason Indigenous Pilot Pathway, is a fully funded program providing the opportunity for Indigenous community members to build a career within the aviation industry as pilots. We identified major barriers for Indigenous individuals attempting to become pilots, including cost, location and cultural differences, removed those barriers, and then ensured, with the guidance of Manitoba Keewatinowi Okimakank Inc., that the program honored the importance of retaining a deep connection to Indigenous culture while training. In 2022, we had 11 individuals complete the first step of their pilot training and will have the opportunity to come back in 2023 to continue their training in Thompson. In addition, due to the high interest from individuals and feedback we received on the program, we will be expanding the program in 2023 to include additional Indigenous community members. We are excited to provide this opportunity to Indigenous community members who, without this program, likely would not have access to a career as a pilot.

As we have discussed in the past, medical backlogs are having a disproportionate impact on our Indigenous customers that need to travel south for medical appointments. In addition to delays in receiving appointments, last minute cancellations are an unfortunate reality and difficult to manage for those that are travelling in some cases thousands of kilometers. We have announced a $1 million donation to the Health Sciences Centre Foundation for the construction of the Manitoba Urological Centre at the Health Sciences Centre. The investment will create a new day surgery clinic in Manitoba that will reduce wait times for roughly 10,000 patients each year dealing with kidney stones, urinary problems, and bladder cancer, and will assist in clearing the backlog that currently exists, including for our Indigenous community members. We very much look forward to the construction of the facility and improved health outcomes for all Manitobans as a result.

In 2021, we started a program in partnership with the Winnipeg Blue Bombers where 1,000 Indigenous people would be invited to attend a Blue Bomber game on or around the National Day for Truth and Reconciliation. After the amazing success in the first year, we continued the event in 2022. Most of the attendees were from remote communities, many of which have never had the opportunity to attend a Winnipeg Blue Bomber game. Seeing the sheer joy on the faces of the children as they walk into the stadium for the first time is an experience I will never forget and drives us as a company to do more to enhance the lives of those in the communities we serve, no matter how small the impact may seem. EIC covers the cost of transportation, lodging, and incidentals, in addition to providing each of the participants with orange gear to wear to the game. We look forward to continuing this tradition in 2023. In addition, with the resumption of the Winnipeg Jets home games at full capacity and removal of travel restrictions in and out of Canada's north, we have resumed our Winnipeg Jets program whereby Indigenous children, along with chaperones from their northern communities, attend Winnipeg Jets games at EIC's expense. Similar to the Bomber program, the children's excitement is infectious as they experience something that previously they could have only dreamt of doing.

EIC's airlines undoubtedly have a carbon footprint, as technology does not currently exist to reduce or eliminate that footprint. With the flying to remote Indigenous communities being essential, it is not an option to simply reduce schedules or stop flying to show that we are reducing our carbon footprint. We have made investments to reduce our footprint where it made sense, including modifying the propellers, implementing weight reduction programs, upgrading older avionics to modern glass cockpits on our turboprop aircraft to reduce fuel consumption, and increasing simulation training to reduce emissions during training. When the technology exists to make a meaningful reduction in our carbon footprint, we will make the investment at that time. The technology may also take a longer time to become commercially viable in northern Canada, as extreme weather, including much colder temperatures than in the southern markets, may mean a longer development cycle to viability than in major markets such as Montreal or Toronto.

Through investment in our northern airlines, we have seen significant growth in these entities since they have been acquired. Perimeter Aviation has its own terminal in Winnipeg where most of our Manitoba and Northern Ontario bound flights depart. We have invested over the years to help manage this growth, but it became apparent that to support the continued growth in both passenger and cargo volumes, we

CEO'S MESSAGE (Continued)

needed to build a new terminal. Before the plans were drawn up, we consulted with members from the Indigenous communities we serve to understand their specific needs and determine how we could build a terminal that addressed their concerns. This led to the inclusion of items requested by the community members, such as culturally sensitive areas for elders to wait for their flight away from the hustle and bustle that would normally be associated with a busy terminal. With his commitment to Indigenous communities spanning his entire career and after consultation with Indigenous community leaders, we announced that the Terminal will be named after our outgoing board chair – the Gary Filmon Indigenous Terminal.

At the time of writing, many economists are calling for some type of recession in North America, the severity of which depends on who is providing the forecast. We currently are not seeing any impacts from a slowdown in the economy. While certain of our subsidiaries may be impacted in the event of a significant slowdown in the economy, we have shown the resiliency of our business model in past recessions. Our diversified business model insulates our results somewhat as each operation will be impacted in different ways and at different times by a potential slowdown. In addition, more than a third of our business is contracted work with governments around the world, providing a level of stability that was evidenced throughout the pandemic.

Interest rates have in 2022, and will continue in 2023, to have a negative impact on profitability. As central banks in Canada and the US have increased rates, the cost of our floating rate debt has increased in lockstep. We have managed our interest rate exposure by having a mix of floating and fixed rate debt, and with the inversion that exists in longer term rates relative to short term rates, it appears that rates in Canada have peaked and will peak in the US soon. During the first quarter of 2023, we entered into an interest rate swap that fixed $350 million CAD of our variable rate debt at a rate that is lower than the floating rate. This, combined with our existing interest rate swap and our convertible debentures, means that approximately 60% of our debt is fixed rate. We do not have any maturities on our convertible debentures until mid-2025, and therefore are not subject to interest rate risk on refinancing these in the near term.

The increase in interest rates has been positive development for our acquisition pipeline and the quality of the acquisitions we are pursuing, which in the long term more than outweighs the short term costs of increased rates for EIC. When interest rates were at historic lows, others in the market could highly leverage an acquisition and justify the returns on their equity through this increased leverage. This resulted in acquisition multiples that were not in line with our return criteria in many circumstances, but particularly on larger acquisitions in excess of $100 million. With our disciplined approach, we have had to walk away from many high quality opportunities. With the cost of varying types of debt increasing rapidly, it is more difficult to finance acquisitions with such high levels of debt. We are currently reviewing several acquisitions in the $100 million dollar purchase price range and several other smaller acquisitions. We are hopeful to close some of these in 2023 and are excited to continue EIC's growth through the opportunities we are currently seeing.

After a year of exceptional performance, where we set records across all of our financial metrics and increased our dividend to shareholders on two separate occasions, we are excited moving into 2023. At this time, we see nothing in the economy that would impact the guidance we provided in conjunction with our Q3 report of Adjusted EBITDA for 2023 between $510-$540 million. We look to continue to benefit from investments we previously made and continuing to execute on our business model that has got us to where we are today. I would like to thank all our shareholders, employees and stakeholders for their continued support. I look forward to discussing our progress with the release of our 2023 first quarter results and seeing some of you at our AGM in May.

Mike Pyle
Chief Executive Officer

February 22, 2023

TABLE OF CONTENTS

Management Discussion & Analysis

PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 2022 ("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, 2022. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FORWARD-LOOKING STATEMENTS

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

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

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

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

EXCHANGE INCOME CORPORATION

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

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

(ii) to maximize shareholder value through ongoing 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, cargo, charter service, and emergency medical services to communities located in Manitoba, Nunavut, Ontario, British Columbia, and Alberta. These services are provided by: Calm Air, Perimeter, Bearskin (as a division of Perimeter), Keewatin, Carson, Custom Helicopters, the equity investment in Wasaya, and other aviation supporting businesses ("the Legacy Airlines"). Regional One is focused on supplying regional airline operators around the world with various after-market aircraft, engines, and component parts. Provincial (comprised of PAL Airlines, the equity investment in Air Borealis, PAL Aerospace, and MFC Training) provides scheduled airline, charter service, and emergency medical services in Newfoundland and Labrador, Quebec, New Brunswick, Nova Scotia, and Ontario and through its aerospace business Provincial designs, modifies, maintains and operates custom sensor-equipped aircraft. Provincial provides maritime surveillance and support operations in Canada, the Caribbean, the Middle East, and Europe. Through MFC Training, Provincial offers a full range of pilot flight training services, from private pilot licensing to commercial pilot programs. Crew Training International ("CTI"), which is consolidated as part of Provincial, delivers training solutions for its customers across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft for the US Department of Defense. Together all these operations make up the Aerospace & Aviation segment. To assist in further explaining the results of the segment, the Corporation may refer to the Legacy Airlines, Regional One, and Provincial.

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

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2022	per share basic	per share diluted	2021	per share basic	per share diluted
For the year ended December 31						
Revenue	**$ 2,059,373**			$ 1,413,146		
Adjusted EBITDA[1]	**456,442**			329,880		
Net Earnings	**109,669**	**$ 2.72**	**$ 2.64**	68,588	$ 1.84	$ 1.80
Adjusted Net Earnings[1]	**132,915**	**3.29**	**3.13**	86,012	2.31	2.26
Free Cash Flow[1]	**332,025**	**8.23**	**7.16**	243,317	6.53	5.78
Free Cash Flow less Maintenance Capital Expenditures[1]	**176,104**	**4.36**	**3.99**	147,154	3.95	3.68
Dividends declared	**97,473**	**2.41**		85,387	2.28	
Trailing Twelve months as at December 31						
Adjusted Net Earnings payout ratio[1]		**73%**			99%	
Free Cash Flow less Maintenance Capital Expenditures payout ratio[1]		**55%**			58%	
FINANCIAL POSITION	**December 31, 2022**			December 31, 2021		
Working capital	**$ 465,481**			$ 225,108		
Capital assets	**1,284,409**			1,070,573		
Total assets	**3,548,836**			2,588,667		
Long-term debt	**1,214,764**			707,611		
Equity	**1,019,054**			800,275		
SHARE INFORMATION	**December 31, 2022**			December 31, 2021		
Common shares outstanding	**42,479,063**			38,740,389		
	December 31, 2022			December 31, 2021		
Weighted average shares outstanding during the period – basic	**40,348,003**			37,265,034		

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

SIGNIFICANT EVENTS

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

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which has resulted in governments around the world at various times throughout the pandemic imposing severe travel restrictions and social distancing measures to limit the spread of the virus. Compared to the pre-pandemic operating environment, travel restrictions have materially impacted the subsidiaries within the Aerospace & Aviation segment, although to a lesser extent as 2022 has progressed, and both supply chain disruptions and required employee absenteeism have negatively impacted the efficiency of the subsidiaries in the Manufacturing segment. Additional information on the impacts of COVID-19 can be found in *Section 2 – Annual Results of Operations* and *Section 6 – Outlook*.

Normal Course Issuers Bid ("NCIB")

On February 25, 2022, the Corporation renewed its NCIB for common shares and certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on March 1, 2022, and ending on February 28, 2023. The Corporation can purchase a maximum of 3,580,512 shares and daily purchases will be limited to 20,179 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital.

Under the NCIB for certain series of convertible debentures, purchases can be made during the period commencing on March 1, 2022, and ending on February 28, 2023. The Corporation can purchase a maximum of $8,050 principal amount of 7 year 5.35% convertible unsecured subordinated debentures of EIC (June 2018), $8,625 principal amount of 7 year 5.75% convertible unsecured subordinated debentures of EIC (March 2019), $14,375 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC (July 2021), and $11,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC (December 2021), with daily purchases of principal amount, other than block purchase exceptions, limited to $7, $11, $70, and $60, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

The Corporation will seek approval for the renewal of both the common shares and convertible debentures normal course issuers bids in the first quarter of 2023.

Early Redemption of Convertible Debentures

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

Atik Mason Indigenous Pilot Pathway

On April 14, 2022, the Corporation announced the introduction of the Atik Mason Indigenous Pilot Pathway program ("the Pathway"). This fully funded program provides the opportunity for Indigenous community members to learn to fly and build careers as professional pilots. With the support and guidance of Manitoba Keewatinowi Okimakank Inc., the Pathway has been designed to remove significant barriers to flight training faced by Indigenous candidates, including cost and location, and honours the importance of retaining a deep connection to Indigenous culture while training. As part of the Pathway, EIC's subsidiary MFC Training, Canada's largest flight training school, established a seasonal base in Thompson, Manitoba to reduce the barrier of location to accessing flight training. Following a summer of rigorous flight training both in the air and on the ground, 11 Pathway participants completed the first step of pilot training and will have the opportunity to come back in 2023 to continue in the aviation industry.

Appointment of Chief Financial Officer

On June 1, 2022, Richard Wowryk was appointed to the position of Chief Financial Officer. Richard has spent over 10 years with EIC, starting his career with the company in Financial Reporting and progressing through roles of increasing responsibility including Controller and Chief Accounting Officer. A graduate of the University of Manitoba, Richard is both a Chartered Professional Accountant and a Chartered Business Valuator. Concurrent with Richard's promotion, Darryl Bergman departed EIC at the end of May to pursue a new career opportunity.

Acquisition of Northern Mat & Bridge

On May 10, 2022, the Corporation completed the acquisition of Northern Mat for $344 million, including purchase price consideration of $35 million in EIC common shares, subject to normal post-closing adjustments. Northern Mat, headquartered in Calgary, Alberta, specializes in providing safe, cost-effective temporary access products and solutions for industries across Canada including transmission & distribution, pipeline, oil & gas, wind, potash, forestry, LNG and more. Northern Mat's products and services deliver safe access to otherwise impassable terrain for reasons such as poor ground conditions, weather, sensitive farm/grass lands and traditional land use areas. Northern Mat's access solutions serve to ensure that large infrastructure projects can access environmentally sensitive areas and return those areas to the same condition as before the project began construction.

Dividend Increases

On May 10, 2022, the Corporation increased its monthly dividend by 5% or $0.12 per annum to $2.40 per annum. The increase was effective beginning with the May dividend, which was paid to shareholders in June 2022.

On August 11, 2022, the Corporation increased its monthly dividend for a second time in 2022, by 5% or $0.12 per annum to $2.52 per annum. The increase was effective beginning with the August dividend, which was paid to shareholders in September 2022.

Credit Facility Upsize and Extension

On May 10, 2022, the Corporation amended its credit facility. The enhanced credit facility increased to approximately $1.75 billion and extended its term to May 10, 2026. The increased size of the facility provides the Corporation capacity to continue to execute on its core strategy of pursuing accretive growth through investment in its operating subsidiaries and through acquisition.

Acquisition of Advanced Paramedics Ltd.

On May 10, 2022, the Corporation completed the acquisition of Advanced Paramedics Ltd. ("APL") for $15 million, including purchase price consideration of $2 million in EIC common shares, subject to normal post-closing adjustments. APL, located in Peace River, Alberta, specializes in providing air and ground ambulance services for primary care, community care, Provincial and Federal Governments, Indigenous, and industrial customers throughout Alberta. APL has the largest Air Ambulance medical crew in Alberta with 18 years of Air Ambulance experience with Alberta Health Services. The acquisition of APL is strategic to EIC to further strengthen our leading medevac position throughout Canada.

Bought Deal Financing of Common Shares

On September 2, 2022, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 2,362,100 shares of the Corporation at $48.70 per share, for gross proceeds of approximately $115 million. The net proceeds of the offering were used to repay debt under the Corporation's credit facility during the third quarter and created further availability under the credit facility until required for future acquisitions or other growth opportunities.

2. ANNUAL RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the year ended December 31, 2022, and the comparative 2021 year.

	Year Ended December 31, 2022			
	Aerospace & Aviation	Manufacturing	Head Office [2]	Consolidated
Revenue	$ 1,337,440	$ 721,933	$ –	$ 2,059,373
Expenses [1]	1,000,928	564,727	37,276	1,602,931
Adjusted EBITDA	336,512	157,206	(37,276)	456,442
Depreciation of capital assets				168,156
Amortization of intangible assets				20,897
Finance costs – interest				73,665
Depreciation of right of use assets				30,655
Interest expense on right of use liabilities				4,753
Acquisition costs				6,847
Earnings before income taxes				151,469
Current income tax expense				21,872
Deferred income tax expense				19,928
Net Earnings				$ 109,669
Net Earnings per share (basic)				$ 2.72
Adjusted Net Earnings				$ 132,915
Adjusted Net Earnings per share (basic)				$ 3.29

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

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

On a consolidated basis, the Corporation generated revenue of $2,059 million, an increase of $646 million, or 46% over the prior year. The increase was driven by both of the Corporation's segments, with the Aerospace & Aviation segment increasing by $420 million over the prior year and the Manufacturing segment increasing by $226 million over the prior year.

Adjusted EBITDA of $456 million was generated by the Corporation during the year, an increase of $127 million or 38% over the prior year. The increase was attributable to both segments, as the Aerospace & Aviation segment increased by $49 million over the prior year and the Manufacturing segment increased by $84 million over the prior year. Head Office costs increased over the prior year as the Corporation invested additional resources in information technology, performance-based compensation increased, and the Corporation incurred costs associated with the inaugural Atik Mason Indigenous Pilot Pathway Program. In addition, the Corporation announced a $1 million donation during the year towards a campaign to build a new urological center at Health Sciences Center in Winnipeg. The investment will create a new day surgery clinic in Manitoba that will reduce wait times for roughly 10,000 patients each year dealing with kidney stones, urinary problems, and bladder cancer, and will assist in clearing the backlog that currently exists, including for our Indigenous community members. Government assistance received by the Corporation from varying levels of government due to the impacts of the pandemic declined significantly in 2022, decreasing by $34 million compared to the prior year. While materially lower than in the prior year, this support ensured continued service to remote communities that otherwise would not be economical at times when our airlines were materially impacted by the pandemic. Excluding the impact of subsidies in both years, Adjusted EBITDA increased by 56% over the prior year.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $420 million or 46% to $1,337 million.

Revenue in the Legacy Airlines and Provincial increased by $294 million or 42% over the prior year. The impact of the acquisitions of Carson Air and CTI for a full year in 2022, and to a lesser extent the acquisition of APL partway through the second quarter of 2022, positively contributed to revenue in the year. Demand for passenger services increased due to reduced travel restrictions throughout the regions in which we operate despite the negative impacts at the beginning of the year from the emergence of the Omicron variant, resulting in increased revenue compared to the prior period. In addition, increased charter activity, and strong rotary wing and medevac operations positively contributed to the revenue generated in the year. This includes the impact of the launch of Trauma Flight, which is a partnership between our medevac and rotary wing companies to provide rotary wing medevac solutions to underserviced areas in northern Manitoba. This increase was partly offset by significantly lower government financial assistance compared to the prior year, which previously supported the continuation of essential service into remote northern communities where service was not economical due to the pandemic.

Regional One's revenues for the current year increased by $126 million or 59%. As seen in the table below, this was driven by significant increase in sales and service revenue and a marginal increase in lease revenue over the prior year.

Regional One Revenue	Year Ended December 31,	2022	2021
Sales and service revenue		**$ 306,735**	$ 181,860
Lease revenue		**33,500**	32,255
		$ 340,235	$ 214,115

Sales and service revenue increased by 69% over the prior year. The sales of whole aircraft, engines, and parts were initially materially impacted due to the pandemic, and Regional One has taken advantage of returning demand to generate record levels of asset sales as customers around the world look to catch up on investments in their fleet that they have put off for a number of years. Regional One capitalized on opportunities in larger asset sales during the year to levels well above pre-pandemic sales, which, combined with a material increase in part sales, drove the increase in sales and service revenue over the prior year. The level of large asset sales moderated in the fourth quarter, but demand is still strong. The sale of large assets varies on a period to period basis, but are generally higher dollar value transactions. The large number of asset sales has not led to a reduction of our net investment in Regional One as discussed in *Section 4 – Investing Activities*. Regional One's business has been significantly impacted by COVID-19 as its business is dependent on the volume of passengers at traditional regional air carriers. As travel has slowly started to pick up around the world, most notably in the United States, Regional One is experiencing continuing growth compared to prior quarters impacted by the pandemic. However, as the impact of the pandemic lessened, the impact of the pilot shortage on the regional air carriers exacerbated. The return to normal will not be linear as there can be many starts and stops on the path to recovery within the lease portfolio.

Lease revenue increased by $1 million or 4% over the prior year. Regional One took advantage of the flexibility within its fleet to deploy more engines to customers for lease as this is where demand is returning first, which contributed positively to lease revenue during the year. Regional One's lease revenues have been impacted by both the Omicron variant and the temporary capacity disruptions within the aviation industry, most notably a worldwide shortage of experienced pilots. The Corporation has no lease revenue recorded for deferred lease payments during the year.

In the Aerospace & Aviation segment, Adjusted EBITDA increased $49 million or 17% to $337 million.

Adjusted EBITDA in the Legacy Airlines and Provincial increased by $21 million or 9% over the prior year. The most significant factors contributing to the increase in Adjusted EBITDA are consistent with the revenue drivers discussed above, including the Corporation's acquisition activity within the segment and the lessening impacts of the pandemic overall compared to 2021. At the beginning of 2022, given the shorter expected cycle of the Omicron variant compared to earlier variants and the long-term strategy of retaining employees in a difficult labour market, infrastructure and labour costs were largely kept at pre-Omicron levels to accommodate for the anticipated rebound in passenger demand later in the year. While there was a short term cost to this strategy, it proved to be the correct one as our airlines were able to meet increasing demand later in the year. The impact of escalating fuel prices in the first half of the year and other inflationary cost pressures throughout 2022 placed downward pressure on Adjusted EBITDA. Although certain contracts have embedded fuel cost and CPI escalation clauses, the contractual right to implement the fuel and CPI increases always lags in time compared to the initial increase in fuel prices and other inflationary increases. Adjusted EBITDA in the Legacy Airlines and Provincial improved despite receiving $26 million less in government support compared to the prior year.

Adjusted EBITDA at Regional One increased by $27 million or 46% over the prior year. The increase in Adjusted EBITDA was primarily driven by a significant increase in aircraft, engine, and part sales as discussed above. In addition, increased lease revenue positively impacted Adjusted EBITDA compared to the prior year.

Adjusted EBITDA margins for the segment were lower than the prior year due primarily to three factors. First, CTI, acquired in December 2021, generates lower margins than those at our other Aerospace & Aviation segment subsidiaries as the capital requirements for the business are minimal, which is line with our expectations. Second, the rapid increase in fuel prices in the year temporarily reduced margins. While the Corporation has the capability to pass these on to customers through automatic changes to contract prices or through fuel price surcharges, there is a lag between when the Corporation experiences the fuel price increases and when the new pricing is realized from the customer. Also, as fuel price surcharges are a flow-through to the customer to cover additional fuel costs experienced, Adjusted EBITDA margins will be lower until these newly implemented fuel price surcharges are no longer necessary. Finally, the $26 million reduction in government subsidies decreased Adjusted EBITDA margins. The combination of these three factors resulted in the percentage increase in revenue outpacing the percentage increase in Adjusted EBITDA.

Manufacturing Segment

The Manufacturing segment revenue increased by $226 million or 46% over the prior year to $722 million and Adjusted EBITDA increased by $84 million or 115% to $157 million. Excluding the impact of CEWS received in the prior year, the Manufacturing segment Adjusted EBITDA increased by 141%.

The Manufacturing segment achieved this result because of our existing companies' consistent performance, and the additions of Northern Mat during the second quarter of 2022 and the three tuck-in acquisitions completed in the second half of 2021. The segment benefitted from operating within a diverse array of industries, whereby the results of companies operating in industries that are most challenged by the current economic environment were buffered by the performance of companies in more robust industries. This diversification enabled our existing manufacturing companies to deliver these results despite receiving no government subsidies in the current period and significant macroeconomic headwinds for manufacturing companies throughout North America. Lower results at Quest were mostly offset by strength in the remainder of the segment as these subsidiaries executed on previous investments made or integrated tuck-in acquisitions to deliver strong growth, in addition to benefits achieved from macroeconomic factors such as the growth in the telecommunications industry spending from 5G investment and increased projects in Alberta buoyed by increased oil prices.

All our entities were impacted by the macroeconomic variables which are impacting businesses throughout the globe, including material price increases, supply chain deliveries, and labour challenges. This has resulted in increased raw material, transportation, and fuel costs which put downward pressure on margins. By continuing to use the same solutions-oriented approach used to lessen the early impact of COVID-19, as a whole our subsidiaries have been able to manage through these challenges.

Quest has performed consistent with the expectations we had for 2022. As anticipated, gaps in the production schedule caused by project delays resulting from the pandemic persist. Quest's projects are booked more than a year in advance, meaning that as the market began to react to the pandemic and projects were put on hold or shifted out, production schedules could not be filled in the short term. These gaps were not the result of low long term demand, but rather short term decisions made by developers as part of the uncertainty surrounding the pandemic. To mitigate some of the impact, Quest's installation businesses have executed on additional work in their markets to install non-Quest product. This work is at lower margins than experienced for supply and install jobs and has a much shorter sales cycle.

Quest has seen a return of stronger demand in 2022 and its order backlog has continued its growth during the year such that Quest exited the year with the largest backlog in its history. This includes, as discussed earlier in 2022, Quest being contracted to complete projects in two new US markets where they have not completed a project in the past. This continued trajectory supports demand for Quest's windows and installation services and will contribute to Quest's growth in future periods.

During the second quarter of 2022, the Corporation completed its acquisition of Northern Mat, increasing revenue and Adjusted EBITDA compared to the prior year. Northern Mat, driven by several long linear projects, is experiencing well above historical demand for its rental mats and bridges and the utilization of these rental assets was nearing practical capacity at several points during 2022. The performance of Northern Mat was materially above its historical performance and in line with our high expectations based on our diligence performed. The year also benefitted from the sale of mats to customers as the integrated nature of Northern Mat's in-house manufacturing capabilities allowed Northern Mat to take advantage of strong demand for mats.

NET EARNINGS

Year Ended December 31,	2022	2021
Net Earnings	**$ 109,669**	$ 68,588
Net Earnings per share	**$ 2.72**	$ 1.84

Net Earnings was $110 million, an increase of $41 million or 60% over the prior year. The Corporation generated higher Adjusted EBITDA compared to the prior year as discussed above, which contributed to the increase in Net Earnings over the prior year. The increase in Adjusted EBITDA was partially offset by an increase in interest costs and depreciation of capital assets of $25 million and $23 million, respectively. The increase in interest costs is due to the combination of increases in benchmark borrowing rates throughout 2022 as well as increased long-term debt outstanding throughout the year, which was used to fund acquisitions and Growth Capital Expenditures. The increase in depreciation is due to the acquisition activity over the last 18 months and investments made in Growth Capital Expenditures. In the prior year, a $6 million gain positively impacted Net Earnings due to the revaluation of contingent consideration, which did not recur in 2022.

Income tax expense increased by $16 million primarily due to increased pre-tax earnings. The Corporation's effective tax rate increased slightly from 27% to 28% in the year. In the previous year, the effective tax rate was lower due to the remeasurement of contingent consideration, which is not subject to tax. The effective tax rate in the current year is lower than the prior year once the remeasurement of contingent consideration is normalized, which is due to higher earnings generated in lower tax jurisdictions in 2022 when compared to 2021.

Net Earnings per share increased by 48% over the prior year to $2.72 due to higher Net Earnings generated in the period. The increase in Net Earnings was partially offset by the 8% increase in the weighted average shares outstanding compared to the prior year. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

Year Ended December 31,	2022	2021
Net Earnings	**$ 109,669**	$ 68,588
Acquisition costs (net of tax of $709 and $122)	**6,138**	2,912
Amortization of intangible assets (net of tax of $5,642 and $4,562)	**15,255**	12,335
Interest accretion on acquisition contingent consideration (net of tax of nil and nil)	**235**	286
Accelerated interest accretion on redeemed debentures (net of tax of $599 and $700)	**1,618**	1,891
Adjusted Net Earnings	**$ 132,915**	$ 86,012
per share – Basic	**$ 3.29**	$ 2.31
per share – Diluted	**$ 3.13**	$ 2.26

Adjusted Net Earnings generated by the Corporation during the year was $133 million, an increase of $47 million or 55% over the prior year. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $15 million in intangible asset amortization, $6 million in acquisition costs, and less than $1 million in interest accretion on contingent consideration (all net of tax). Adjusted Net Earnings also includes the add-back of non-cash accelerated interest accretion on the early redemption of convertible debentures of $2 million (net of tax).

Adjusted Net Earnings per share increased by 42% over the prior year to $3.29 due to higher Adjusted Net Earnings generated in the period. The increase in Adjusted Net Earnings was partially offset by the 8% increase in the weighted average shares outstanding compared to the prior year. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

FREE CASH FLOW — Year Ended December 31,	2022	2021
Cash flows from operations	**$ 335,119**	$ 285,047
Change in non-cash working capital	**21,217**	(20,755)
Acquisition costs (net of tax of $709 and $122)	**6,138**	2,912
Principal payments on right of use lease liabilities	**(30,449)**	(23,887)
	$ 332,025	$ 243,317
per share – Basic	**$ 8.23**	$ 6.53
per share – Diluted	**$ 7.16**	$ 5.78

The Free Cash Flow generated by the Corporation during the year was $332 million, an increase of $89 million, or 36% over the prior year. The main reason for this increase is the $127 million increase in Adjusted EBITDA, which was partially offset by increased interest costs, current tax expense, and principal payments on right of use lease liabilities. Free Cash Flow is discussed further in *Section 13 – Non-IFRS Financial Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow per share increased by 26% to $8.23. The increase in Free Cash Flow was partially offset by the 8% increase in the weighted average shares outstanding compared to the prior year. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

3. FOURTH QUARTER RESULTS

The following section analyzes the financial results of the Corporation for the three months ended December 31, 2022, and the comparative three-month period in 2021.

	Three Months Ended December 31, 2022			
	Aerospace & Aviation	Manufacturing	Head Office (2)	Consolidated
Revenue	$ 340,082	$ 203,278	$ –	$ 543,360
Expenses (1)	252,210	156,261	10,837	419,308
Adjusted EBITDA	87,872	47,017	(10,837)	124,052
Depreciation of capital assets				47,103
Amortization of intangible assets				6,116
Finance costs – interest				22,533
Depreciation of right of use assets				8,684
Interest expense on right of use lease liabilities				1,647
Acquisition costs				630
Earnings before income taxes				37,339
Current income tax expense				8,985
Deferred income tax expense				1,364
Net Earnings				$ 26,990
Net Earnings per share (basic)				$ 0.64
Adjusted Net Earnings				$ 32,049
Adjusted Net Earnings per share (basic)				$ 0.76

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

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

Revenue generated by the Corporation during the fourth quarter was $543 million, an increase of $153 million or 39% over the prior period. The Aerospace & Aviation segment revenue increased by $79 million and the Manufacturing segment revenue increased by $74 million.

Adjusted EBITDA generated by the Corporation during the fourth quarter was $124 million, an increase of $35 million or 39% over the prior period. The increase was attributable to both segments: the Aerospace & Aviation segment increased by $10 million over the prior period and the Manufacturing segment increased by $28 million over the prior period. Head office costs increased over the prior period primarily as a result of the Corporation investing additional resources in information technology, increased performance-based compensation, and a $1 million donation made during the period. No government funding was received in the fourth quarter of 2022, reduced from $2 million received in the fourth quarter of 2021. When government subsidies are excluded from both periods, Adjusted EBITDA increased by 42%.

Aerospace & Aviation Segment

In the Aerospace & Aviation segment, revenue increased by $79 million or 30% to $340 million.

Revenue in the Legacy Airlines and Provincial increased by $77 million or 40% over the prior period. The reasons for the increase compared to the prior period are largely consistent with the drivers for the year to date increase discussed above, most significantly the lessening impact of the pandemic and the acquisitions of Carson and CTI. In addition, the fourth quarter of 2022 benefitted from the start of the Netherlands contract at Provincial, contributing to strong demand for the Corporation's ISR assets during the period.

Regional One's revenue increased by $2 million or 3% over the comparative three-month period. The consistent recovery within parts sales more than offset a reduction in large asset sales and lease revenue.

Regional One Revenue	Three Months Ended December 31,	2022	2021
Sales and service revenue		**$ 61,690**	$ 58,295
Lease revenue		**8,191**	9,656
		$ 69,881	$ 67,951

Revenue at Regional One increased due to increased parts sales. Part sales has historically been the most consistent part of Regional One's business. These sales have now recovered and exceed pre-pandemic levels, are providing that consistent level of sales again as supply chain constraints around the world have increased the demand for aftermarket parts, and grew significantly over the prior period. The level of large assets sales, while still near pre-pandemic levels, declined compared to the prior period as the surge in demand temporarily abated during the fourth quarter of 2022 and the comparative period was well above historical norms. Lease revenues were lower than the prior period as Regional One was in the process of repositioning certain assets with new lessees.

In the Aerospace & Aviation segment, Adjusted EBITDA increased by $10 million or 13% to $88 million.

Adjusted EBITDA contributed by the Legacy Airlines and Provincial increased by $13 million or 22%. The primary reasons for the increase compared to the prior period are largely consistent with the drivers for the year to date increase discussed above, most significantly the lessening impact of the pandemic, the contributions from acquisitions completed in 2021 and 2022, and increased contributions from our ISR operations.

Regional One contributed Adjusted EBITDA of $18 million for the quarter, a decrease of $3 million from the prior period. A reduction in large asset sales compared to the prior period where the margin on those sales were above historical norms is the driving factor behind the decrease. An increase in part sales partially offset the impacts of lower lease revenue and lower large asset sales.

Manufacturing Segment

The Manufacturing segment revenue increased by $74 million or 58% over the prior period to $203 million and Adjusted EBITDA increased by $28 million or 143% over the prior period to $47 million.

All our entities were impacted by the macroeconomic variables impacting businesses globally, including material price increases, supply chain deliveries, and labour challenges. The impacts for the fourth quarter are consistent with those described in the annual section above.

During the year, the Corporation completed its acquisition of Northern Mat, which increased revenue and Adjusted EBITDA compared to the prior period. Northern Mat, driven by several large projects, is experiencing well above historical demand for its leased mats and bridges. Factors driving this performance are consistent with the annual discussion above.

Consistent with the annual section above, Quest has experienced temporary gaps in its production schedules that has resulted in lower results compared to the prior period. During 2022, however, Quest has seen a return to stronger demand for its products and services as its order backlog increased to the highest level in its history.

The balance of the segment collectively experienced an increase in revenue and Adjusted EBITDA for the same reasons described in the annual discussion above.

NET EARNINGS

Three Months Ended December 31		2022		2021
Net Earnings	**$**	**26,990**	$	23,056
Net Earnings per share	**$**	**0.64**	$	0.61

Net Earnings for the three months ended December 31, 2022, was $27 million, an increase of $4 million or 17% over the prior period. As discussed above, the $35 million increase in Adjusted EBITDA during the period increased Net Earnings. The increase in Adjusted EBITDA was offset by several items. Interest costs increased by $11 million over the prior period as a result of increased benchmark borrowing rates. Depreciation on capital assets increased by $7 million over the prior period due to the acquisitions completed in 2022 as well as increased depreciation associated with Growth Capital Expenditures invested in by the Corporation in 2021 and 2022. Amortization of intangible assets increased by $1 million due to the acquisitions of NMB, CTI, and APL as intangible assets recorded as part of the purchase price allocation are amortized. In the fourth quarter of 2021, a gain of $6 million as a result of the revaluation of contingent consideration increased Net Earnings in 2021 and did not recur in 2022.

Income taxes increased by $3 million over the prior period as the Corporation generated higher earnings before taxes. The effective rate of tax is higher than in the prior year due to increased earnings in higher tax jurisdictions than in the prior period. In addition, the remeasurement of contingent consideration recorded in the prior period, which is not subject to tax, decreased the effective tax rate in the prior period.

Net Earnings per share increased by 5% over the prior period to $0.64. The increase in Net Earnings was partially offset by the 11% increase in the weighted average shares outstanding compared to the prior period. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

Three Months Ended December 31		2022		2021
Net Earnings	**$**	**26,990**	$	23,056
Acquisition costs (net of tax $271 and $122)		**359**		1,404
Amortization of intangible assets (net of tax $1,651 and $1,293)		**4,465**		3,495
Interest accretion on acquisition contingent consideration (net of tax of nil and nil)		**235**		72
Adjusted Net Earnings	**$**	**32,049**	$	28,027
per share – Basic	**$**	**0.76**	$	0.74
per share – Diluted	**$**	**0.73**	$	0.71

Adjusted Net Earnings increased by $4 million or 14% over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $4 million in intangible asset amortization, less than $1 million in interest accretion on contingent consideration, and less than $1 million in acquisition costs (all net of tax).

Adjusted Net Earnings per share increased by 3% over the prior period to $0.76. The increase in Adjusted Net Earnings was partially offset by the 11% increase in the weighted average shares outstanding compared to the prior period. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

FREE CASH FLOW	Three Months Ended December 31	2022	2021
Cash flows from operations		$ 169,792	$ 79,012
Change in non-cash working capital items		(79,192)	(2,515)
Acquisition costs (net of tax of $271 and $122)		359	1,404
Principal payments on right of use lease liabilities		(8,426)	(6,309)
		$ 82,533	$ 71,592
per share – Basic		$ 1.95	$ 1.88
per share – Fully Diluted		$ 1.71	$ 1.62

The Free Cash Flow generated by the Corporation for the fourth quarter of 2022 increased by $11 million or 15% to $83 million compared to $72 million in the prior period. The increase in Adjusted EBITDA of $35 million is the primary reason for the increase which was partially offset by increases in cash interest, current taxes and principal payments on right of use liabilities.

Because of the increase in Free Cash Flow discussed above, Free Cash Flow per share increased by 4% over the prior period to $1.95. The increase in Free Cash Flow was partially offset by the 11% increase in the weighted average shares outstanding compared to the prior period. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

4. INVESTING ACTIVITIES

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

ACQUISITIONS

Northern Mat and Bridge

On May 10, 2022, the Corporation acquired the shares of Northern Mat. Northern Mat, headquartered in Calgary, Alberta, specializes in providing safe, cost-effective temporary access products and solutions for industries across Canada including transmission & distribution, pipeline, oil & gas, wind, potash, forestry, LNG and more. Northern Mat's products and services deliver safe access to otherwise impassable terrain for reasons such as poor ground conditions, weather, sensitive farm/grass lands and traditional land use areas. Northern Mat's access solutions serve to ensure that large infrastructure projects can access environmentally sensitive areas and return those areas to the same condition as before the project began construction.

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

Consideration given:	
Cash	**$ 290,000**
Issuance of 863,256 shares of the Corporation at $40.54 per share	**35,000**
Working capital settlement, including amount paid on close and final payment	**14,288**
Contingent consideration – earn out	**4,465**
Total purchase consideration	**$ 343,753**

Advanced Paramedic Ltd.

On May 10, 2022, the Corporation acquired the shares of APL. APL, located in Peace River, Alberta, specializes in providing air and ground ambulance services for primary care, community care, Provincial and Federal Governments, Indigenous, and industrial customers throughout Alberta. APL has the largest Air Ambulance medical crew in Alberta with 18 years of Air Ambulance experience with Alberta Health Services. The acquisition of APL is strategic to EIC to further strengthen our leading medevac position throughout Canada.

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

Consideration given:	
Cash	**$ 13,000**
Issuance of 49,326 shares of the Corporation at $40.54 per share	**2,000**
Working capital settlement	**316**
Total purchase consideration	**$ 15,316**

CAPITAL EXPENDITURES

	Year Ended December 31, 2022			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 132,931**	**$ 22,679**	**$ 311**	**$ 155,921**
Growth Capital Expenditures	**108,885**	**15,613**	**918**	**125,416**
	$ 241,816	**$ 38,292**	**$ 1,229**	**$ 281,337**

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

Maintenance Capital Expenditures for the year ended December 31, 2022, increased by 62% over the prior year. Maintenance Capital Expenditures are generally weighted more towards the first quarter as heavy overhauls and engine maintenance events are scheduled at a time when demand is lowest in the airline subsidiaries. 2022 was slightly different than normal as the impacts of the Omicron variant pushed more maintenance work into the back half of the year. As the flight hours increased over the prior year due to the lessening impacts of the pandemic, an increase in Maintenance Capital Expenditures in the Aerospace & Aviation segment increased. The five acquisitions in 2021 and two acquisitions in 2022 also contributed to the increase in Maintenance Capital Expenditures in the current year. Further discussion of future Maintenance Capital Expenditures is included in *Section 6 – Outlook*.

Aerospace & Aviation Segment

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the year ended December 31, 2022, were $108 million, an increase of 38% over the prior year. Typically, Maintenance Capital Expenditures are more heavily weighted to the first quarter, however, in the current year, Maintenance Capital Expenditures in the first quarter was lower due to the Omicron variant and increased in the second, third, and fourth quarters for scheduled maintenance and to keep up with increased levels of flying. During the year ended December 31, 2022, the Legacy Airlines and Provincial invested $111 million in Growth Capital Expenditures. Growth Capital Expenditures made by Provincial primarily relate to modifications to aircraft for the Netherland Coast Guard contract which started in the fourth quarter of this year. The

Legacy Airlines Growth Capital Expenditures relate to the purchase of additional aircraft to accommodate increased demand seen in charter, passenger and our rotary wing operations as well as investments made for the construction of new hangars to support our growth and meet obligations under new contracts.

Regional One's Maintenance Capital Expenditures for the year ended December 31, 2022, were $25 million, an increase of $11 million over the prior year. Regional One has made investments in engines and aircraft within its lease portfolio during the year to prepare these assets for upcoming leases. The COVID-19 pandemic has left Regional One's fleet of aircraft and engines underutilized, and as a result, the available green time on those aircraft is not being consumed at the same rate as in prior periods. While the impacts of the pandemic have lessened, the lease fleet remains underutilized due to a worldwide flight crew shortage, most notably experienced pilots. The acute shortage of pilots has resulted from a significantly lower number of pilots graduating from flight school due to the impacts the pandemic had on the ability to complete flight training coupled with higher than average pilot retirements during the pandemic. Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. As the fleet is currently underutilized, the historical approach is not appropriate. The actual costs of maintaining the fleet were significantly lower than the depreciation expense recorded during the year. Starting in the second quarter of 2020, the actual expenditures on assets already owned have been used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

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

Regional One Lease Portfolio	December 31, 2022		December 31, 2021	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**60 (1)**	**94**	64 (1)	81

Note 1) The aircraft total above includes 9 airframes (December 31, 2021 – 10 airframes) that do not have engines and will be leased out in conjunction with engines owned by Aero Engines LLC, the joint venture between the Corporation and SkyWest.

The Regional One lease portfolio is comprised of several different types of aircraft and engines, but the predominant platforms are the Bombardier CRJ aircraft, the GE CF34 engines that are used on those aircraft, the Embraer ERJ aircraft, and the Dash-8 Q400 aircraft. Regional One is not a traditional leasing company as its earnings are not derived solely from a financing spread. It generates cash flows from acquiring assets and leasing them out but once the available green time on the assets is consumed and the aircraft have been retired from the active fleet, the assets are sold or parted out to generate further cash flows. It is important to note not all the aircraft and engines in the portfolio will be on lease at any given time.

During the year ended December 31, 2022, Regional One had negative $3 million in Growth Capital Expenditures. Throughout the pandemic, Regional One took an opportunity to purchase some larger assets at attractive prices and as the airline industry has continued to recover from the pandemic, Regional One was able to sell a number of assets in the current year that were held in its portfolio. These sales were mostly offset by purchasing additional assets to add to its portfolio in the fourth quarter.

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

Manufacturing Segment

Maintenance Capital Expenditures during the year in the Manufacturing segment primarily relate to the investment in Northern Mat's pool of rental mats and bridges and, the replacement of production equipment, or components of that equipment at Northern Mat and the remaining Manufacturing subsidiaries. These equipment replacements 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, 2022, Maintenance Capital Expenditures of $23 million were made by the Manufacturing segment, an increase of $19 million over the prior period. Most of the increase relates to investments made at Northern Mat as well as investments made at other subsidiaries acquired in 2021, both of which do not have a full year comparison in 2021.

For the year ended December 31, 2022, Growth Capital Expenditures of $16 million were made by the Manufacturing segment. The investment relates primarily to Northern Mat where investments were made to expand its fleet of mats and add other operating equipment to support its growth, but also included some of the Legacy Manufacturing entities purchasing additional equipment to meet increased demand.

INVESTMENT IN WORKING CAPITAL

During the year ended December 31, 2022, the Corporation invested $21 million in cash flow from working capital to support growth initiatives and increased revenues, as discussed further below. Details of the investment in working capital are included in Note 24 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

The Corporation's rotary wing operations made a deposit on an order of helicopters that are tied to the Corporation's bid on a significant 10-year rotary wing medical contract in Canada for which the Corporation is not the incumbent. If the Corporation is unsuccessful in its bid for this contract, the deposit will be returned to the Corporation in a future period. This deposit increased prepaid expenses and deposits by $27 million.

Regional One made deposits on a number of capital assets to add to its lease portfolio that are currently recorded in prepaid expenses and deposits. This resulted in an investment in working capital during the year of $24 million. These deposits, assuming Regional One completes the transactions, will be recorded as capital assets at the time of the purchase. If the transactions are not completed, the funds will be returned in future periods.

In addition to the deposits at Regional One, Regional One also made investments in its inventory during the period in two ways. First, several whole aircraft and engines were purchased for resale as Regional One continues to take advantage of current market conditions that has seen large asset sales significantly increase compared to prior years. Second, several assets have been removed from the lease portfolio and parted out, which will serve to increase part sales in the future. The combined impact of these two factors resulted in an investment in working capital of $7 million. These investments more than offset the negative Growth Capital Expenditures experienced during the period, resulting in a net investment in Regional One during the year.

The Corporation's subsidiaries, most notably in the Manufacturing segment, have looked to mitigate supply chain disruptions where possible through the advanced purchase of raw materials. These advance purchases resulted in increased inventory compared to December 31, 2021 and will be rightsized over time as the supply chains normalize and the Corporation manages its inventory to a level that reflects its business volumes at that time. In addition, investment in inventory in the Manufacturing segment is also attributable to Northern Mat to support materially higher business volumes since it was acquired. In the Manufacturing segment, where most of the advanced purchases are being made, inventory increased by $28 million to mitigate the impact of supply chain disruptions and meet the increased demand for the segment's products and services.

Partially offsetting the investments discussed above, the Corporation received payment for a material accounts receivable balance for which a corresponding payment to a supplier was not due until early in 2023. The payment in 2023 will result in a cash outflow from working capital in the first quarter.

5. DIVIDENDS AND PAYOUT RATIOS

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

Dividends

Month	Record date	Per Share	2022 Dividends Amount	Record date	Per Share	2021 Dividends Amount
January	January 31, 2022	**$ 0.19**	**$ 7,366**	January 29, 2021	$ 0.19	$ 6,744
February	February 28, 2022	**0.19**	**7,372**	February 26, 2021	0.19	6,748
March	March 31, 2022	**0.19**	**7,382**	March 31, 2021	0.19	6,755
April	April 29, 2022	**0.19**	**7,387**	April 30, 2021	0.19	7,146
May	May 31, 2022	**0.20**	**7,965**	May 31, 2021	0.19	7,189
June	June 30, 2022	**0.20**	**7,982**	June 30, 2021	0.19	7,198
July	July 29, 2022	**0.20**	**7,990**	July 30, 2021	0.19	7,218
August	August 31, 2022	**0.21**	**8,395**	August 31, 2021	0.19	7,231
September	September 29, 2022	**0.21**	**8,898**	September 30, 2021	0.19	7,247
October	October 31, 2022	**0.21**	**8,904**	October 29, 2021	0.19	7,252
November	November 30, 2022	**0.21**	**8,911**	November 30, 2021	0.19	7,298
December	December 30, 2022	**0.21**	**8,921**	December 31, 2021	0.19	7,361
Total		**$ 2.41**	**$ 97,473**		$ 2.28	$ 85,387

Dividends declared for the twelve months ended December 31, 2022, increased over the prior year. The increase was driven by three factors. First, the common share offerings completed in the second quarter of 2021 and in the third quarter of 2022 increased shares outstanding and therefore, dividends paid. Second, the acquisitions that were completed in the second half of 2021 and in the first half of 2022 increased shares outstanding as a portion of the purchase price consideration was EIC common shares. Third, the Corporation increased its dividend by 5% for the May 2022 dividend and for a second time in 2022 by a further 5% for the August 2022 dividend. Further information on shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

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

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 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. Northern Mat's business is also subject to seasonal variability, where the second and third quarters have the highest demand, the fourth quarter is slower, and the first quarter is the slowest.

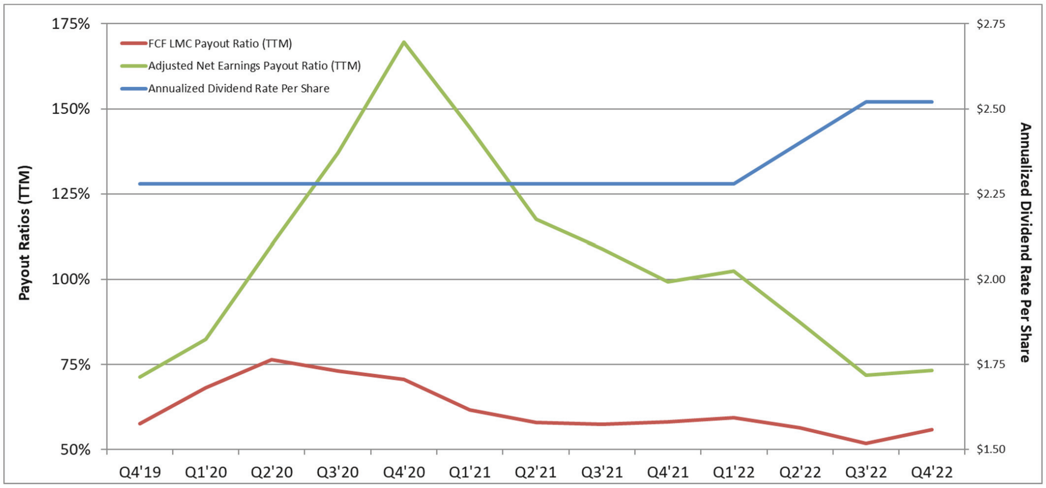
Payout Ratios *(Section 13 – Non-IFRS Measures and Glossary)*

Basic per Share Payout Ratios for the Corporation	2022		2021	
Periods Ended December 31	Three Months	Trailing Twelve Months	Three Months	Trailing Twelve Months
Adjusted Net Earnings	**83%**	**73%**	77%	99%
Free Cash Flow less Maintenance Capital Expenditures	**66%**	**55%**	50%	58%

The trailing twelve month Adjusted Net Earnings payout ratio improved over the prior year to 73% from 99% at December 31, 2022, due to improved performance from executing on investments made in previous periods. The trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio improved from 58% to 55% at December 31, 2022. The rate of improvement in the Adjusted Net Earnings payout ratio is higher than for the Free Cash Flow less Maintenance Capital Expenditures payout ratio because depreciation on capital assets has not increased at the same rate as Maintenance Capital Expenditures. See *Section 4 – Investing Activities* for more information on Maintenance Capital Expenditures.

The nature of Maintenance Capital Expenditures is such that fluctuation can occur 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

After achieving the most successful year in the Company's history, it seems like an appropriate time to pull back from the day-to-day minutiae and take a big-picture look at the year ahead. Throughout our history, we have been prosperous by being disciplined in applying our business strategy and by being faithful to our core values. In fact, following these practices has already positioned us to have another record-setting year in 2023 and they will serve as the foundation for our success in following years.

We have previously given guidance that we expect our Adjusted EBITDA for 2023 to be between $510 million and $540 million, which would once again set a new all-time high for this metric. We are confident with this forecast because the strategic steps and financial investments necessary to achieve this result have already been made. Furthermore, 2023 will be the first year where the full impact of the Northern Mat acquisition will be evident.

During 2022, we made significant investments into growth projects at our subsidiaries that will bear fruit in 2023 and beyond. Provincial's investments related to the contract with the Netherlands Coast Guard resulted in the deployment of two aircraft late in 2022 and will generate a full year of returns in 2023. Our Legacy Aviation businesses acquired aircraft in 2022 to service growing needs in the charter, cargo and medevac operations. Northern Mat is investing in additional mats to service unmet demand for rental mats. The table has been set for 2023 to be a record-setting year because of these prior investments, along with our subsidiaries' strong strategic and tactical plans, and their proven ability to execute on these plans.

We anticipate modest growth in our Legacy Aviation operations over the coming year. In Manitoba and Northwestern Ontario, passenger loads remain below pre-pandemic levels and, as we have consistently stated, believe they will return to historical norms as medical treatment and diagnostic backlogs diminish. The increased demand for charter and cargo services experienced during the pandemic has not waned and as such, we have added ATR freighters and Dash 8 aircraft to our fleet to further our capabilities in these areas. The medevac operations have proven to be resilient and recession-resistant, and we are increasing our focus in this area. In Manitoba, 2023 will be the first full year of our Trauma Flight program, which combines the world-class expertise and equipment of our fixed wing and rotary wing medevac operations to deliver unmatched flexibility to transport patients from virtually any situation to receive the care they require and to save lives. The global pilot shortage will continue to impact our Legacy Aviation operations during 2023 and will result in ongoing and additional recruitment, retention, training and operating costs.

Our ISR operations will continue to execute on our existing long-term contracts and grow the business as part of these contracts. As part of the FWSAR contract with the Canadian government, Provincial became fully operational out of the Winnipeg hangar in the fourth quarter of 2022 and will benefit from a full year of operations in 2023. This will also be the first full year of the ongoing operations as part of the 10-year contract with the Netherlands Coast Guard, as two Dash 8 aircraft were delivered to the Netherlands in late 2022.

The global pilot shortage continues to influence the operations of air carriers around the world, which has a trickle-down impact on Regional One's business. One of the primary strategies that air carriers have used to lessen the impact of the pilot shortage is to operate larger gauge aircraft on these routes, with a reduction in the number of flights. The reduction in usage of the smaller regional jets has impacted Regional One as these are the types of aircraft in which it specializes. Over the past twelve months, Regional One has experienced solid demand for the sale of parts and engines. We anticipate the demand for parts will remain constant, but we expect demand for whole aircraft and engines will not be as robust. Regional flying demand in Europe is anticipated to increase in the second quarter and onwards throughout the year, which we anticipate will be one of the drivers behind an increase in our aircraft engine and leasing business. Regional One is increasing its exposure to the ERJ 140, 170/75, and 190/95 platforms and will continue to capitalize on opportunities to buy and sell portfolios where they exist. We are anticipating an increase in our aircraft and engine leasing business during the second quarter and increasing throughout the fiscal year.

We expect that Northern Mat's demand will remain consistent with what we have experienced since its acquisition through the first half of 2023, although pricing may moderate slightly. Demand in all customer segments remains steady and strong. It is important to note, however, that the business has seasonal as well as weather variability. The first quarter and the first half of the second quarter are, not surprisingly, the slowest parts of the year and are impacted by both temperature and precipitation which can affect spring ice break up and soil conditions. The first and second quarters also tend to see some pricing compression as this is historically when mat supply within the industry is as at its peak because demand is at its lowest in this timeframe and competitors have had the winter to stockpile mats.

Within the Manufacturing segment, overall activity levels continue to be stable or are increasing at most of the companies. In the near term, there will naturally be some seasonal impact at our companies that work outdoors. Quest's backlog continues to grow at a steady pace, primarily because of new projects in traditional markets. Costs for materials have generally remained consistent and prices for aluminum and steel, which are major inputs for many of our companies, appear to be moderating. The one input that continues to see double digit cost increases is the glass that Quest uses to manufacture its window walls. Like virtually every other company, supply chain issues continue to hamper our businesses both directly and indirectly. As one example, our subsidiaries that utilize electronic chips have been affected by the global chip shortage. Additionally, some projects that our subsidiaries are working on have been impacted by supply disruptions to other vendors on the project. The labour market remains difficult but recruitment and retention issues of both skilled and unskilled workers appear to have leveled off and are not worsening.

The spectre of a potential recession continues to loom over the economy, blunting the impact of positive developments and magnifying those of negative ones. Economists are not in agreement over the length or severity of any pending recession, or even whether there will be one at all. This uncertainty itself creates turmoil and makes it difficult to predict what will happen. Because of our diversification and because our businesses tend to provide essential goods and services that are not as susceptible to the typical peaks and valleys of changes in consumer demand, we believe that the same resiliency we demonstrated throughout the pandemic will insulate us from recessionary factors.

The rising interest rates throughout 2022 and into 2023, and the corresponding increase in the cost of our floating rate debt, has undoubtedly impacted our profitability, as it has with every other company and person who has exposure to floating rate debt. At the time of writing this outlook, an inversion exists in longer term rates relative to short term rates and it appears that rates in Canada have peaked and will peak in the US soon. During the first quarter of 2023, we entered into an interest rate swap that fixed $350 million CAD of our variable rate debt at a rate lower than the floating rate. When you combine this swap with our existing interest rate swap and our convertible debentures, fixed rate debt comprises approximately 60% of our total debt. We do not have any maturities on our convertible debentures until mid-2025, and therefore are not subject to interest rate risk on refinancing these in the near term.

Growth by acquisition is one of the strategies that has been key to our success and the outlook is very promising on this front. The acquisition pipeline is robust, and the size and quality of the prospects is impressive. We believe the increase in interest rates will be beneficial for us with regards to our ability to make acquisitions. The higher interest rates make it more difficult for some of our competitors, such as private equity, to acquire companies using high leverage multiples. This helps to reduce purchase multiples and lowers acquisition prices, increasing our competitiveness on opportunities. Over the past 18 months, we have added to our bench strength to assess and hopefully close more of these accretive opportunities.

In our previous annual report, we told you that we were exiting the pandemic with an estimated $400 million Adjusted EBITDA run rate but there was uncertainty as to when this might fully develop as a result of lingering questions around the timing of the return to normal operations. And now, just one year later, we are in the position to be able to confirm our previous guidance of $510 million to $540 million, an increase ranging from 27% to 35% higher. While we are comfortable with the range at this point, there are significant uncontrollable macroeconomic uncertainties that could impact us during the year. Recent strong job creation figures in Canada have led to speculation of further interest rate hikes, which not only increases our costs but could also amplify the probability of a recession. Supply chain issues and ongoing labour shortages are additional factors that could impact the company over the course of the year.

Capital Expenditures

Maintenance Capital Expenditures are necessary to maintain the earning power of our subsidiaries. Our Maintenance Capital Expenditures are primarily concentrated in the Aerospace & Aviation segment and have increased in line with the increased scope of our operations over the last number of years. As flight hours have increased during the recovery from the pandemic, Maintenance Capital Expenditures have also steadily increased. This trend is expected to continue as both passenger volumes and Maintenance Capital Expenditures were negatively impacted by the Omicron variant in the first part of 2022. Consequently, we will experience higher Maintenance Capital Expenditures in our Aviation businesses, particularly in the first several months of the year when many of the more intensive heavy checks are scheduled to be done. Previously referenced labour shortages, supply chain congestion, inflation and a larger overall fleet size will also increase Maintenance Capital Expenditures in 2023. In the Manufacturing segment, a full year of Northern Mat will contribute to higher Maintenance Capital Expenditures as well.

Regional One's leased aircraft are not flying as much as they did before the pandemic, initially because of the impacts of the pandemic and more recently because of the global pilot shortage and the resultant actions of air carriers worldwide. Therefore, the green time is not being consumed at the same rate on these aircraft. As we expect to experience increased activity for Regional One to service their lease portfolio to meet expected demand as the year progresses, we will incur higher Maintenance Capital Expenditures during the year.

Maintenance Capital Expenditures within the Manufacturing segment have historically been immaterial relative to the overall spend. The addition of Northern Mat for a full year in 2023 will substantially increase the segment's spending in comparison to these historical figures. Some of this impact was experienced in 2022, but the full year's impact will be felt in 2023.

In 2023, Growth Capital Expenditures will be spread throughout both of the Corporation's segments. Regional One has plans to acquire a portfolio of Embraer E-140 aircraft from a North American air carrier and, as they always are, will be opportunistic in acquiring assets that are below market price.

The Legacy Airlines will invest significant Growth Capital Expenditures on improving its facility infrastructure to accommodate new business and improve existing operations. Construction will begin on Perimeter's previously announced Gary Filmon Indigenous Terminal to support additional passengers and cargo. Its Dash 8 hangar will also be modernized to improve fleet reliability and support current and expected growth. We are also building a hangar in Timmins, Ontario to support a 5-year mining contract. We will be adding an additional ATR72-500 in the second quarter to support passenger growth and provide lift for all Legacy Aviation companies. Finally, Growth Capital Expenditures at Provincial will be focused on fleet modernization for the recently extended Dutch Caribbean Coast Guard program.

Most of the Growth Capital Expenditures within the Manufacturing segment will be at Northern Mat. The spending will be concentrated on the expansion of the mat rental fleet in order to capitalize on the strong and continuing demand and to position itself for strategic initiatives planned in central and eastern Canada. We also plan to increase the size of Northern Mat's rolling stock in these areas in order to be responsive when opportunities arise or when client needs dictate. Ben Machine will also be procuring new equipment in order to meet the significant growth requirements of one of its major defense industry customers. WesTower will also be increasing the size of its fleet to accommodate the growth in its business in 2023.

Ongoing investment in our subsidiaries is one of the pillars of EIC's business model. Opportunities arise throughout the year and assessing growth prospects developed by our subsidiaries is an ongoing and integral process at EIC. Regional One is the most fluid example as their business opportunities can arise and be acted upon in short order. Consequently, we manage our financial position so we can be able to take advantage of these opportunities whenever they occur.

7. LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position, Free Cash Flow, and capital resources remain strong. The Corporation completed several capital transactions in 2022, strengthening its balance sheet as the Corporation prepares for future growth. During 2022, the Corporation completed an upsize and extension of its credit facility and completed a bought deal common share offering. The proceeds from the equity offering were used to repay indebtedness under the credit facility. These transactions increased the Corporation's access to capital to make acquisitions, its ability to invest in its operating subsidiaries, and provides the ability to weather economic downturns. In addition, the structured timing of debt maturities, including its convertible debentures, provides additional financial flexibility. Consistent with EIC's historical balance sheet management, the Corporation has been proactive in managing its liquidity such that should an opportunity present itself, EIC has the capability and financial resources to execute.

During the fourth quarter of 2021, the Corporation completed a convertible debenture offering, generating gross proceeds of $115 million. The net proceeds of this offering were temporarily used to repay indebtedness under its senior credit facility, and during the first quarter of 2022, were deployed to redeem its convertible debenture series maturing December 31, 2022. As a result of this redemption, the Corporation does not have any debt maturities until June 30, 2025. This provides exceptional flexibility while giving the Corporation the capital to invest for future growth.

At December 31, 2022, the Corporation's key financial covenant for its credit facility is its senior leverage ratio, and its facility allows for a maximum of 4.0x. The Corporation's current leverage ratio as calculated under the terms of the facility is 2.38x. As expected, during 2022, the leverage ratio returned to historical norms (senior debt to Adjusted EBITDA has historically ranged from 1.5-2.5x) as the Corporation's subsidiaries continue their returns to post-pandemic operations and deliver results based on previous investments. The weakening of the Canadian dollar increased the translated value of US dollar denominated debt, which negatively impacted the ratio in the current year.

At December 31, 2022, the Corporation has liquidity of approximately $1,014 million through cash on hand, its credit facility, and the credit facility accordion feature, which when combined with strong Free Cash Flow, maintains the Corporation's very strong liquidity position.

As at December 31, 2022, the Corporation had a cash position of $140 million (December 31, 2021 – $75 million) and a net working capital position of $465 million (December 31, 2021 – $225 million) which represents a current ratio of 1.80 to 1 (December 31, 2021 – 1.47 to 1). The Corporation's current ratio in the prior year was temporarily lower as a series of convertible debentures was presented as current and subsequently redeemed in early 2022. The current ratio is calculated by dividing current assets by current liabilities, as presented on the Statement of Financial Position.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	December 31 2022	December 31 2021
Total senior debt outstanding (principal value)	$ 1,218,326	$ 710,681
Convertible debentures outstanding (par value)	425,500	525,500
Common shares	1,019,772	852,821
Total capital	$ 2,663,598	$ 2,089,002

Credit facility

The size of the Corporation's credit facility as at December 31, 2022, is approximately $1.75 billion, with $1.45 billion allocated to the Corporation's Canadian head office and US $250 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, 2022, the Corporation had drawn $201 million and US $751 million (December 31, 2021 – $190 million and US $411 million).

On May 10, 2022, the Corporation amended its credit facility. The enhanced credit facility increased to approximately $1.75 billion from approximately $1.3 billion and extended its term to May 10, 2026. The increased size of the facility provides the Corporation capacity to continue to execute on its core strategy of pursuing accretive growth through investment in its operating subsidiaries and through acquisition.

The Corporation's long-term debt, net of cash, increased by $443 million since December 31, 2021. The increase is primarily attributable to the acquisitions of Northern Mat and APL, which combined included cash purchase consideration of $318 million, and the redemption of the convertible debentures that were set to mature in December 2022 in the principal amount of $100 million. The December 31, 2021 long-term debt, net of cash, was temporarily lower as the funds raised from a convertible debenture offering in December 2021 were used to repay the credit facility until being deployed in the first quarter of 2022 to redeem these debentures.

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, 2022, US $427 million (December 31, 2021 – US $122 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at December 31, 2022, and changes in the amounts of convertible debentures outstanding during the year ended December 31, 2022:

Series – Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures – 2018	EIF.DB.J	June 30, 2025	5.35%	$ 49.00
Unsecured Debentures – 2019	EIF.DB.K	March 31, 2026	5.75%	$ 49.00
Unsecured Debentures – July 2021	EIF.DB.L	July 31, 2028	5.25%	$ 52.70
Unsecured Debentures – December 2021	EIF.DB.M	January 15, 2029	5.25%	$ 60.00

Par value	Balance, beginning of year	Issued	Converted	Redeemed / Matured	Balance, end of year
Unsecured Debentures – December 2017	100,000	–	(8)	(99,992)	–
Unsecured Debentures – June 2018	80,500	–	–	–	80,500
Unsecured Debentures – March 2019	86,250	–	–	–	86,250
Unsecured Debentures – July 2021	143,750	–	–	–	143,750
Unsecured Debentures – December 2021	115,000	–	–	–	115,000
Total	$ 525,500	$ –	$ (8)	$ (99,992)	$ 425,500

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

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the year ended December 31, 2022:

	Date issued	Number of shares
Shares outstanding, beginning of year		38,740,389
Issued upon conversion of convertible debentures	various	155
Issued under dividend reinvestment plan (DRIP)	various	350,172
Issued under employee share purchase plan	various	56,505
Issued under deferred share plan	various	55,121
Issued under First Nations community partnership agreements	November 2, 2022	2,039
Issued to Northern Mat vendors on closing	May 10, 2022	863,256
Issued to APL vendors on closing	May 10, 2022	49,326
Prospectus offering, including over-allotment	September 2, 2022	2,362,100
Shares outstanding, end of year		42,479,063

On September 2, 2022, the Corporation closed a bought deal financing of common shares, which, inclusive of the full over-allotment exercised by the underwriters, resulted in 2,362,100 shares of the Corporation at $48.70 per share, for gross proceeds of approximately $115 million.

The Corporation issued 350,172 shares under its dividend reinvestment plan during the period and received $15 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued shares to the vendors of Northern Mat and APL as part of the consideration paid upon completion of the acquisitions. In total, 912,582 shares were issued, representing purchase price consideration of $37 million.

The weighted average shares outstanding during the three and twelve months ended December 31, 2022, increased by 11% and 8%, respectively, compared to the prior period. The increase is primarily attributable to shares issued in connection with the Corporation's equity offerings in the third quarter of 2022 and second quarter of 2021, the Corporation's dividend reinvestment plan, and shares issued as purchase consideration in connection with the Corporation's acquisition activity in the last 18 months.

Normal Course Issuer Bid

On February 25, 2022, the Corporation renewed its NCIB for common shares and certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on March 1, 2022, and ending on February 28, 2023. The Corporation can purchase a maximum of 3,580,512 shares and daily purchases will be limited to 20,179 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital.

Under the NCIB for certain series of convertible debentures, purchases can be made during the period commencing on March 1, 2022, and ending on February 28, 2023. The Corporation can purchase a maximum of $8,050 principal amount of 7 year 5.35% convertible unsecured subordinated debentures of EIC, $8,625 principal amount of 7 year 5.75% convertible unsecured subordinated debentures of EIC, $14,375 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC; and $11,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC, with daily purchases of principal amount, other than block purchase exceptions, limited to $7, $11, $70, and $60, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

During the year ended December 31, 2022, the Corporation did not make any purchases under either NCIB and therefore still has the full amounts detailed above available for repurchase. The Corporation will seek approval for the renewal of both the common shares and convertible debentures normal course issuers bids in the first quarter of 2023.

Schedule of Financial Commitments

The following are the financial commitments of the Corporation and its subsidiaries at December 31, 2022:

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	$ 1,218,326	$ –	$ 1,218,326	$ –
Convertible debentures (par value)	425,500	–	166,750	258,750
Lease payments excluded from right of use lease liability	9,824	3,475	4,123	2,226
Right of Use lease liability payments (undiscounted value)	191,564	37,101	103,356	51,107
	$ 1,845,214	$ 40,576	$ 1,492,555	$ 312,083

8. RELATED PARTY TRANSACTIONS

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

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. These leases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2022 for related party leases was $5.3 million (2021 – $4.2 million) and the lease term maturities range from 2023 to 2031.

Certain of the Corporation's airline subsidiaries purchase jet fuel from an entity controlled by a related party who was a vendor of a business the Corporation acquired. This vendor is considered a related party because of their continued involvement in the management of the subsidiary. The purchases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. Total costs incurred in 2022 for these purchases was $2 million (2021 – $1 million).

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 2022 year, and the comparative 2021 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,	2022	2021
Salaries and short-term benefits	**$ 7,045**	$ 6,534
Share-based compensation expense	**5,894**	4,501
	$ 12,939	$ 11,035

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 or lease of the aircraft assets. In connection with this agreement, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer and therefore there can be a delay between when income is recognized and when returns become paid or payable to CRJ Capital Corp.

During 2022, CRJ Capital Corp. invested US $1.4 million (2021 – US $0.4 million). CRJ Capital Corp.'s total investment generated returns paid or payable of US $0.3 million (2021 – US $1.5 million). As a result of the sale of certain assets, depreciation recorded on its leasing assets, and the return of initial investment to CRJ Capital Corp., the remaining assets attributable to CRJ Capital Corp. at December 31, 2022, was US $8.7 million (December 31, 2021 – US $6.7 million). At December 31, 2022, US $0.1 million (December 31, 2021 – US $0.2 million) is recorded as accounts payable due to CRJ Capital Corp.

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Accounting Estimates

Business Combinations

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

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

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the prior year, the estimated liability for additional purchase consideration associated with LV Control was reduced to reflect earnings levels during the earn out period. This resulted in a recovery of nil (2021 – $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, changes in underlying raw material cost estimates, and the accuracy of the original bid estimate. Accordingly, management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material costs and subcontracting costs, as applicable. Revenue and income from fixed price construction contracts at Quest Window Systems Inc. and Quest USA Inc. are recognized over time and generally use an output based measure based on units produced and/or delivered, as applicable. The output based measure provides a more reliable method for Quest's window construction contracts as evidence of completion over time.

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

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

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

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

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans, and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation or amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2022, would result in an increase of approximately $11.0 million (2021 – $10.5 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 Adjusted EBITDA multiples based on financial forecasts prepared by management (level 3 within the fair value hierarchy).

Intangible Assets

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

The recoverable amount of the CGUs was based on value in use using a discounted cash flow model, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates, and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 3.0% and 5.0%, and a discount rate (pre-tax) of 16%.

The Corporation has concluded that there are no impairments of its indefinite lived intangible assets as a result of this assessment as at December 31, 2022.

Goodwill

The recoverable amount of the goodwill CGUs was calculated based on the fair value less costs of disposal, using an Adjusted 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 Adjusted EBITDA based on its approved budget and used its best estimate of market participant Adjusted EBITDA multiples (Level 3 within the fair value hierarchy). The Adjusted EBITDA multiple used for the Aerospace & Aviation segment was 8.0x (2021 – 8.0x) and was 7.5x (2021 – 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, 2022.

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.

The Corporation manufactures access mats at Northern Mat. In addition, Northern Mat purchases bridges from third parties. Upon completion of the mats, or acquisition of the bridges, management must assess the intended use of those assets. If the asset will be rented to third parties, the asset is included within capital assets and depreciated over its useful life. If the asset will be sold to a third party, the asset is recorded in inventory. If management's intention for use of the mats and bridges changes from the initial classification, those assets are reclassified based on management's new intended use of the asset.

10. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for years ended December 31, 2022, and 2021 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2022 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, 2022, and has concluded that the internal controls over financial reporting are effective. This assessment was full in scope and considered material changes to the Corporation's internal controls during the 2022 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, 2022.

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

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which resulted in governments around the world imposing severe travel restrictions and social distancing measures to limit the spread of the virus. At different times during the pandemic, travel restrictions and required quarantine periods materially impacted the subsidiaries within the Aerospace & Aviation segment, most notably passenger traffic and demand for the Corporation's leased aircraft and aftermarket parts. In the Manufacturing segment, social distancing, additional actions to keep our employees safe and required COVID-19 employee absenteeism reduced manufacturing efficiency and reduced throughput in the production facilities. 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.

In 2022, the continued lessening of restrictions and corresponding increase in travel around the world has reduced the negative impacts for the Aerospace & Aviation segment compared to previous periods impacted by the pandemic where the restrictions were more stringent. The Corporation is unable to predict with accuracy the duration of the virus, actions governments will take, or customer sentiment going forward. The development and deployment of vaccines and the lessening of restrictions could continue to result in more travel around the world. This uncertainty influences for example; discretionary spending, government restrictions, customer demand, supply chain, safety, and vaccination effectiveness and coverage. The Corporation continues to actively monitor this matter to ensure that the best COVID-19 risk mitigation strategies, methods, procedures, and practices are developed, updated, and shared with all Subsidiaries as quickly and efficiently as possible.

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

External

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

Operational

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

Financial

- Negative impacts on global credit and capital markets could impact the Corporation's ability to refinance, raise funds for new equity or renew its debt financing arrangements on reasonable terms.

- Continued volatility in the public trading markets may have an unknown or abnormal impact on future securities pricing.
- Significant volatility in commodity pricing could result from increased costs or reduced supply related to COVID-19 economic conditions.
- Permanent asset write-downs could result from adjustments to cost structures.
- Tighter credit conditions could be imposed by the Corporation's stakeholders to manage cash flows.

Human Capital

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

KEY RISKS

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

External	• 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 • Environmental, Social and Governance
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 • Performance Guarantees • 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. If the number of 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.

With the recent geopolitical instability around the world, most notably the war in Ukraine, the cost of Hull and War insurance on the Corporation's aircraft has increased significantly and a number of insurers have exited this market altogether. Depending on the size of losses incurred by insurers, this type of insurance may become more costly or could prove difficult to obtain in the future. This could have an adverse effect on the Corporation's business, results from operations, and financial condition.

Inflation experienced around the world has had a negative impact on the Corporation's operations through increased costs of everyday goods, materials used in production, and the cost to recruit and retain employees. While inflation has come down from its peak in mid 2022, inflation not returning to historical norms could have a negative impact on the Corporation's profitability if these increased costs could not be passed onto the Corporation's customers. This could have an adverse effect on the Corporation's business, results from operations, and financial condition.

In an effort to reduce inflation, central banks around the world have implemented restrictive monetary policy, most notably by increasing borrowing rates significantly throughout 2022. It is possible that this restrictive monetary policy will cause countries in which we operate to enter into recession in the next two years. In the event of a recession, demand for certain of the Corporation's good and services could be materially negatively impacted. This could have an adverse effect on the Corporation's business, results from operations, and financial condition.

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. A shift in government spending towards larger projects in the energy, forestry, environmental or oil and gas initiatives, could impact Northern Mat's pipeline of future work or larger project renewals. With uncertainties in the US political environment, a US economy downturn impacts the operations of Stainless, Quest, AWI, and WIS more than our other operations as their products and services are provided to a wide variety of US customers. WesTower is impacted by the large telecommunication companies' capital expenditure programs that are often on a different cycle than the general economy. Ben Machine is a direct supplier to a number of large manufacturers whose sales may be dependent upon governmental decisions on defence and security spending. The Manufacturing segment has historically experienced some time lag between the economy weakening and the reduced demand for its products as the Manufacturing segment generally has a reasonable order backlog, as well, some of the Manufacturing segment's projects are longer in nature, which gives it a buffer to prepare for a reduction in demand.

Competition

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

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

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

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

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

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

Government Funding for First Nations Health Care

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

Access to Capital

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

Market Trends and Innovation

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

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

General Uninsured Loss

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

Climate

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

Acts of Terrorism

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

Pandemic

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

Level and Timing of Defence Spending

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

Government-Funded Defence and Security Programs

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

Environmental, Social and Governance

Stakeholders and public markets are increasingly requiring that public companies be recognized as corporately responsible in adhering to various environmental, social and governance ("ESG") criteria. Such factors include having awareness of the Corporation's impact on the environment, its social involvement with its stakeholders, and the methods by which the Corporation governs its business. While the Corporation has always considered these factors in the fabric of its business, for instance by considering fuel efficiency factors for its aircraft, being actively involved in the communities it services, in the human rights standards practiced, or in its approach to overall corporate governance, it is possible that the perceptions of such initiatives may not fully meet the definition of what stakeholders define the Corporation's ESG responsibilities to be or in the extent of its efforts. This is further emphasized by ongoing advancements and implementation of global strategies and disclosure requirements supporting various ESG related matters that continue to evolve at a rapid pace. While no formal disclosure requirements or regulatory frameworks have been passed, we continue to monitor the activities of regulators, while continuing to engage in consultations and participate in programs to focus on such matters. The inclusion (or lack thereof) of such factors in the Corporation's practices and strategy, could have an impact on the Corporation's business, results from operations and financial condition, and its reputation.

OPERATIONAL RISKS:

Significant Contracts and Customers

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

Operational Performance and Growth

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

Laws, Regulations, and Standards

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

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

Transport Canada previously issued interim orders throughout 2020 and 2021, which extended into part of 2022, outlining updated industry requirements for ensuring both aviation and public safety. The interim orders included the completion of passenger health checks and temperature screening, the requirement to wear face masks, aircraft deplaning protocols, vaccination status screening of passengers, and confirmation of vaccination status for employees. While these interim orders were repealed by Transport Canada in 2022 making them no longer in effect, EIC Aviation companies continue as industry leaders in ensuring the safety of the travelling public and monitoring for impacts of such changes on operations.

In 2019, Transport Canada enacted the Air Passenger Protection Regulations. At the time, the requirements did not have a material impact on our operations as the compensation we provided was relatively consistent with what was required under the new regulations. With the recent travel disruption in Canada late in 2022 and the impacts this disruption had on consumers in Canada, it is possible that the Government of Canada along with Transport Canada enact even stricter regulations that would apply to our airlines. In the event this occurs and the new regulations are more stringent than what already exist within our airlines, this could have an adverse effect on the Corporation’s business, results from operations, and financial condition.

The airline industry in Canada, the United States, and elsewhere in the world is subject to strict government standards and regulations. Government entities such as Transport Canada, the Competition Bureau, the Canadian Transportation Agency (“CTA”), the Federal Aviation Administration, and other government entities may implement new laws or regulatory schemes, or render decisions, rulings, or policy changes that could have a material adverse effect on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations, increasing airport and/or user fees, or reducing the demand for air travel.

The Canadian federal government outlined a pan-Canadian framework that benchmarks pricing for carbon emissions in response to global climate change initiatives. The framework outlines that jurisdictions may implement either an explicit price-based system, such as a carbon tax or levy, or a cap-and-trade system. The impact of this legislation applies to a broad set of emission sources which includes fossil fuel sources including jet fuel used within the aviation industry. Certain provinces such as British Columbia and Quebec had previously implemented a carbon pricing system. In other provinces, such as Manitoba, where no pricing system was previously in place, the federal nation-wide carbon tax pricing that came into effect on April 1, 2019, continued to apply. The Government of Canada updated this federal benchmark for carbon pricing post-2022 with annual increases through to 2030. This legislation will have the greatest impact on our airline Subsidiaries while also having potential indirect implications through the supply chains of our other industries. Furthermore, the Company may be subject to mandated greenhouse gas emissions reduction, reporting or carbon trading requirements in other jurisdictions where the Company operates. This legislation could result in additional costs, which the Corporation might be unable to fully pass on through its sales prices, having an adverse impact on the Company’s margins and financial results.

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

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

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

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

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

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

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

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

Acquisition Risk

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

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

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

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

Concentration and Diversification Risk

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

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

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

Maintenance Costs

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

Access to Parts and Relationships with Key Suppliers

The Subsidiaries are at times dependent on the continued efficient supply of component parts, fuel, and raw materials from various suppliers. Any shortage of supply, significant delays in delivery, or an inability to source such items on favourable terms, would jeopardize the ability of the Subsidiaries to provide their products or services, or within contractually agreed upon terms. Each, and any of these circumstances, could have an adverse effect on the Corporation's operations and financial condition.

Casualty Losses

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

Environmental Liability Risks

As owners 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, CTI, Custom, 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, CTI, Custom, 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, CTI, Custom, 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, CTI, Custom, and Moncton Flight College operate will continue to be stable enough to allow it to operate profitably or at all.

Fluctuations in Sales Prices of Aviation Related Assets

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

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

Fluctuations in Purchase Prices of Aviation Related Assets

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

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

Warranty Risk

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

Performance Guarantees

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

Global Offset Risk

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

Intellectual Property Risk

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

FINANCIAL RISKS:

Availability of Future Financing

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

Income Tax Matters

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

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

Commodity Risk

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

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

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

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

Foreign Exchange

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

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

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

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

Interest Rates

As at December 31, 2022, 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 $8.8 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, 2022. The terms of the credit facility allow for the Corporation to choose the base interest rate between prime, bankers' acceptances, or Secured Overnight Financing Rate (SOFR). The Corporation manages the base rate used on the outstanding facility and seeks financing terms in individual arrangements that are most advantageous. The Corporation considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps on a portion of its debt to manage this risk. The Corporation's outstanding debentures have fixed interest rates that are not affected by changes in rates until the maturity of the debentures when they may need to be refinanced if the holders have not converted the debentures into equity.

Credit Facility and the Trust Indentures

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

- the ability of the Corporation and/or its Subsidiaries to obtain additional financing for working capital, capital expenditures, or acquisitions in the future may be limited;
- a substantial portion of cash flow from operations of the Subsidiaries of the Corporation will be dedicated to servicing its indebtedness, thereby reducing funds available for future operations;

- certain borrowings of the Corporation and/or its Subsidiaries will be at variable rates of interest, which will expose the Corporation and its Subsidiaries to future fluctuations of interest rates; and
- the Corporation and/or its Subsidiaries may be more vulnerable to economic downturns and may be limited in their ability to withstand competitive pressure.

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

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

Dividends

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

Unpredictability and Volatility of Securities Pricing

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

Dilution Risk

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

Credit Risk

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

HUMAN CAPITAL RISKS:

Reliance on Key Personnel

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

Employees and Labour Relations

The success of the Subsidiaries is dependent in large part upon their ability to attract and retain skilled management and employees. Recruiting and maintaining personnel in the industries in which the Subsidiaries are involved is highly competitive and it cannot be guaranteed that these entities will be able to attract and retain the qualified personnel needed for their businesses. In particular, skilled labour for the 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 and SIFC provides a mitigation measure by giving airline subsidiaries direct access to pilots and limits disruption to planned routes. The airline industry is currently experiencing a material shortage of experienced pilots and aircraft maintenance engineers. If this shortage continues, it could impact the ability of EIC's airlines to attract and retain these employees, who are key to our airlines' ability to operate. A failure to attract or retain qualified personnel could have an adverse effect on the Corporation's business, results from operations and financial condition.

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

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

Conflicts of Interest

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

13. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

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

Adjusted EBITDA: is defined as earnings before interest, income taxes, depreciation, amortization, other non-cash items such as gains or losses recognized on the fair value of contingent consideration items, asset impairment, and restructuring costs, and any unusual non-operating one-time items such as acquisition costs. It is used by management to assess its consolidated results and the results of its operating segments. Adjusted EBITDA is a performance measure utilized by many investors to analyze the cash available for distribution from operations before allowance for debt service, capital expenditures, and income taxes. The most comparable IFRS measure, presented in the Corporation’s Statements of Income as an additional IFRS measure, is Operating profit before Depreciation, Amortization, Finance Costs, and Other.

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

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

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

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

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

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

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

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

Maintenance and Growth Capital Expenditures: Maintenance Capital Expenditures is defined as the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level, depreciation on the Corporation's mat and bridge rental portfolio assets, and, prior to the onset of COVID-19, depreciation recorded on assets in the Corporation's aircraft and engine leasing pool. Other capital expenditures are classified as Growth Capital Expenditures as they will generate new cash flows and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation. While there is no comparable IFRS measure for Maintenance Capital Expenditures or Growth Capital Expenditures, the total of Maintenance Capital Expenditures and Growth Capital Expenditures is equivalent to the total of capital asset and intangible asset purchases, net of disposals, on the Statement of Cash Flows.

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

Regional One's purchases of operating aircraft and engines 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 was 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. Only net capital expenditures more than depreciation were classified as Growth Capital Expenditures. If there were no purchases of capital assets during the period by Regional One, Maintenance Capital Expenditures would still be equal to depreciation recorded on its leased assets and Growth Capital Expenditures would be negative, representing the depletion of potential future earnings and cash flows. The aggregate of Maintenance and Growth Capital Expenditures always equals the actual cash spent on capital assets during the period. This ensures that the payout ratio reflects the necessary replacement of Regional One's leased assets.

Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures at Regional One because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Starting in the second quarter of 2020, the actual expenditures on assets already owned 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. While the impact of the pandemic has lessened, the lease fleet remains underutilized due to a worldwide shortage of flight crews, most notably pilots. The acute shortage of pilots has resulted from a significantly lower number of pilots graduating from flight school due to the impacts the pandemic had on the ability to complete flight training coupled with higher than average pilot retirements during the pandemic. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

Northern Mat has a portfolio of access mats and bridges that it rents to third parties. The utility of those assets to the lessees is consumed over its useful life, represented by depreciation, and therefore depreciation on these assets reflects the reinvestment required to maintain Free Cash Flow at current levels. Any capital expenditures in the access mat and bridge lease portfolio in excess of the depreciation will result in Growth Capital Expenditures as this increased investment will generate additional cash flows in the future. It is possible to have negative Growth Capital Expenditures during a given period where total reinvestment is less than depreciation recorded on its leasing portfolio.

Purchases of inventory are not reflected in either Growth or Maintenance Capital Expenditures. Aircraft purchased for part out or resale or access mats constructed for resale are recorded as inventory and are not capital expenditures. If a decision is made to take an asset out of either 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 or access mats that intended to be sold to a third party have been transferred to inventory as at the balance sheet date.

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

14. SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table provides selected annual information for the Corporation for the years ended 2020 through to 2022.

	2022	2021	2020
Revenues	**$ 2,059,373**	$ 1,413,146	$ 1,149,629
Expenses [1]	**1,602,931**	1,083,266	865,094
Adjusted EBITDA	**$ 456,442**	$ 329,880	$ 284,535
Total non-operating expense	**346,773**	261,292	256,480
Net Earnings	**$ 109,669**	$ 68,588	$ 28,055
Net Earnings per share			
Basic	**$ 2.72**	$ 1.84	$ 0.80
Diluted	**2.64**	1.80	0.78
Adjusted Net Earnings	**$ 132,915**	$ 86,012	$ 47,176
Basic	**3.29**	2.31	1.35
Diluted	**3.13**	2.26	1.31
Dividends declared	**$ 97,473**	$ 85,387	$ 80,012
Per share	**2.41**	2.28	2.28
Free Cash Flow	**$ 332,025**	$ 243,317	$ 198,400
Per share basic	**8.23**	6.53	5.66
Per share fully diluted	**7.16**	5.78	5.03
Free Cash Flow less Maintenance Capital Expenditures	**$ 176,104**	$ 147,154	$ 113,331
Per share basic	**4.36**	3.95	3.23
Per share fully diluted	**3.99**	3.68	2.94
Financial Position			
Working capital	**$ 465,481**	$ 225,108	$ 323,625
Total assets	**3,548,836**	2,588,667	2,294,184
Total long-term liabilities [2]	**1,771,557**	1,188,544	1,215,245
Total liabilities	**2,529,782**	1,788,392	1,608,238
Share Information			
Common shares outstanding as at December 31,	**42,479,063**	38,740,389	35,471,758
Weighted average common shares outstanding during the year – basic	**40,348,003**	37,265,034	35,048,953

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

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

The following summary reflects quarterly results of the Corporation:

	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4
Revenue	**$ 543,360**	**$ 586,770**	**$ 529,017**	**$ 400,226**	$ 390,327	$ 400,003	$ 322,070	$ 300,746	$ 301,710
Adjusted EBITDA	**124,052**	**150,379**	**115,055**	**66,956**	89,421	95,276	81,061	64,122	81,971
Net Earnings	**26,990**	**48,936**	**29,990**	**3,753**	23,056	21,899	16,506	7,127	13,479
Basic	**0.64**	**1.20**	**0.76**	**0.10**	0.61	0.58	0.44	0.20	0.38
Diluted	**0.62**	**1.09**	**0.73**	**0.09**	0.59	0.56	0.43	0.20	0.37
Adjusted Net Earnings	**32,049**	**54,530**	**38,501**	**7,835**	28,027	27,653	19,781	10,551	18,847
Basic	**0.76**	**1.34**	**0.98**	**0.20**	0.74	0.73	0.53	0.30	0.53
Diluted	**0.73**	**1.20**	**0.90**	**0.20**	0.71	0.71	0.52	0.29	0.52
Free Cash Flow (“FCF”)	**82,533**	**112,832**	**89,251**	**47,409**	71,592	72,798	57,289	41,638	59,497
Basic	**1.95**	**2.77**	**2.26**	**1.22**	1.88	1.91	1.54	1.17	1.68
Diluted	**1.71**	**2.38**	**1.95**	**1.10**	1.62	1.69	1.37	1.06	1.48
FCF less Maintenance Capital Expenditures	**40,243**	**69,009**	**47,356**	**19,496**	42,906	48,151	36,523	19,574	41,270
Basic	**0.95**	**1.70**	**1.20**	**0.50**	1.13	1.27	0.98	0.55	1.17
Diluted	**0.88**	**1.49**	**1.09**	**0.49**	1.02	1.17	0.91	0.54	1.05
Maintenance Capital Expenditures	**42,290**	**43,823**	**41,895**	**27,913**	28,686	24,647	20,766	22,064	18,227
Growth Capital Expenditures	**48,885**	**27,055**	**41,308**	**8,168**	34,497	39,942	33,996	22,532	14,434

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, 2022 and 2021, 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, 2022 and 2021;
- 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
Richardson Building, 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, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Cost of sales recognition – Aviation parts for resale inventories *Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates and judgments and note 7 – Inventories to the consolidated financial statements.* The Corporation's aviation parts for resale inventories carrying value was $163.9 million as at December 31, 2022. A portion of the $135.2 million of inventories expensed and recorded within aerospace and aviation expenses, excluding depreciation and amortization, related to the Corporation's aviation parts for resale cost of sales for the year ended December 31, 2022. In the normal course of the Corporation's business, it may acquire entire aircraft or components of an aircraft for breakdown into saleable parts. The cost of sales recognized is determined using the average cost to sales percentage method at expected selling prices. Management applied significant judgment in estimating the average cost to sales percentage, which included the determination of the expected selling price. We considered this a key audit matter due to the significant judgment applied by management when developing the average cost to sales percentage estimate. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating evidence relating to the determination of the expected selling price. The audit effort involved the use of professionals with specialized skill and knowledge.	Our approach to addressing the matter included the following procedures, among others: • Tested how management estimated the average cost to sales percentage based on expected selling prices for aviation parts for resale inventories, which included the following: – Evaluated the appropriateness of the average cost to sales percentage method at expected selling prices. – Tested the completeness and accuracy of the data used in the average cost to sales percentage method at expected selling prices. – Evaluated the reasonableness of the significant assumption made by management related to expected selling price for aviation parts for resale inventories on a sample basis by considering the historical profit margin recognized on the parts sales. – Developed an independent expectation for the expected selling price of the aviation parts for resale inventories on a sample basis with the assistance of professionals with specialized skill and knowledge in the field of valuation and compared the independent expectation to management's assumption to evaluate the reasonableness of management's assumption.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – Estimated costs to complete long-term construction contracts at AWI, WesTower and WIS for uncompleted contracts as at year-end *Refer to note 3 – Significant accounting policies, note 5 – Critical accounting estimates and judgments and note 17 – Construction contracts to the consolidated financial statements.* The Corporation recognized revenue of $427.1 million from long-term construction contracts for the year ended December 31, 2022 related to revenue recognized over time, including revenue from long-term construction contracts at Advanced Window Specialists, Inc. (AWI), Provincial Aerospace Ltd., Stainless Fabrication Inc., Quest Window Systems Inc., WesTower Communications Ltd. (WesTower) and Window Installation Specialists, Inc. (WIS). For AWI, WesTower and WIS, revenue is recognized over time using an input-based measure such as the ratio of actual costs incurred to date over estimated total costs and makes up a significant portion of total revenue of $427.1 million from long-term construction contracts. Management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material costs and subcontracting costs, as applicable. We considered this a key audit matter due to the significant judgment applied by management in determining the estimated costs to complete long-term construction contracts. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the estimated costs to complete these long-term construction contracts at AWI, WesTower and WIS for a sample of uncompleted contracts as at year-end, which included the following: – Evaluated the appropriateness of management's input-based method and tested the mathematical accuracy of the ratio of actual costs incurred to date over estimated total costs at completion. – Tested the underlying data used by management in the input-based method. – Evaluated the reasonableness of significant assumptions used by management with respect to estimated labour costs, material costs and subcontracting costs by: ○ testing the estimated costs to complete by comparing the costs initially budgeted for the completed phases of the contracts to the actual costs incurred for those phases; and ○ inquiring with management, including project managers, regarding the status of contracts and the estimates of costs to complete. • For a sample of uncompleted long-term construction contracts at the beginning of the year, performed look-back procedures and compared the originally estimated costs to actual costs incurred on similar completed contracts.

Key audit matter	How our audit addressed the key audit matter
Valuation of customer relationships intangible assets acquired in the Northern Mat & Bridge business combination *Refer to note 5 – Critical accounting estimates and judgments and note 6 – Acquisitions to the consolidated financial statements.* On May 10, 2022, the Corporation acquired all of the shares of Northern Mat & Bridge (Northern Mat) for total consideration of $343.8 million. The fair value of the identifiable assets acquired included $108.0 million in intangible assets, of which $82.0 million related to customer relationships. To determine the fair value of customer relationships, management used the excess earnings method. Management applied judgment in estimating the fair value of customer relationships acquired. Significant assumptions included projected revenues, cash flows, customer retention rates, discount rate and anticipated average income tax rate. We considered this a key audit matter due to the judgment applied by management in estimating the fair value of customer relationships, including the development of significant assumptions related to projected revenues, customer retention rates and discount rate. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to significant assumptions used by management. The audit effort involved the use of professionals with specialized skills and knowledge in the field of valuation.	Our approach to addressing the matter included the following procedures, among others: • Tested how management estimated the fair value of the customer relationships acquired, which included the following: – Read the purchase agreement. – Tested the underlying data used in the valuation calculations and tested the mathematical accuracy thereof. – Evaluated the reasonableness of the significant assumptions used by management related to projected revenues by considering the current and past performance of the acquired business and economic and industry forecasts. • Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of management's excess earnings method and certain significant assumptions, such as customer retention rates, and the discount rate.

Other information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express 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 22, 2023

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(audited, in thousands of Canadian dollars)

As at	December 31 2022	December 31 2021
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 139,896**	$ 75,408
Accounts receivable	**434,956**	301,767
Amounts due from customers on construction contracts (Note 17)	**33,212**	27,705
Inventories (Note 7)	**335,060**	255,451
Prepaid expenses and deposits	**102,808**	40,127
	1,045,932	700,458
OTHER ASSETS (Note 8)	**134,461**	66,658
CAPITAL ASSETS (Note 9)	**1,284,409**	1,070,573
RIGHT OF USE ASSETS (Note 10)	**157,319**	83,439
INTANGIBLE ASSETS (Note 11)	**300,374**	180,664
GOODWILL (Note 11)	**626,341**	486,875
	$ 3,548,836	$ 2,588,667
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	**$ 451,906**	$ 267,635
Income taxes payable	**6,888**	4,577
Deferred revenue	**60,467**	53,171
Amounts due to customers on construction contracts (Note 17)	**30,111**	30,556
Current portion of convertible debentures (Note 13)	**–**	98,808
Current portion of right of use lease liability (Note 10)	**31,079**	20,603
	580,451	475,350
DEFERRED REVENUE	**534**	1,857
OTHER LONG-TERM LIABILITIES	**23,635**	16,271
LONG-TERM DEBT (Note 12)	**1,214,764**	707,611
CONVERTIBLE DEBENTURES (Note 13)	**399,443**	393,408
LONG-TERM RIGHT OF USE LEASE LIABILITY (Note 10)	**133,181**	69,397
DEFERRED INCOME TAX LIABILITY (Note 26)	**177,774**	124,498
	2,529,782	1,788,392
EQUITY		
SHARE CAPITAL (Note 14)	**1,019,772**	852,821
CONVERTIBLE DEBENTURES – Equity Component (Note 13)	**14,017**	17,607
CONTRIBUTED SURPLUS	**16,635**	13,046
DEFERRED SHARE PLAN	**15,791**	16,010
RETAINED EARNINGS		
Cumulative Earnings	**677,881**	568,212
Cumulative Dividends (Note 15)	**(759,792)**	(662,319)
Cumulative impact of share cancellation under the NCIB	**(26,122)**	(26,122)
	958,182	779,255
ACCUMULATED OTHER COMPREHENSIVE INCOME	**60,872**	21,020
	1,019,054	800,275
	$ 3,548,836	$ 2,588,667

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

Approved on behalf of the directors by:

Duncan Jessiman, Director

Donald Streuber, Director

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

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

For the years ended December 31	2022	2021
REVENUE		
Aerospace & Aviation	$ 1,337,440	$ 917,368
Manufacturing	721,933	495,778
	2,059,373	1,413,146
EXPENSES		
Aerospace & Aviation expenses – excluding depreciation and amortization	854,487	520,410
Manufacturing expenses – excluding depreciation and amortization	493,833	371,896
General and administrative	254,611	190,960
	1,602,931	1,083,266
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)	456,442	329,880
Depreciation of capital assets (Note 9)	168,156	144,946
Amortization of intangible assets (Note 11)	20,897	16,897
Finance costs – interest	73,665	48,955
Depreciation of right of use assets (Note 10)	30,655	24,542
Interest expense on right of use lease liabilities	4,753	3,243
Acquisition costs	6,847	3,034
Other (Note 5)	–	(6,000)
EARNINGS BEFORE INCOME TAXES	151,469	94,263
INCOME TAX EXPENSE (Note 26)		
Current	21,872	17,741
Deferred	19,928	7,934
	41,800	25,675
NET EARNINGS	$ 109,669	$ 68,588
NET EARNINGS PER SHARE (Note 18)		
Basic	$ 2.72	$ 1.84
Diluted	$ 2.64	$ 1.80

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

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(audited, in thousands of Canadian dollars)

Attributable to common shareholders For the years ended December 31	2022	2021
NET EARNINGS	$ 109,669	$ 68,588
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to the Statement of Income		
Cumulative translation adjustment, net of tax expense of nil and $7, respectively.	44,912	(2,360)
Net gain (loss) on hedge of net investment in foreign operations, net of tax expense of nil and nil, respectively.	(12,975)	292
Net gain on hedge of restricted share plan, net of tax expense of $644 and $103, respectively.	1,741	280
Net gain on interest rate swap, net of tax expense of $2,283 and $1,744, respectively.	6,174	4,719
	39,852	2,931
COMPREHENSIVE INCOME	$ 149,521	$ 71,519

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

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(audited, in thousands of Canadian dollars)

	Share Capital	Convertible Debentures – Equity Component	Contributed Surplus – Matured Debentures	Deferred Share Plan	Retained Earnings: Cumulative Earnings	Retained Earnings: Cumulative Dividends	Retained Earnings: Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2021	$ 731,343	$ 13,214	$ 9,837	$ 16,893	$ 499,624	$ (576,932)	$ (26,122)	$ 18,089	$ 685,946
Shares issued to acquisition vendors	17,858	–	–	–	–	–	–	–	17,858
Prospectus offering	84,946	–	–	–	–	–	–	–	84,946
Convertible debentures	–	–	–	–	–	–	–	–	–
Converted into shares	1,119	(52)	–	–	–	–	–	–	1,067
Issued	–	7,654	–	–	–	–	–	–	7,654
Matured/Redeemed	–	(3,209)	3,209	–	–	–	–	–	–
Shares issued under dividend reinvestment plan (Note 14)	12,850	–	–	–	–	–	–	–	12,850
Shares issued under First Nations community partnership agreements (Note 14)	129	–	–	–	–	–	–	–	129
Deferred share plan vesting (Note 20)	–	–	–	1,273	–	–	–	–	1,273
Deferred share plan issuance (Note 14)	2,156	–	–	(2,156)	–	–	–	–	–
Shares issued under ESPP (Note 14)	2,420	–	–	–	–	–	–	–	2,420
Comprehensive income	–	–	–	–	68,588	–	–	2,931	71,519
Dividends declared (Note 15)	–	–	–	–	–	(85,387)	–	–	(85,387)
Balance, December 31, 2021	**$ 852,821**	**$ 17,607**	**$ 13,046**	**$ 16,010**	**$ 568,212**	**$ (662,319)**	**$ (26,122)**	**$ 21,020**	**$ 800,275**
Balance, January 1, 2022	**$ 852,821**	**$ 17,607**	**$ 13,046**	**$ 16,010**	**$ 568,212**	**$ (662,319)**	**$ (26,122)**	**$ 21,020**	**$ 800,275**
Shares issued to acquisition vendors (Note 6)	**36,943**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**36,943**
Prospectus offering (Note 14)	**110,976**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**110,976**
Convertible debentures (Note 13)									
Converted into shares	**7**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**6**
Matured/Redeemed	**–**	**(3,589)**	**3,589**	**–**	**–**	**–**	**–**	**–**	**–**
Shares issued under dividend reinvestment plan (Note 14)	**15,120**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,120**
Shares issued under First Nations community partnership agreements (Note 14)	**50**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**50**
Deferred share plan vesting (Note 20)	**–**	**–**	**–**	**1,117**	**–**	**–**	**–**	**–**	**1,117**
Deferred share plan issuance (Note 14)	**1,336**	**–**	**–**	**(1,336)**	**–**	**–**	**–**	**–**	**–**
Shares issued under ESPP (Note 14)	**2,519**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,519**
Comprehensive income	**–**	**–**	**–**	**–**	**109,669**	**–**	**–**	**39,852**	**149,521**
Dividends declared (Note 15)	**–**	**–**	**–**	**–**	**–**	**(97,473)**	**–**	**–**	**(97,473)**
Balance, December 31, 2022	**$1,019,772**	**$ 14,017**	**$ 16,635**	**$ 15,791**	**$ 677,881**	**$ (759,792)**	**$ (26,122)**	**$ 60,872**	**$1,019,054**

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

EXCHANGE INCOME CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(audited, in thousands of Canadian Dollars)

For the years ended December 31	2022	2021
OPERATING ACTIVITIES		
Net earnings for the year	**$ 109,669**	$ 68,588
Items not affecting cash:		
Depreciation of capital assets (Note 9)	**168,156**	144,946
Amortization of intangible assets (Note 11)	**20,897**	16,897
Depreciation of right of use assets (Note 10)	**30,655**	24,542
Accretion of interest	**9,068**	10,009
Gain on disposal of capital assets	**(3,154)**	(3,897)
Deferred income tax expense	**19,928**	7,934
Deferred share program share-based vesting (Note 20)	**1,117**	1,273
Other (Note 5)	**–**	(6,000)
	356,336	264,292
Changes in non-cash current and long-term working capital (Note 24)	**(21,217)**	20,755
	335,119	285,047
FINANCING ACTIVITIES		
Proceeds from long-term debt, net of issuance costs (Note 12)	**647,512**	250,301
Repayment of long-term debt (Note 12)	**(165,390)**	(340,378)
Long-term debt discount	**(354)**	–
Proceeds from issuance of convertible debentures, net of issuance costs	**–**	247,484
Payment of matured debentures (Note 13)	**(99,992)**	(67,881)
Principal payments on right of use lease liabilities (Note 10)	**(30,449)**	(23,887)
Issuance of shares, net of issuance costs	**127,114**	99,169
Cash dividends (Note 15)	**(97,473)**	(85,387)
	380,968	79,421
INVESTING ACTIVITIES		
Purchase of capital assets	**(359,634)**	(274,421)
Proceeds from disposal of capital assets	**85,010**	52,293
Purchase of intangible assets	**(6,945)**	(5,002)
Proceeds from disposal of intangible assets	**232**	–
Investment in/(Return from) other assets	**(53,024)**	4,898
Cash outflow for acquisitions, net of cash acquired (Note 6)	**(314,775)**	(128,114)
Payment of contingent acquisition consideration and prior period working capital settlements (Note 23)	**(6,315)**	(7,596)
	(655,451)	(357,942)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**60,636**	6,526
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**75,408**	69,862
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**3,852**	(980)
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 139,896**	$ 75,408
Supplementary cash flow information		
Interest paid	**$ 58,956**	$ 35,525
Income taxes paid	**$ 20,858**	$ 22,697

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, 2022, the principal operating subsidiaries of the Corporation are Calm Air International LP, Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Custom Helicopters Ltd., Regional One Inc., EIC Aircraft Leasing Limited, Provincial Aerospace Ltd., CANLink Aviation Inc. ("MFC Training"), Carson Air Ltd., Quest Window Systems Inc., WesTower Communications Ltd., Ben Machine Products Company Incorporated, Stainless Fabrication, Inc., LV Control Mfg. Ltd., Water Blast Manufacturing LP, Overlanders Manufacturing LP, and Northern Mat & Bridge LP. Regional One Inc., Quest USA Inc., Stainless Fabrication Inc., and Crew Training International, 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 except for Northern Mat. Northern Mat's business is also subject to seasonal variability, where the second and third quarters have the highest demand, the fourth quarter is slower and the first quarter is the slowest.

2. BASIS OF PREPARATION

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

The consolidated financial statements were approved by the Board of Directors of the Corporation for issue on February 22, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Measurement

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

b) Principles of Consolidation

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

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

c) Revenue Recognition

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

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

Aerospace & Aviation Segment

i. Aftermarket parts sales

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

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

ii. Aircraft and engine sales

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

iii. Aircraft and engine lease revenue

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

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

iv. Surveillance and aircraft modification services

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

v. Software development and sales of software licenses

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

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

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

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

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

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

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

viii. Training Services

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

Manufacturing Segment

i. Sale of equipment and manufactured goods

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

ii. Manufactured window sales

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

iii. Tower construction services

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

iv. Stainless tank sales

Revenue from the construction of stainless tanks is recognized over time based on the stage of completion. The stage of completion is determined based on the costs incurred to date in comparison to the expected total 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").

v. Sales and Rentals of Mats and Bridges

Northern Mat earns revenues from mat and bridge sales and rentals, and equipment services, based on pre-determined rates. Revenue is recognized when the asset is delivered to the customer on sales of assets and for rentals is recognized based on the rental agreement with the customer, which usually calls for daily rental rates. Revenue is measured based on consideration specified in a contract with a customer. Contracts are generally short-term in nature and are not considered to have a significant financing component.

d) Expenses

Aerospace & Aviation expenses – excluding depreciation and amortization

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

Manufacturing expenses – excluding depreciation and amortization

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

e) Government Grants

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

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.

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.

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

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
Rental Mats	5 years
Rental Bridges	50 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 – 7 years and depend on the condition and expected useful lives of the assets in leasing arrangements.

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

k) Intangible Assets

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

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

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

The indefinite life intangible assets, including brand names, are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed 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

Share-Based Compensation – Deferred Share Plan

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

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

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

Share-Based Compensation – Restricted Share Plan

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

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

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

Share-Based Compensation – Employee Share Purchase Plan

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

p) Provisions

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

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

q) Borrowing Costs

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

r) Leases and Right of Use Assets

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

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

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

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

Right of use assets are accounted for under IAS 16 Property, Plant and Equipment. Right of use assets have the same accounting policies as directly owned assets.

s) Share Capital

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

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 brand names. To determine the fair value of customer-based intangible assets (excluding brand names), the Corporation uses the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates, and anticipated average income tax rates. To determine the fair value of the brand name and software IP intangible assets, the Corporation uses the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates, and anticipated average income tax rates. To determine the fair value of the certifications, the Corporation uses the cost approach. This valuation technique values the intangible assets based on the estimated costs a market participant would incur to obtain the certification.

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the prior year, the estimated liability for additional purchase consideration associated with LV Control was reduced to reflect earnings levels during the earn out period. This resulted in a recovery of nil (2021 – $6,000) and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

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

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

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

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

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

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans, and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation or amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2022, would result in an increase of approximately $11,031 (2021 – $10,493) 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 Adjusted EBITDA multiples based on financial forecasts prepared by management (level 3 within the fair value hierarchy).

Intangible Assets

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

The recoverable amount of the CGUs was based on value in use using a discounted cash flow model, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates, and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 3.0% and 5.0%, and a discount rate (pre-tax) of 16%.

The Corporation has concluded that there are no impairments of its indefinite lived intangible assets as a result of this assessment as at December 31, 2022.

Goodwill

The recoverable amount of the goodwill CGUs was calculated based on the fair value less costs of disposal, using an Adjusted 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 Adjusted EBITDA based on its approved budget and used its best estimate of market participant Adjusted EBITDA multiples (Level 3 within the fair value hierarchy). The Adjusted EBITDA multiple used for the Aerospace & Aviation segment was 8.0x (2021 – 8.0x) and was 7.5x (2021 – 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, 2022.

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.

The Corporation manufactures access mats at Northern Mat. In addition, Northern Mat purchases bridges from third parties. Upon completion of the mats, or acquisition of the bridges, management must assess the intended use of those assets. If the asset will be rented to third parties, the asset is included within capital assets and depreciated over its useful life. If the asset will be sold to a third party, the asset is recorded in inventory. If management's intention for use of the mats and bridges changes from the initial classification, those assets are reclassified based on management's new intended use of the asset.

6. ACQUISITIONS

Northern Mat & Bridge ("Northern Mat")

On May 10, 2022, the Corporation acquired the shares of Northern Mat. Northern Mat, headquartered in Calgary, Alberta, specializes in providing temporary access products and solutions for industries across Canada including transmission & distribution, pipeline, oil & gas, wind, potash, forestry, LNG and more. Northern Mat's products and services deliver safe access to otherwise impassable terrain for reasons such as poor ground conditions, weather, sensitive farm/grass lands and traditional land use areas.

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

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

Consideration given:	
Cash	$ 290,000
Issuance of 863,256 shares of the Corporation at $40.54 per share	35,000
Working capital settlement, including amount paid on close and final payment	14,288
Contingent consideration – earn out	4,465
Total purchase consideration	$ 343,753

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

Fair value of assets acquired:	
Cash	$ 1,811
Accounts receivable	54,786
Inventory	24,825
Prepaid expenses and deposits	1,738
Capital assets	77,820
Right of use assets	15,275
Intangible assets	107,990
	284,245
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	28,189
Income taxes payable	1,865
Deferred revenue	5,664
Deferred income tax liability	29,778
Right of use lease liabilities	12,465
Fair value of identifiable net assets acquired	206,284
Goodwill	137,469
Total purchase consideration	$ 343,753

Of the $107,990 acquired intangible assets, $81,990 was assigned to customer relationships and $26,000 was assigned to brand name. The customer relationship intangible asset is subject to amortization while the brand name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies, and the profitability of the acquired business.

Advanced Paramedics Ltd. ("APL")

On May 10, 2022, the Corporation acquired the shares of APL. APL, located in Peace River, Alberta, specializes in providing air and ground ambulance services for primary care, community care, Provincial and Federal Governments, Indigenous, and industrial customers throughout Alberta.

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

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

Consideration given:	
Cash	$ 13,000
Issuance of 49,326 shares of the Corporation at $40.54 per share	2,000
Working capital settlement	316
Total purchase consideration	$ 15,316

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

Fair value of assets acquired:	
Cash	$ 1,018
Accounts receivable	627
Prepaid expenses and deposits	243
Capital assets	1,155
Right of use assets	3,478
Intangible assets	5,600
	12,121
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	992
Income taxes payable	24
Deferred revenue	395
Right of use lease liabilities	3,478
Deferred income tax liability	1,389
Fair value of identifiable net assets acquired	5,843
Goodwill	9,473
Total purchase consideration	$ 15,316

Of the $5,600 acquired intangible assets, $3,600 was assigned to customer relationships and $2,000 was assigned to brand name. The customer relationship intangible asset is subject to amortization while the brand 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 2022	December 31 2021
Parts and other consumables	**$ 59,127**	$ 50,247
Aviation parts for resale	**163,869**	146,862
Raw materials	**48,983**	25,022
Work in process	**12,646**	8,320
Finished goods	**50,435**	25,000
Total inventory	**$ 335,060**	$ 255,451

During 2022, inventory from the Aerospace & Aviation segment with a value of $135,198 (2021 – $98,438) was recorded as an expense within the Aerospace & Aviation expenses – excluding depreciation and amortization, and inventory from the Manufacturing segment with a value of $143,034 (2021 – $119,541) 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 2022	December 31 2021
Long-term prepaid expenses and security deposits	**$ 3,553**	$ 2,193
Long-term receivables	**9,996**	3,953
Long-term holdback receivables	**137**	717
Equity method investments	**102,163**	52,236
Other investments – Fair value through OCI (Note 23)	**6,917**	6,591
Derivative financial instruments – Fair value through profit and loss (Note 23)	**11,695**	405
Loan to Nunatsiavut Group of Companies ("NGC")	**–**	563
Total other assets	**$ 134,461**	$ 66,658

The Corporation is invested in a number of equity accounted investments in non-trading entities at December 31, 2022. The Corporation's ownership percentages in the entities are 25%, 33%, 49% , 49%, 50% and 50%, and the carrying values at December 31, 2022 are $13,293 (2021 – $10,447), $11,195 (2021 – $11,190), $4,423 (2021 – $3,915), $20,781 (2021 – $22,246), $33,615 (2021 $4,437), and $18,856 (2021 nil), respectively. The reporting period end for the equity accounted investments is December 31. These entities have total assets of $314,274 (2021 – $185,248) and total liabilities of $97,136 (2021 – $65,900) at December 31, 2022. The entities had revenues of $245,871 (2021 – $219,369) and net income of $13,962 (2021 – $24,270) for the year ended December 31, 2022. 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, 2022, the carrying value of these entities is $6,917 (2021 – $6,591).

The Corporation uses several derivative financial instruments to manage various risks as discussed further in Note 23. This includes an interest rate swap, cross currency swap, and hedge of its equity compensation plan. The amount recorded in other assets is the net asset position on any of these derivatives. Any net liability positions are presented in Other Long-Term Liabilities.

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

9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

	Cost	Accumulated Depreciation	December 31, 2022 Net Book Value
Land	$ 9,499	$ –	$ 9,499
Buildings	159,393	45,762	113,631
Aircraft frames	517,389	156,960	360,429
Aircraft engines	290,509	130,858	159,651
Aircraft propellers and rotors	64,985	28,005	36,980
Aircraft landing gear	50,237	16,685	33,552
Aircraft rotable parts	124,472	53,303	71,169
Equipment	237,385	152,256	85,129
Other	31,681	21,962	9,719
Leasehold improvements	24,941	15,001	9,940
	1,510,491	620,792	889,699
Assets for lease to third parties	603,331	208,621	394,710
Total	$ 2,113,822	$ 829,413	$ 1,284,409

	Year Ended December 31, 2022						
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 8,688	$ 754	$ –	$ –	$ –	$ 57	$ 9,499
Buildings	98,815	744	17,873	–	(3,957)	156	113,631
Aircraft frames	309,106	–	84,052	–	(32,729)	–	360,429
Aircraft engines	136,378	–	51,702	(478)	(27,951)	–	159,651
Aircraft propellers and rotors	29,798	–	13,267	(34)	(6,051)	–	36,980
Aircraft landing gear	30,453	–	6,064	–	(2,966)	1	33,552
Aircraft rotable parts	51,454	–	33,878	–	(14,163)	–	71,169
Equipment	60,098	13,109	28,889	(900)	(16,950)	883	85,129
Other	8,027	713	3,149	(5)	(2,521)	356	9,719
Leasehold improvements	8,555	1,023	1,546	–	(1,277)	93	9,940
	741,372	16,343	240,420	(1,417)	(108,565)	1,546	889,699
Assets for lease to third parties	329,201	62,632	121,974	(80,439)	(59,591)	20,933	394,710
Total	$ 1,070,573	$ 78,975	$ 362,394	$ (81,856)	$ (168,156)	$ 22,479	$ 1,284,409

During the year, the Corporation had transfers of $2,761 from right of use assets to capital assets, which had no cash impact.

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

During the year, the Corporation had net transfers of $5,527 from capital assets to inventory (December 31, 2021 – $16,627 from capital assets to inventory). The Corporation transfers capital assets out of the lease portfolio into inventory for part out and resale when it is determined beneficial to do so as part of the normal life cycle of older aircraft. In addition, the Corporation may also transfer assets from inventory to capital assets to increase the future economic benefit of its operating aircraft (Note 5). The net of these transfers is included within the Additions/Transfers column.

In the tables above, assets for lease to third parties includes both the Corporation's aircraft and engine lease portfolio and its rental access mat and bridge portfolio.

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

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

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

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

10. LEASES

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

	January 1, 2022						December 31, 2022
Net Book Value	Opening	Acquisitions (Note 6)	Additions	Disposals/ Transfers	Depreciation	Exchange Differences	Ending
Land	$ 19,382	$ 11	$ 9,746	$ –	$ (1,474)	$ –	$ 27,665
Building	53,188	9,487	30,622	(739)	(15,948)	1,323	77,933
Aircraft	3,990	–	42,590	–	(8,249)	–	38,331
Equipment	1,375	9,255	628	(2,761)	(2,029)	6	6,474
Other	5,504	–	4,452	(85)	(2,955)	–	6,916
Total	$ 83,439	$ 18,753	$ 88,038	$ (3,585)	$ (30,655)	$ 1,329	$ 157,319

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

During the year the Corporation transferred $2,761 from right of use assets to capital assets, which had no cash impact and is reflected in the Disposals column.

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

Right of Use Lease Liability	**2022**	2021
Opening balance, January 1	**$ 90,000**	$96,398
Additions to right of use lease liabilities, including through acquisitions	**103,977**	18,988
Disposals of right of use assets and derecognition of lease liabilities	**(823)**	(1,303)
Principal payments on right of use lease liabilities	**(30,449)**	(23,887)
Exchange differences	**1,555**	(196)
Closing balance, December 31	**$164,260**	$90,000
Current portion	**$ 31,079**	$20,603

During the year, the Corporation expensed $8,512 (December 31, 2021 – $7,470) 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.

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

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

Undiscounted Right of Use Lease Liability Payments	December 31, 2022	December 31, 2021
Less than 1 year	**$ 37,101**	$ 22,875
Between 1 year and 5 years	**103,356**	48,319
More than 5 years	**51,107**	33,290
	$ 191,564	$ 104,484

11. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2022 and 2021:

	December 31, 2022		
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 128,207	$ –	$ 128,207
Finite Life Assets			
Customer contracts and relationships	210,636	68,300	142,336
Certifications	10,422	602	9,820
Information technology systems	30,435	13,375	17,060
Backlog	40,073	40,073	–
Other	8,612	5,661	2,951
Total	$ 428,385	$ 128,011	$ 300,374

	Year Ended December 31, 2022						
Net Book Value	Opening	Acquisition	Additions/ Transfers	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 91,395	$ 35,029	$ –	$ –	$ –	$ 1,783	$ 128,207
Finite Life Assets							
Customer contracts and relationships	58,257	96,394	4,415	–	(17,402)	672	142,336
Certifications	9,374	–	473	–	(27)	–	9,820
Information technology systems	17,490	–	2,025	–	(2,455)	–	17,060
Backlog	704	–	–	–	(720)	16	–
Other	3,444	–	32	(232)	(293)	–	2,951
Total	$ 180,664	$ 131,423	$ 6,945	$ (232)	$ (20,897)	$ 2,471	$ 300,374

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

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

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

The Corporation has brand name indefinite life assets for subsidiaries across both of its operating segments. These subsidiaries each have a brand name that represents the quality of goods or services and safety standards that those entities provide to their customers.

During the year, the Corporation finalized the purchase price allocation of CTI, resulting in the allocation of a portion of the goodwill recorded in the prior period to intangible assets. Accordingly, $17,833 has been included in the additions column above and reflected as a measurement period adjustment in the table below.

Goodwill	**2022**	2021
Balance, beginning of year	**$ 486,875**	$ 397,589
Goodwill from business acquisitions	**146,942**	83,990
Measurement period adjustment - settlement of working capital and other (Note 23)	**(18,603)**	6,505
Translation of goodwill of foreign operations	**11,127**	(1,209)
Balance, end of year	**$ 626,341**	$ 486,875

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

As a result of the foreign currency translation policy for the consolidation of US dollar functional currency subsidiaries as described in Note 3, the goodwill recorded in these subsidiaries of US $114,573 is 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, 2022 (Note 5). As at December 31, 2022, there was no impairment of goodwill or indefinite life intangible assets based on management's assessment.

12. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt as at December 31, 2022, and December 31, 2021:

	December 31 2022	December 31 2021
Revolving term facility:		
Canadian dollar amounts drawn	$ 201,000	$ 190,000
United States dollar amounts drawn (US$751,127 and US$410,697 respectively)	1,017,326	520,681
Total credit facility debt outstanding, principal value	1,218,326	710,681
less: unamortized transaction costs	(3,045)	(2,907)
less: unamortized discount on outstanding Banker's Acceptances	(517)	(163)
Long-term debt	$ 1,214,764	$ 707,611

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, 2022.

Interest expense recorded by the Corporation during the year ended December 31, 2022, for long-term debt was $42,746 (2021 – $19,813).

Credit Facility

The following is the continuity of long-term debt for the year ended December 31, 2022:

	Year Ended December 31, 2022				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	$ 190,000	$ 449,000	$ (438,000)	$ –	$ 201,000
United States dollar amounts	520,681	548,253	(75,481)	23,873	1,017,326
	$ 710,681				$ 1,218,326

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

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

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 – 2018	EIF.DB.J	June 30, 2025	5.35%	$ 49.00
Unsecured Debentures – 2019	EIF.DB.K	March 31, 2026	5.75%	$ 49.00
Unsecured Debentures – July 2021	EIF.DB.L	July 31, 2028	5.25%	$ 52.70
Unsecured Debentures – December 2021	EIF.DB.M	January 15, 2029	5.25%	$ 60.00

Summary of the debt component of the convertible debentures:

	2022 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2022 Balance, End of Year
Unsecured Debentures – 2017	**98,810**	**–**	**1,190**	**(8)**	**(99,992)**	**–**
Unsecured Debentures – 2018	**77,402**	**–**	**813**	**–**	**–**	**78,215**
Unsecured Debentures – 2019	**83,883**	**–**	**501**	**–**	**–**	**84,384**
Unsecured Debentures – July 2021	**137,958**	**–**	**741**	**–**	**–**	**138,699**
Unsecured Debentures – December 2021	**110,161**	**–**	**522**	**–**	**–**	**110,683**
						411,981
less: unamortized transaction costs						**(12,538)**
Convertible Debentures – Debt Component, end of year						**$ 399,443**

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

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

During the year ended December 31, 2022, convertible debentures totaling a face value of $8 were converted by the holders at various times into 155 shares of the Corporation (2021 – $1,094 and 24,446 shares). Interest expense recorded during the 2022 year for the convertible debentures was $30,684 (2021 – $28,856).

On February 11, 2022, the Corporation redeemed its 5 year 5.25% convertible debentures which were to mature on December 31, 2022. On the redemption date, the remaining outstanding debentures in the principal amount of $99,992 were redeemed by the Corporation.

During the years ended December 31, 2022 and December 31, 2021, the Corporation did not make any purchases of the principal amounts of its convertible debentures under its NCIB.

December 2017 Unsecured Convertible Debenture Offering

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

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

The December 2017 convertible unsecured debentures have nil (2021 – $100,000) of principal outstanding as at December 31, 2022, and were redeemed on February 11, 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 (2021 – $80,500) of principal outstanding as at December 31, 2022, and mature in June 2025.

March 2019 Unsecured Convertible Debenture Offering

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

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

The March 2019 convertible unsecured debentures have $86,250 (2021 – $86,250) of principal outstanding as at December 31, 2022, and mature in March 2026.

July 2021 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 day on the day prior to the maturity date at a conversion price of $52.70.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the shares for the 20 trading days ending five days prior to the maturity date. The debentures are not redeemable until after July 31, 2024. After July 31, 2024, but prior to July 31, 2026, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after July 31, 2026, but prior to the maturity date, the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

The July 2021 convertible unsecured debentures have $143,750 (2021 – $143,750) of principal outstanding as at December 31, 2022, and mature in July 2028.

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

December 2021 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 $60.00.

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the shares for the 20 trading days ending five days prior to the maturity date. The debentures are not redeemable until after January 15, 2025. After January 15, 2025, but prior to January 15, 2027, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the shares at that time. On and after January 15, 2027, but prior to the maturity date, the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into shares of the Corporation at the conversion price.

The December 2021 convertible unsecured debentures have $115,000 (2021 – $115,000) of principal outstanding as at December 2022, and mature in January 2029.

Convertible Debentures Equity Component

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

Summary of the equity component of the convertible debentures:

	December 31 2022	December 31 2021
Unsecured Debentures – 2017	**–**	3,590
Unsecured Debentures – 2018	**3,866**	3,866
Unsecured Debentures – 2019	**2,497**	2,497
Unsecured Debentures – July 2021	**4,241**	4,241
Unsecured Debentures – December 2021	**3,413**	3,413
Convertible Debentures – Equity Component, end of year	**$ 14,017**	$ 17,607

All convertible debentures outstanding at December 31, 2022, represent direct unsecured debt obligations of the Corporation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. SHARE CAPITAL

Changes in the shares issued and outstanding during the year ended December 31, 2022, are as follows:

	Number of Shares		2022 Amount
Share capital, beginning of year	**38,740,389**	**$**	**852,821**
Issued upon conversion of convertible debentures	**155**		**7**
Issued under dividend reinvestment plan	**350,172**		**15,120**
Issued under employee share purchase plan	**56,505**		**2,519**
Issued under deferred share plan	**55,121**		**1,336**
Issued under First Nations community partnership agreements	**2,039**		**50**
Shares issued to Northern Mat & Bridge vendors on closing (Note 6)	**863,256**		**34,950**
Shares issued to Advanced Paramedics Ltd vendors on closing (Note 6)	**49,326**		**1,993**
Prospectus offering, including over-allotment	**2,362,100**		**110,976**
Share capital, end of year	**42,479,063**	**$**	**1,019,772**

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

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

On February 25, 2022, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 3,580,512 Common Shares, representing 10% of the issued and outstanding shares at January 31, 2022. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on March 1, 2022, and ending on February 28, 2023. The maximum number of shares that can be purchased by the Corporation daily is limited to 20,179 shares, other than block purchase exemptions.

During the years ended December 31, 2022 and December 31, 2021, the Corporation did not make any purchases of shares under its NCIB.

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

On May 10, 2022, the Corporation issued 863,256 shares as part of the acquisition of Northern Mat (Note 6) and 49,326 shares as part of the acquisition of APL (Note 6).

On September 2, 2022, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 2,362,100 shares of the Corporation at $48.70 per share, for gross proceeds of approximately $115,034.

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 2022 year and the comparative 2021 year are as follows:

Year Ended December 31	2022	2021
Cumulative dividends, beginning of year	**$ 662,319**	$ 576,932
Dividends during the year	**97,473**	85,387
Cumulative dividends, end of year	**$ 759,792**	$ 662,319

The amounts and record dates of the dividends during the year ended December 31, 2022, and the comparative 2021 year are as follows:

Month	Record date	Per Share	2022 Dividends Amount	Record date	Per Share	2021 Dividends Amount
January	**January 31, 2022**	**$ 0.19**	**$ 7,366**	January 29, 2021	$ 0.19	$ 6,744
February	**February 28, 2022**	**0.19**	**7,372**	February 26, 2021	0.19	6,748
March	**March 31, 2022**	**0.19**	**7,382**	March 31, 2021	0.19	6,755
April	**April 29, 2022**	**0.19**	**7,387**	April 30, 2021	0.19	7,146
May	**May 31, 2022**	**0.20**	**7,965**	May 31, 2021	0.19	7,189
June	**June 30, 2022**	**0.20**	**7,982**	June 30, 2021	0.19	7,198
July	**July 29, 2022**	**0.20**	**7,990**	July 30, 2021	0.19	7,218
August	**August 31, 2022**	**0.21**	**8,395**	August 31, 2021	0.19	7,231
September	**September 29, 2022**	**0.21**	**8,898**	September 30, 2021	0.19	7,247
October	**October 31, 2022**	**0.21**	**8,904**	October 29, 2021	0.19	7,252
November	**November 30, 2022**	**0.21**	**8,911**	November 30, 2021	0.19	7,298
December	**December 30, 2022**	**0.21**	**8,921**	December 31, 2021	0.19	7,361
Total		**$ 2.41**	**$ 97,473**		$ 2.28	$ 85,387

After December 31, 2022, and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.21 per share for January and February 2023.

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, British Columbia, Alberta, and Eastern Canada and provides aircraft and engine aftermarket parts to regional airline operators around the world. In addition, Provincial's aerospace business designs, modifies, maintains, and operates custom sensor-equipped aircraft. MFC Training and Southern Interior Flight Centre provide pilot training services. CTI delivers training solutions for governments across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft. The Manufacturing segment consists of niche, specialty manufacturers in markets throughout Canada and the United States. Northern Mat, which in addition to its manufacturing capabilities, rents its fleet of mats and bridges to provide access solutions to its customers. The results of Northern Mat and APL are included in the Manufacturing segment and Aerospace & Aviation segment results, respectively, subsequent to the date of acquisition (Note 6).

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

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

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

				Year Ended December 31, 2022
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 1,337,440	$ 721,933	$ –	$ 2,059,373
Expenses	1,000,928	564,727	37,276	1,602,931
Adjusted EBITDA	336,512	157,206	(37,276)	456,442
Depreciation of capital assets				168,156
Amortization of intangible assets				20,897
Finance costs – interest				73,665
Depreciation of right of use assets				30,655
Interest expense on right of use lease liabilities				4,753
Acquisition costs				6,847
Earnings before income taxes				151,469
Current income tax expense				21,872
Deferred income tax expense				19,928
Net Earnings				$ 109,669

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	For the year ended December 31, 2022			
	Aerospace & Aviation	Manufacturing	Head Office (1)	Consolidated
Total assets	$ 2,313,182	$ 1,090,573	$ 145,081	$ 3,548,836
Net capital asset additions	234,909	38,487	1,228	274,624
Indefinite lived intangible assets	67,231	60,976	–	128,207
Goodwill	286,048	340,293	–	626,341

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

Note 1) Includes corporate assets not directly attributable to operating segments. Such unallocated assets include corporate cash that is part of the Corporation's mirror banking arrangements.

Revenues

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

Revenue Streams	December 31 2022	December 31 2021
Aerospace & Aviation Segment		
Sale and lease of goods – point in time	$ 366,456	$ 231,013
Sale of services – point in time	812,061	655,160
Sale of services – over time	158,923	31,195
Manufacturing Segment		
Sale and lease of goods – point in time	225,238	97,297
Sale of services – point in time	73,932	–
Sale of goods and services – over time	422,763	398,481
Total revenue	$ 2,059,373	$ 1,413,146

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

The following is the geographic breakdown of revenues for the year ended December 31, 2022, and the 2021 comparative year, based on the location of the customer, and long-term assets as at the balance sheet dates:

Year Ended December 31	2022	2021
Canada	**$ 1,259,811**	$ 851,474
United States	**576,980**	394,540
Europe	**54,114**	20,383
Other	**168,468**	146,749
Total revenue for the year	**$ 2,059,373**	$ 1,413,146

					As at December 31, 2022
	Other Assets	**Capital Assets**	**Right of Use Assets**	**Intangible Assets**	**Goodwill**
Canada	**$ 46,549**	**$ 875,663**	**$ 131,799**	**$ 251,243**	**$ 471,162**
United States	**83,485**	**109,645**	**19,427**	**44,243**	**155,179**
Europe	**4**	**294,877**	**6,093**	**4,888**	**–**
Other	**4,423**	**4,224**	**–**	**–**	**–**
	$ 134,461	**$ 1,284,409**	**$ 157,319**	**$ 300,374**	**$ 626,341**

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

Contract Assets	December 31 2022	December 31 2021
Accounts receivable, including long-term portion	**$ 445,089**	$ 306,437
Amounts due from customers on construction contracts	**33,212**	27,705
Total	**$ 478,301**	$ 334,142
Current	**468,168**	329,472
Non-current	**$ 10,133**	$ 4,670

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

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.

Contract Liabilities	December 31 2022	December 31 2021
Customer loyalty programs – Airlines	$ 1,449	$ 1,338
Deferred revenue, exluding customer loyalty programs	59,552	53,690
Amounts due to customers on construction contracts	30,111	30,556
Total	$ 91,112	$ 85,584
Current	90,578	83,727
Non-current	$ 534	$ 1,857

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

17. CONSTRUCTION CONTRACTS

The operations of Stainless, WesTower, Quest, AWI, and WIS within the Manufacturing segment and Provincial within the Aerospace & Aviation segment have long-term construction contracts where revenues are recognized over time. Under the terms of the contract, the Corporation has an enforceable right for payment for work performed. Revenue is recognized over time using an input or output based method. The input or output methods represent an appropriate measure of progress towards complete satisfaction of the performance obligation. During the year ended December 31, 2022, the Corporation recognized revenue on these types of long-term contracts totaling $427,138 (2021 – $402,145).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2022, and the 2021 comparative year:

As at December 31	2022	2021
Costs incurred on uncompleted contracts	$ 323,650	$ 347,530
Estimated earnings	77,475	76,138
	401,125	423,668
less: billings to date	(398,024)	(426,519)
Total	$ 3,101	$ (2,851)
Amounts due from customers on construction contracts	$ 33,212	$ 27,705
Amounts due to customers on construction contracts	(30,111)	(30,556)
Total	$ 3,101	$ (2,851)

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

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

The computation for basic and diluted earnings per share for the year ended December 31, 2022, and the comparative for the 2021 year are as follows:

Year Ended December 31		2022		2021
Net earnings	**$**	**109,669**	$	68,588
Effect of dilutive securities				
Convertible debenture interest		**15,167**		–
Diluted Net Earnings	**$**	**124,836**	$	68,588
Basic weighted average number of shares		**40,348,003**		37,265,034
Effect of dilutive securities				
Deferred Shares		**835,270**		822,640
Convertible debentures		**6,130,765**		–
Diluted basis weighted average number of shares		**47,314,038**		38,087,674
Net Earnings per share:				
Basic	**$**	**2.72**	$	1.84
Diluted	**$**	**2.64**	$	1.80

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

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.

	2022	2021
Salaries, wages & benefits	$ 581,160	$ 383,415
Aircraft and component part sale	205,011	121,333
Aircraft operating expenses	256,206	169,298
Materials	275,191	228,030
General and administrative	100,513	71,630
Building rent and maintenance	27,893	14,909
Communication and information technology	23,691	16,012
Advertising	5,673	7,401
Sub-contracting services	108,945	64,923
Other	18,648	6,315
	$ 1,602,931	$ 1,083,266

20. EMPLOYEE BENEFITS

Deferred Share Plan

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

	2022	2021
Deferred shares outstanding, beginning of year	822,640	928,471
Granted during the year	32,963	30,607
Granted through dividends declared during the year	44,553	52,624
Redeemed during the year	(55,119)	(189,062)
Forfeited during the year	(9,767)	–
Deferred shares outstanding, end of year	835,270	822,640
Vested portion of deferred shares outstanding, end of year	833,001	813,671

The fair value of the deferred shares granted during the 2022 year was $1,422 at the time of the grant (weighted average grant price of $43.14 per share) and was based on the market price of the Corporation's shares at that time (2021 – $1,214, weighted average grant price of $39.65 per share). During the 2022 year, the Corporation recorded a compensation expense of $1,117 (2021 – $1,273) for the Deferred Share Plan within head office expenses.

Restricted Share Plan

During the year ended December 31, 2022, the Corporation granted 153,270 (2021 – 121,408) restricted shares to certain personnel. The fair value of the restricted share units granted was $6,062 (2021 – $4,881) 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, 2022, the Corporation recorded compensation expense of $5,821 (2021 – $5,386) for the Corporation's Restricted Share Plan within the general and administrative expenses of head office net of its restricted share plan hedge, with a corresponding liability recorded in Accounts Payable and Accrued Expenses.

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

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 2022, employees acquired 56,505 shares (2021 – 59,720 shares) from Treasury at a weighted average price of $44.59 per share (2021 – $40.52 per share). The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $872 (2021 – $840) 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 2022, the total expense recorded for the ESPP in head office expenses was $957 (2021 – $958). At December 31, 2022, the Corporation had $638 (2021 – $488) recorded within Accounts Payable and Accrued Expenses, representing the portion of additional shares that have vested at that date.

Pension Plan

The Corporation has pension-related costs associated with the defined contribution pension plans to which certain personnel are entitled. The Corporation's accounting policy is to expense contributions as earned during the period when the contributions become payable and are recorded within general and administrative expenses. During 2022, the Corporation recorded defined contribution pension plan costs of $5,781 (2021 – $5,237).

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, 2022	December 31, 2021
Less than 1 year	**$ 3,475**	$ 3,522
Between 1 year and 5 years	**4,123**	3,696
More than 5 years	**2,226**	1,923
	$ 9,824	$ 9,141

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.

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

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, 2022, the total value of these letters of credit and surety bonds was $268,493 (2021 – $239,713).

22. RELATED PARTY TRANSACTIONS

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

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. These leases are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2022 for related party leases was $5,305 (2021 – $4,197) and the lease term maturities range from 2023 to 2031.

Certain of the Corporation's airline subsidiaries purchase jet fuel from an entity controlled by a related party who was a vendor of a business the Corporation acquired. This vendor is considered a related party because of their continued involvement in the management of the subsidiary. The purchases are recognized in the consolidated financial statements at the exchange amounts. Total costs incurred in 2022 for these purchases was $1,542 (2021 – $590).

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 2022 year, and the comparative 2021 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,	2022	2021
Salaries and short-term benefits	**$ 7,045**	$ 6,534
Share-based compensation expense	**5,894**	4,501
	$ 12,939	$ 11,035

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 or lease of the aircraft assets. In connection with this agreement, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer and therefore there can be a delay between when income is recognized and when returns become paid or payable to CRJ Capital Corp.

During 2022, CRJ Capital Corp. invested US $1,380 (2021 – US $383). CRJ Capital Corp.'s total investment generated returns paid or payable of US $315 (2021 – US $1,477). As a result of the sale of certain assets, depreciation recorded on its leasing assets, and the return of initial investment to CRJ Capital Corp., the remaining assets attributable to CRJ Capital

Corp. at December 31, 2022, was US $8,666 (December 31, 2021 – US $6,729). At December 31, 2022, US $134 (December 31, 2021 – US $155 accounts payable to CRJ Capital Corp.) is recorded as 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 $751,127 or $1,017,326 (2021 – US $410,697 or $520,681) 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 $161,627 (2021 – US $134,997) 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 $142,700 (2021 – US $153,900) 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 SOFR 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, 2022, was a financial liability of $4,571 (2021 – financial liability of $482). At December 31, 2022, the notional value of the swaps outstanding is US $427,000 (2021 – US $121,800). Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, $4,571 was reclassified from other comprehensive income in 2022 (2021 – $482). No hedge ineffectiveness was recorded during 2022 or 2021.

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, 2022, would have a $268 (2021 – nil) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $9,905 (2021 – $5,207).

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 Secured Overnight Financing Rate ("SOFR"). At December 31, 2022:

- US $748,500 (2021 – US $410,600) was outstanding under US SOFR, and
- US $2,627 (2021 – US $97) was outstanding under US Prime, and
- $201,000 (2021 – $190,000) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2022, a 1% increase in interest rates for the Corporation would decrease pre-tax net earnings by approximately $8,797 ($6,441 after-tax) (2021 – $5,719 ($4,187 after-tax)).

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

At December 31, 2022, the Corporation had an interest rate swap outstanding with certain members of its lending syndicate on $190,000 of its Canadian credit facility, fixing the interest on this debt until May 2024. Subsequent to December 31, 2022, the Corporation entered into a second interest rate swap on $350,000 of debt, fixing the interest rate on this debt until April 2026. 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 asset of $7,514 (2021 – long-term financial liability of $943) is recorded as a separate line within other comprehensive income. No hedge ineffectiveness was recorded in 2022 or 2021.

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 2020, 2021, and 2022 Restricted Share Plan grants, which fixes the cost of the initial grant for the Corporation. Any changes in fair value will either be paid to the counterparty or be paid to the Corporation by the counterparty at the vesting date. This derivative fixes the cost to the Corporation and does not impact the variability of the award received by the participant. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future settlement of restricted shares issued under the Restricted Share Plan that would impact profit or loss and therefore qualifies as a cash flow hedge. On a combined basis, the initial grant date fair value for the 2020, 2021 and 2022 programs was $19,543. The instruments are classified as a long-term financial asset of $4,182 (2021 – long-term financial asset of $405) 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, $2,267 was reclassified from other comprehensive income in 2022 (2021 – $1,033) which was in respect to previously recognized effective hedging instruments as they matured. No hedge ineffectiveness was recorded during 2022 or 2021.

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.

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

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, 2022, $73,503 (2021 – $48,907) of the receivables were outstanding for greater than 90 days before any consideration of allowance for doubtful accounts. Approximately $20,388 (2021 – $3,346) of this relates to the Manufacturing segment and $53,115 (2021 – $45,561) relates to the Aerospace & Aviation segment. Of the increase in receivables outstanding for greater than 90 days, 65% relates to the impact of acquisitions and the associated receivable profile, with the remaining related to revenue growth. Management at each of the Corporation's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Corporation's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

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

Liquidity Risk

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

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

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Accounts payable and accrued expenses	$ 451,906	$ 451,906	$ –	$ –
Long-term debt (principal value)	1,218,326	–	1,218,326	–
Convertible debentures (par value)	425,500	–	166,750	258,750
Contractual interest [1]	354,721	91,867	246,251	16,603
Total	**$ 2,450,453**	**$ 543,773**	**$ 1,631,327**	**$ 275,353**

Note 1) The contractual interest reflects the assumption that amounts outstanding and floating interest rates at December 31, 2022, will remain at current levels until maturity.

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

Fair Value of Financial Instruments

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

		Fair Value		
Recurring fair value measurements	**Carrying Value December 31, 2022**	**Quoted prices in an active market Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**
Financial Assets				
Other long-term assets – Restricted share hedge – Financial asset at fair value through profit and loss (Note 8)	**$ 4,181**	**$ –**	**$ 4,181**	**$ –**
Other long-term assets – Interest Rate Swap – Financial asset at fair value through OCI (Note 8)	**7,514**	**–**	**7,514**	**–**
Other assets – Fair value through OCI (Note 8)	**6,917**	**–**	**–**	**6,917**
Financial Liabilities				
Consideration liabilities – Financial liability at fair value through profit and loss	**(4,700)**	**–**	**–**	**(4,700)**
Other long-term liabilities – Cross-currency basis swap – Financial liability at fair value through profit and loss	**(4,571)**	**–**	**(4,571)**	**–**
Fair Value Disclosures				
Other assets – Amortized cost	**12,875**	**–**	**12,875**	**–**
Long-term debt – Amortized cost	**(1,214,764)**	**–**	**–**	**(1,218,326)**
Convertible debt – Amortized cost	**(399,443)**	**(446,890)**	**–**	**–**

		Fair Value		
Recurring fair value measurements	Carrying Value December 31, 2021	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Assets				
Other long-term assets – Restricted share hedge – Financial asset at fair value through profit and loss (Note 8)	$ 405	$ –	$ 405	$ –
Other assets – Fair value through OCI (Note 8)	6,591	–	–	6,591
Financial Liabilities				
Consideration liabilities – Financial liability at fair value through profit and loss	(8,100)	–	–	(8,100)
Other long-term liabilities – Cross-currency basis swap – Financial liability at fair value through profit and loss	(482)	–	(482)	–
Other long-term liabilities – Interest Rate Swap – Financial liability at fair value through OCI	(943)	–	(943)	–
Fair Value Disclosures				
Other assets – Amortized cost	7,144	–	7,144	–
Long-term debt – Amortized cost	(707,611)	–	–	(710,681)
Convertible debt – Amortized cost	(492,216)	(534,947)	–	–

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.

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

The following table summarizes the changes in the consideration liabilities recorded on the acquisitions LV Control, AWI, Carson, Macfab, Telcon, Ryko, CTI, APL and Northern Mat including any changes for settlements, changes in fair value, and changes due to foreign currency fluctuations:

Consideration Liability Summary For the years ended	December 31 2022	December 31 2021
Opening balance	**$ 8,100**	$ 5,714
Accretion	**235**	286
Change in estimate	**(1,947)**	(6,000)
Acquisition of Window Installation, including change in estimate	**–**	6,505
Acquisition of Carson	**–**	1,091
Acquisition of Macfab	**–**	598
Acquisition of Ryko	**–**	419
Acquisition of CTI	**–**	7,204
Acquisition of Northern Mat	**6,189**	–
Acquisition of APL	**316**	–
Settled during the period	**(8,355)**	(7,596)
Translation loss (gain)	**162**	(121)
Ending balance	**$ 4,700**	$ 8,100

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

Included in the $4,700 above is the contingent consideration associated with the acquisition of Northern Mat. During the year ended December 31, 2022, the Corporation settled its working capital consideration liabilities related to the acquisitions of Macfab, Ryko, CTI, APL, and Northern Mat. This resulted in a payment of $8,355 and finalized the purchase price allocation for those acquisitions.

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, 2022, 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 6.25%. 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, 2022, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $446,890 (December 31, 2021 – $534,947) with a carrying value of $399,443 (December 31, 2021 – $492,216).

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.

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

24. CHANGES IN WORKING CAPITAL

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

Year Ended December 31	2022	2021
Accounts receivable, including long-term portion	**$ (67,868)**	$ (2,401)
Amounts due from customers on construction contracts	**(4,877)**	(6,362)
Inventories	**(43,697)**	(16,385)
Prepaid expenses and deposits, including long-term portion	**(56,687)**	(10,918)
Accounts payable and accrued expenses, including long-term portion	**154,224**	30,969
Income taxes receivable/payable	**(375)**	(4,764)
Deferred revenue, including long-term portion	**(213)**	24,973
Amounts due to customers on construction contracts	**(1,724)**	5,643
Net change in working capital	**$ (21,217)**	$ 20,755

25. CAPITAL MANAGEMENT

The Corporation manages its capital to utilize prudent levels of debt. The Corporation's goal is to maintain its level of senior debt within a range of 1.5 – 2.5 times funded senior debt to Operating profit before Depreciation, Amortization, Finance Costs and Other, normalized for the full year contribution of recent acquisitions. The Corporation has been near the top end of this range at times during the pandemic and management expects this to normalize as the impacts of the pandemic lessen.

The Corporation's objective in managing capital is to:

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

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

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

	December 31 2022	December 31 2021
Total senior debt outstanding (principal value)	**$ 1,218,326**	$ 710,681
Convertible debentures outstanding (par value)	**425,500**	525,500
Common shares	**1,019,772**	852,821
Total capital	**$ 2,663,598**	$ 2,089,002

There are certain requirements of the Corporation's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs, and other ("Adjusted EBITDA") ratio. Management considers these requirements in the decisions made in managing the level and make-up of the Corporation's capital structure. The Corporation has been in compliance with all of the financial covenants during the 2022 year.

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

Changes in the capital of the Corporation during the year ended December 31, 2022, are mainly attributed to the following events that occurred during the year. The Corporation closed a bought deal financing of common shares resulting in the issuance of 2,362,100 shares at $48.70 per share. The Corporation used its credit facility to complete the early redemption of its December 2017 convertible debentures with a par value of $99,992 at the time of redemption. Finally, the Corporation issued shares and used its credit facility to fund the acquisitions of Northern Mat and APL in the current year.

26. INCOME TAX

Reconciliation of Effective Tax Rate

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

	2022	2021
Earnings before income taxes	**$ 151,469**	$ 94,263
Combined Canadian federal and provincial tax rates	**27.0%**	27.0%
Income tax expense at statutory rates	**40,897**	25,451
Increase (decrease) in taxes resulting from:		
Permanent differences	**4,487**	3,019
Realized capital gains	**(682)**	93
Accounting income not subject to tax	**–**	(1,620)
Impact of foreign jurisdiction differences	**(2,355)**	(1,284)
Amounts in respect of prior periods	**(575)**	(186)
Other	**28**	202
Provision for income taxes	**$ 41,800**	$ 25,675

Unrecognized Deferred Tax Liabilities

At December 31, 2022, 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 $145,109 (2021 – $146,879).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Movement in Deferred Tax Balances during the Year

The movement in the net deferred income tax balances during the 2022 year and the 2021 comparative year are as follows:

	December 31, 2021	Business Acquisitions	Credited /(charged) through statement of income	Credited /(charged) to other comprehensive income	Credited / (charged) through equity	December 31, 2022
Deferred income tax assets						
Accruals – deductible when paid	$ 672	$ 843	$ 3,111	$ 47	$ –	$ 4,673
Financing costs	177	340	(928)	–	1,524	1,113
ROU lease liabilities	23,997	3,234	16,568	409	–	44,208
Capital and non-capital loss carryforwards	19,560	–	4,643	618	–	24,821
Non-deductible reserves	3,870	250	(335)	403	–	4,188
Amounts recognized in OCI	145	–	(145)	–	–	–
Other	455	134	473	15	–	1,077
Total deferred income tax asset	$ 48,876	$ 4,801	$ 23,387	$ 1,492	$ 1,524	$ 80,080
Deferred income tax liability						
Capital assets	$ (99,371)	$ (11,997)	$ (27,453)	$ (1,044)	$ –	$ (139,865)
ROU assets	(22,237)	(3,971)	(15,779)	(349)	–	(42,336)
Intangible assets	(43,230)	(20,238)	520	(790)	–	(63,738)
Convertible debentures	(4,668)	–	1,018	–	–	(3,650)
Amounts recognized in OCI	–	–	(231)	(2,927)	–	(3,158)
Investments	(3,868)	–	(1,089)	(150)	–	(5,107)
Total deferred income tax liability	(173,374)	(36,206)	(43,014)	(5,260)	–	(257,854)
Net	$ (124,498)	$ (31,405)	$ (19,627)	$ (3,768)	$ 1,524	$ (177,774)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Income taxes credited (charged) through the Statement of Income includes investment tax credits of $301 (2021 – nil) that were classified as reductions of the related expenditures incurred.

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

	December 31 2022	December 31 2021
Deferred tax liabilities	**$ (177,774)**	$ (124,498)
	$ (177,774)	$ (124,498)

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Donald Streuber, F.C.P.A., F.C.A.
Chairman

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

Brad Bennett, CM., O.B.C.
Chair, Aerospace & Aviation Sector Advisory Committee

Gary Buckley
Chair, Compensation Committee

Polly Craik, ICD.D

Bruce Jack, F.C.P.A., F.C.A.
Chair, Audit Committee

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

Grace Schalkwyk

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

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

SENIOR MANAGEMENT AND OFFICERS

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

Carmele Peter, K.C., LL.B.
President

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

Steven Stennett
Chief Legal Officer

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

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

Darwin Sparrow
Chief Operating Officer

Curtis Anderson
Chief Technology Officer

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

TSX Trust
Calgary, AB

STOCK EXCHANGE LISTING & SYMBOL
TSX: EIF

ANNUAL GENERAL MEETING

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

Date: May 10, 2023
Time: 10:30 am CT

See company website for additional details.

CORPORATE OFFICE

101 - 990 Lorimer Blvd.
Winnipeg, MB R3P 0Z9
Tel: (204) 982-1857
Fax: (204) 982-1855
exchangeincomecorp.ca

WEBSITE LISTINGS FOR SUBSIDIARY COMPANIES

Calm Air
calmair.com

Carson Air
carsonair.com

Crew Training International
cti-crm.com

Custom Helicopters
customheli.com

Keewatin Air
keewatinair.com
advancedparamedic.com

Perimeter Aviation
perimeter.ca
bearskinairlines.com

PAL Group of Companies
palaerospace.com
palairlines.ca
cartenav.com
atlanticavionics.com
palaviationservices.com
mfctraining.com
lifeinflight.ca

Regional One
regionalone.com
teamjas.com

Alberta Operations
hotsyab.com
jaspertank.com
stormkingpw.com

Ben Machine
benmachine.com
macfab.ca

L.V. Control Manufacturing
lvcontrol.com

Northern Mat & Bridge
northernmat.ca

Overlanders Manufacturing
overlanders.com

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

Stainless Fabrication
stainlessfab.com

WesTower Communications
westower.ca
telcondatvox.com
ryko.ca

exchangetech.ca
charterconnexions.ca

EIC

Exchange
Income
Corporation

EXCHANGEINCOMECORP.CA