EXCHANGE INCOME CORPORATION
2015 ANNUAL REPORT

PROVEN

OIL PRICE COLLAPSE
$26.05/BBL
JANUARY 2016

DOW JONES INDUSTRIAL AVERAGE RECORD HIGH
MAY 2015

$1.92

CANADIAN DOLLAR
$0.714
DECEMBER 2015

GOVERNMENT ENDS BUSINESS TRUSTS
OCTOBER 2006

GLOBAL FINANCIAL CRISIS DOW JONES INDUSTRIAL AVERAGE 6,626
MARCH 2009

$1.08

PEAK OIL PRICE
$147/BBL
JULY 2008

CANADIAN DOLLAR
$1.10
NOVEMBER 2007

12 YEARS –
10 DIVIDEND INCREASES

Photo: Calm Air flight at ready for takeoff at Winnipeg's Richardson Airport.

3,200
NUMBER OF EMPLOYEES

13
NUMBER OF SUBSIDIARIES

12
YEARS IN OPERATION

10
DIVIDEND INCREASES

IN GOOD TIMES AND BAD

OVER THE PAST 12 YEARS, THE ECONOMY HAS HAD ITS UPS AND DOWNS.

Over the life of EIC, oil prices have peaked at $147 a barrel and then dropped dramatically to $26. One economic crisis after another has come and gone. The value of the Canadian dollar has fluctuated widely. Different sectors have gone from boom to bust and back again.

Through it all, we have kept our promise to shareholders. Produce strong results to not only deliver regular distributions – but also consistently grow our dividends.

In fact, we have increased our dividend 10 times over the past 12 years, while maintaining a rock-solid balance sheet, which facilitates further growth in the future. This puts us among an elite group of publicly-traded companies in North America.

Working in multiple sectors in different geographies, with different products has its advantages. It limits our exposure to risks and uncertainties. It ensures our dividends are safe and sustainable. Our strategy is proven.

$1.92

CURRENT DIVIDEND ANNUALIZED

Photo: Off of the Newfound and Labrador coast – home of Provincial Airlines

REVENUE

($ MILLIONS)

2011	2012	2013	2014	2015
427.2	486.2	509.1	542.5	807.4

13.6%

CAGR

EBITDA

($ MILLIONS)

2011	2012	2013	2014	2015
71.5	71.7	81.8	94.3	179.2

20.2%

CAGR

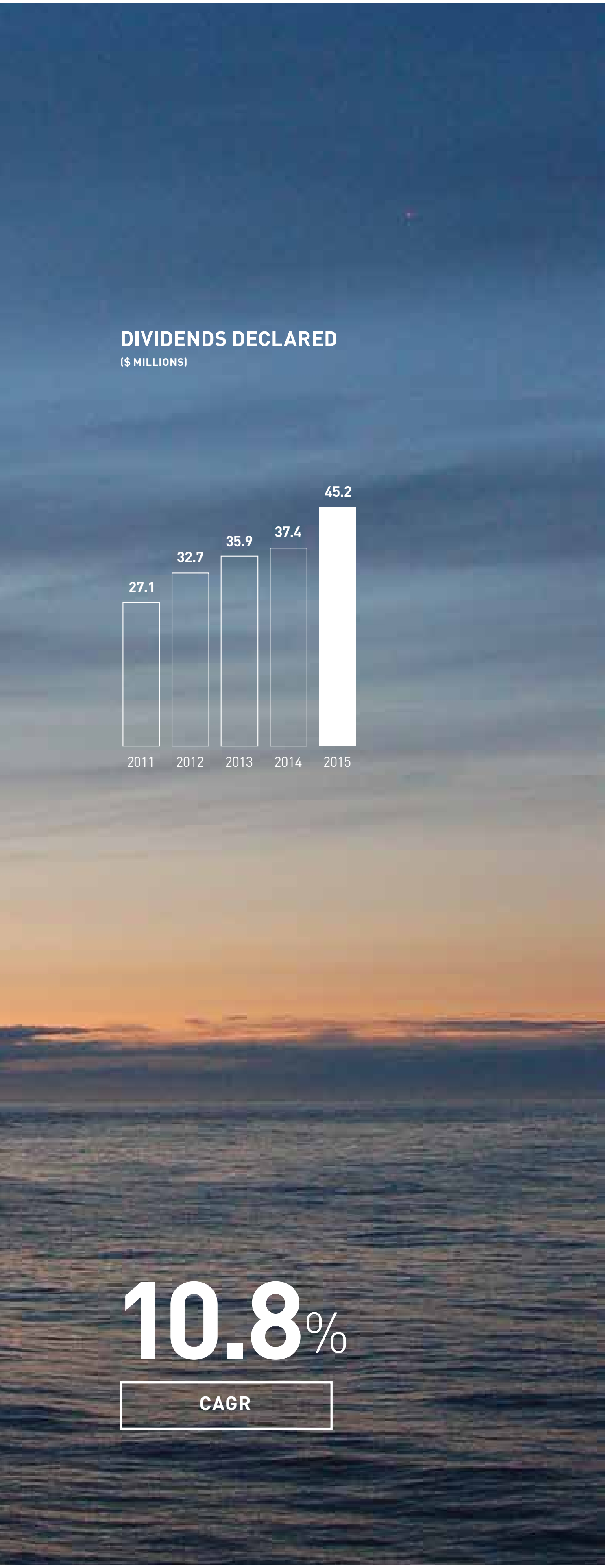
FREE CASHFLOW LESS MAINTENANCE CAPEX

($ MILLIONS)

2011	2012	2013	2014	2015
29.5	30.8	27.1	35.1	74.4

20.3%

CAGR



RECORD RESULTS

EIC SET NEW BENCHMARKS FOR EACH OF OUR KEY FINANCIAL METRICS IN 2015

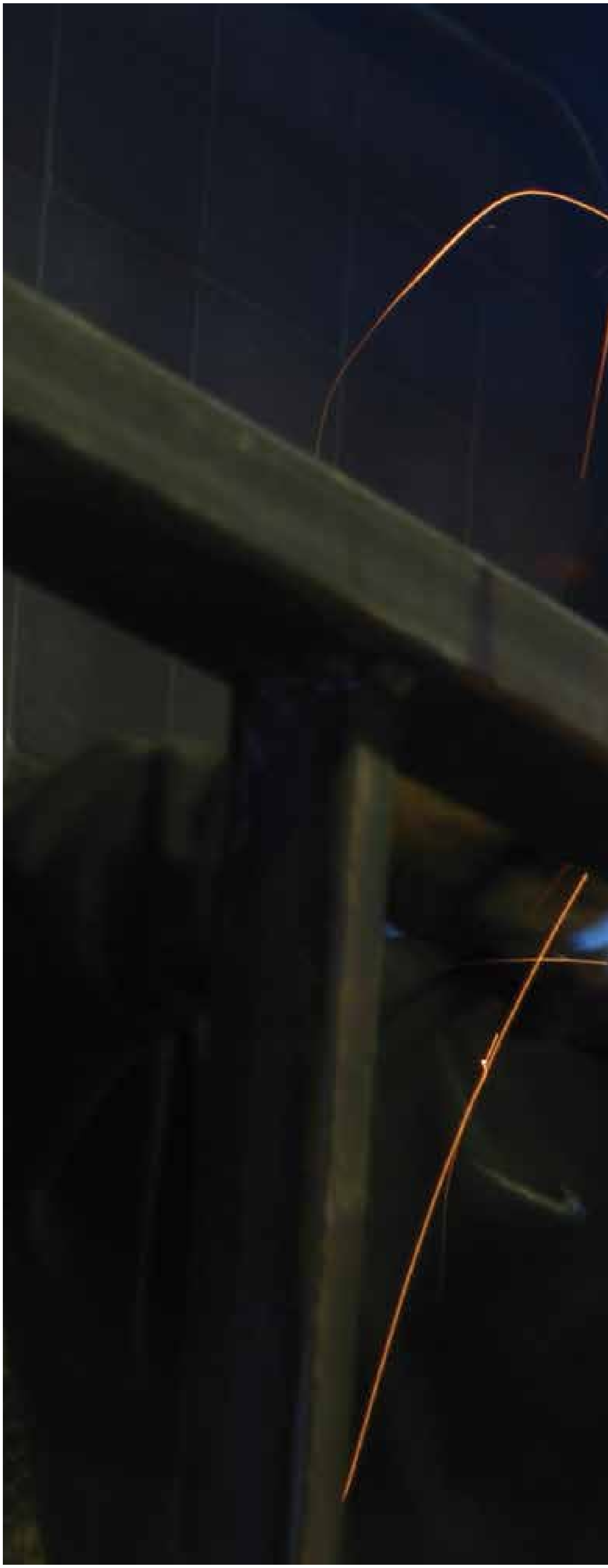
FREE CASH FLOW LESS MAINTENANCE CAPEX WAS $3.02 PER BASIC SHARE, A 90% INCREASE

As a result of transactions completed in 2014 to improve profitability, increase the diversification of operations and strengthen our balance sheet, the success of our strategy and our ability to execute was reflected in each our key financial metrics.

Most significantly, we improved our payout ratio to 60% in 2015 even with two dividend increases over a span of 14 months and an increase in the number of shares as a result of acquisitions and deleveraging transactions.

A STRATEGY BUILT FOR THE LONG TERM

BUY, HOLD AND INVEST



Buy and Hold

We buy companies with the intent of holding them for a very long time. Our philosophy is that it's much better to make a steady return over a very long time than it is to make a quick hit in a short amount of time.

This long-term view is consistent with our objective of delivering dividends to shareholders. That is to be steady, dependable and deliver them for a long time.

It's why we acquire companies in niche markets that we understand and operate in industries that we know have a track record of stable growth.

Invest

Unlike other acquisition-oriented companies, we increase the value of the companies we acquire by working with existing management teams and providing them with greater access to capital.

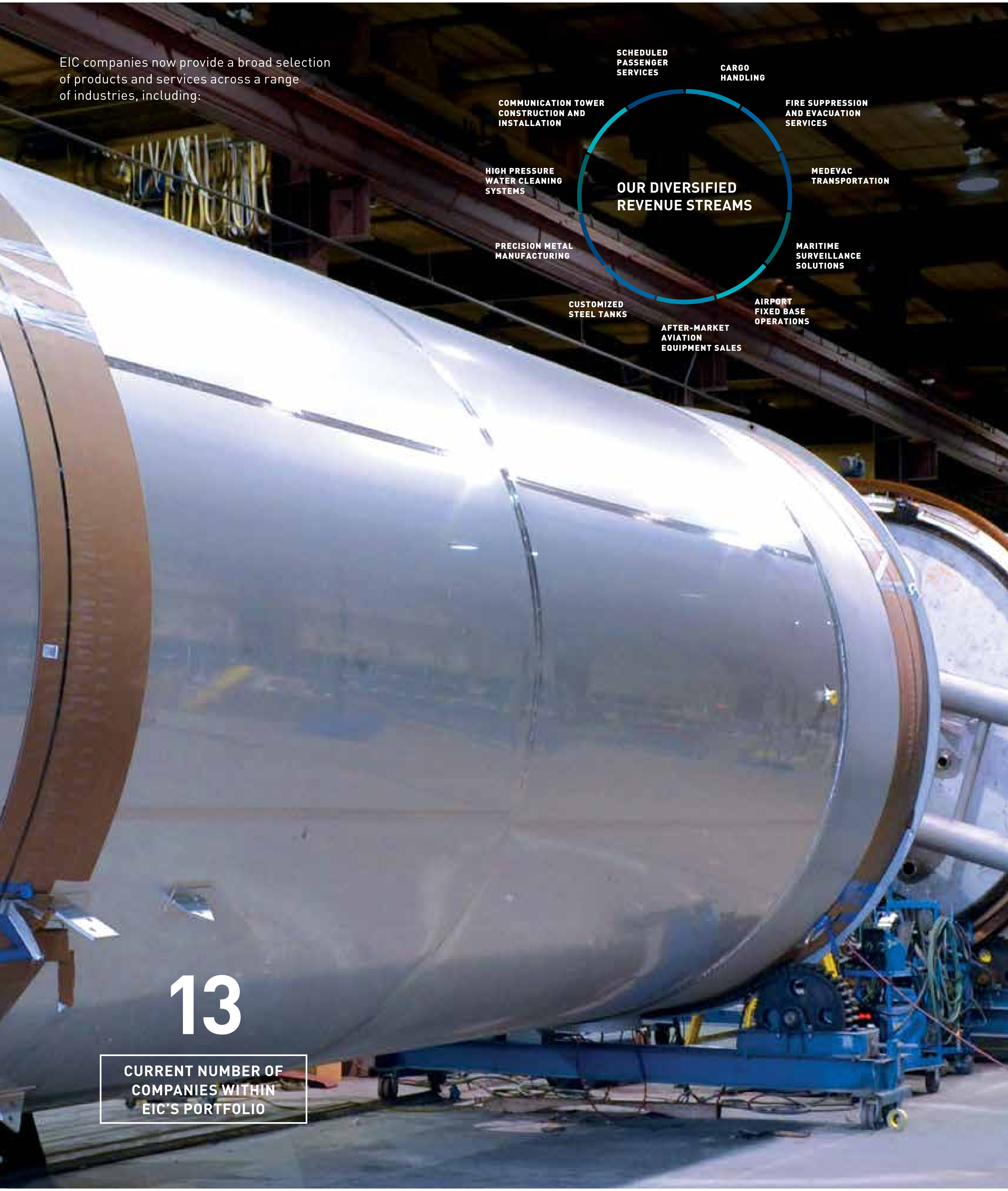
Our goal is to help management teams that have already built profitable businesses acquire new assets, infrastructure and equipment to allow them to realize their full growth potential.

It's also why we acquire companies with strong management teams and loyal employees who operate in supportive communities.

EIC companies now provide a broad selection of products and services across a range of industries, including:

OUR DIVERSIFIED REVENUE STREAMS

- SCHEDULED PASSENGER SERVICES
- CARGO HANDLING
- FIRE SUPPRESSION AND EVACUATION SERVICES
- MEDEVAC TRANSPORTATION
- MARITIME SURVEILLANCE SOLUTIONS
- AIRPORT FIXED BASE OPERATIONS
- AFTER-MARKET AVIATION EQUIPMENT SALES
- CUSTOMIZED STEEL TANKS
- PRECISION METAL MANUFACTURING
- HIGH PRESSURE WATER CLEANING SYSTEMS
- COMMUNICATION TOWER CONSTRUCTION AND INSTALLATION



13

CURRENT NUMBER OF COMPANIES WITHIN EIC'S PORTFOLIO

DIVERSIFICATION MATTERS

THE UNDERLYING ENGINE OF EIC'S GROWTH OVER THE PAST 12 YEARS HAS BEEN OUR BUSINESS MODEL THAT IS FOCUSED ON DIVERSIFICATION

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

Our 13 companies span a variety of industries and regions, delivering products and services to customers across North America and around the world.

The recent acquisitions of Provincial Aerospace and Ben Machine Products, in particular, have significantly enhanced the customer, industry and geographic mix within our portfolio of companies.

EIC is purposefully designed to mitigate significant risk areas. Our performance in 2015 demonstrates that when implemented effectively, diversification enhances shareholder returns while mitigating the risks that any isolated negative market conditions may have to revenue, cash flow and profitability.

DISCIPLINE MATTERS

OVER THE PAST 12 YEARS, WE HAVE TAKEN A VERY DISCIPLINED APPROACH TO GROWING OUR OPERATIONS THROUGH ACQUISITIONS

Target companies need to match very specific criteria:

- Must operate in niche markets with a defensible position
- Come with strong management teams
- Generate steady cash flow
- Be immediately accretive to our financial results

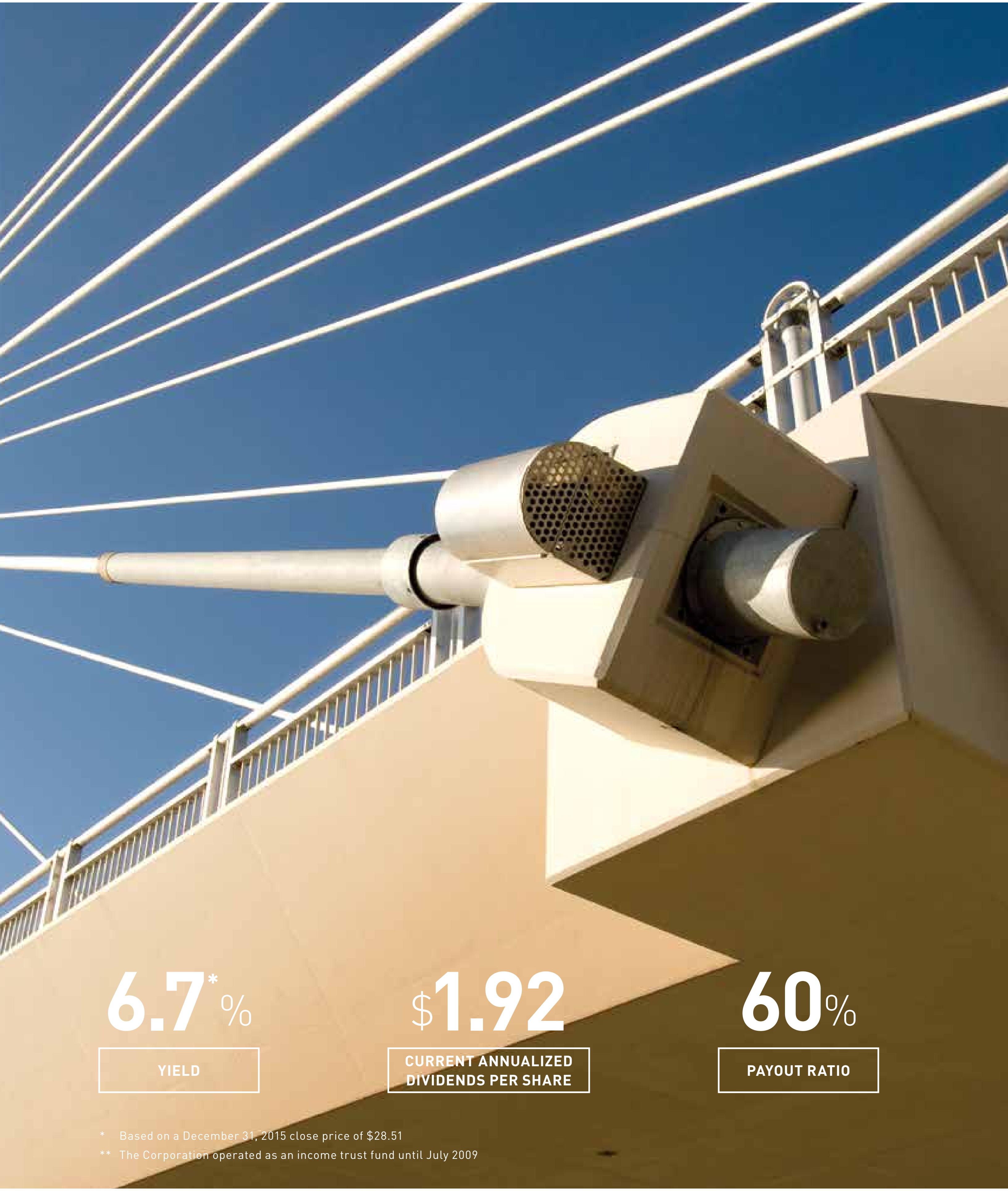
In 2015, we completed two material acquisitions that considerably diversified our operations. The first was Provincial Aerospace, which we acquired for $244 million in January.

The acquisition allowed us to expand into Atlantic Canada and enter the burgeoning global market for maritime surveillance solutions.

We completed our second by acquiring Ben Machine Products for $45 million in July. While considerably smaller in value, the acquisition was also strategic. It enabled us to expand our Manufacturing segment in Ontario and into the global aerospace and defence sector, both of which offset some of the pressures currently facing our operations due to weak commodity prices, particularly in Alberta.

Provincial Aerospace and Ben Machine Products were significant contributors to our growth in 2015. Our disciplined model made it possible. Discipline matters.


OMI
$300M
TOTAL VALUE OF ACQUISITIONS IN 2015



6.7*%

YIELD

$1.92

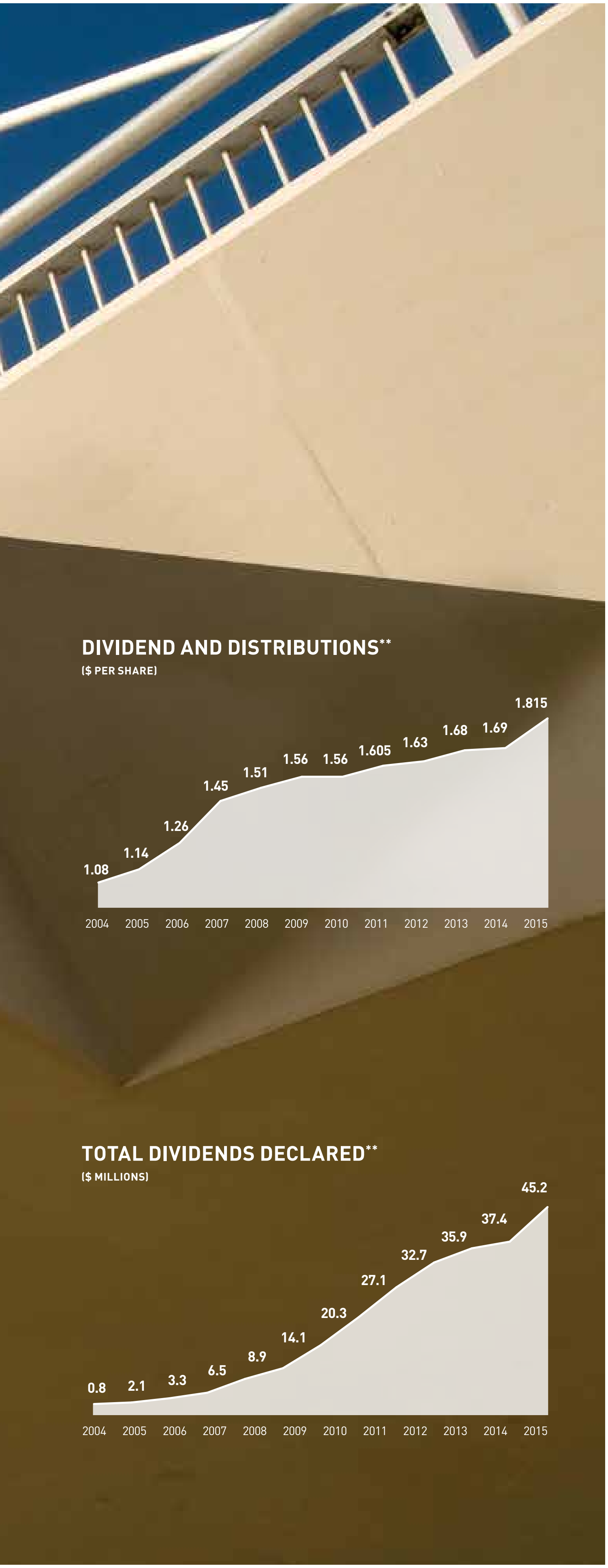
CURRENT ANNUALIZED DIVIDENDS PER SHARE

60%

PAYOUT RATIO

* Based on a December 31, 2015 close price of $28.51

** The Corporation operated as an income trust fund until July 2009



DIVIDEND GROWTH

EIC HAS BEEN A MEMBER OF THE S&P/TSX CANADIAN DIVIDEND ARISTOCRATS INDEX SINCE 2012 DUE TO OUR TRACK RECORD OF REGULAR DIVIDEND INCREASES.

Diversity and discipline are the cornerstones that enable us to deliver a reliable, growing dividend to our shareholders. In 2015, we increased our dividend per share on an annualized basis to $1.92, marking our 10th increase in 12 years. The increase puts EIC in an exclusive group of dividend paying companies.

To put our dividend distribution track record in better perspective, EIC has paid shareholders more than $230 million in its history, which means that more than 50% of our shareholders' invested capital in EIC has been returned to them through dividend distributions.

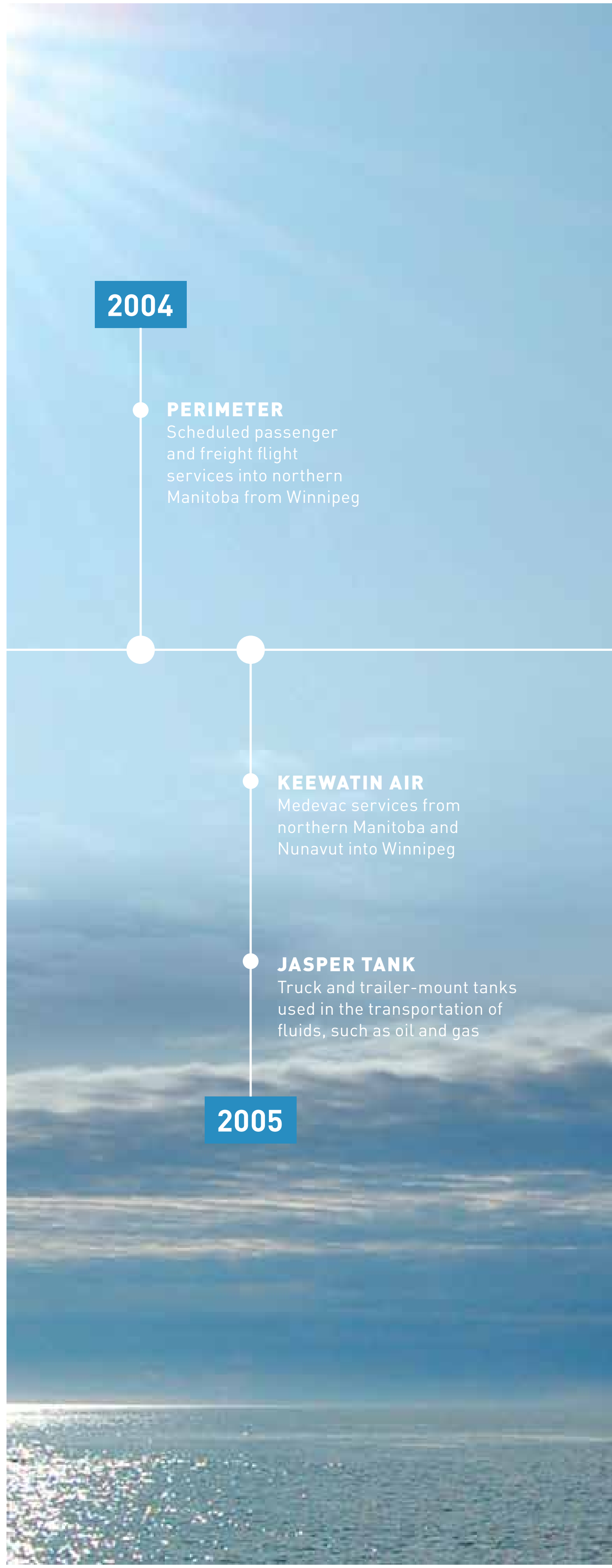
Our ability to sustain our dividend distributions was strengthened in 2015 when we lowered our payout ratio to 60% even with two dividend increases in the previous 14 months.

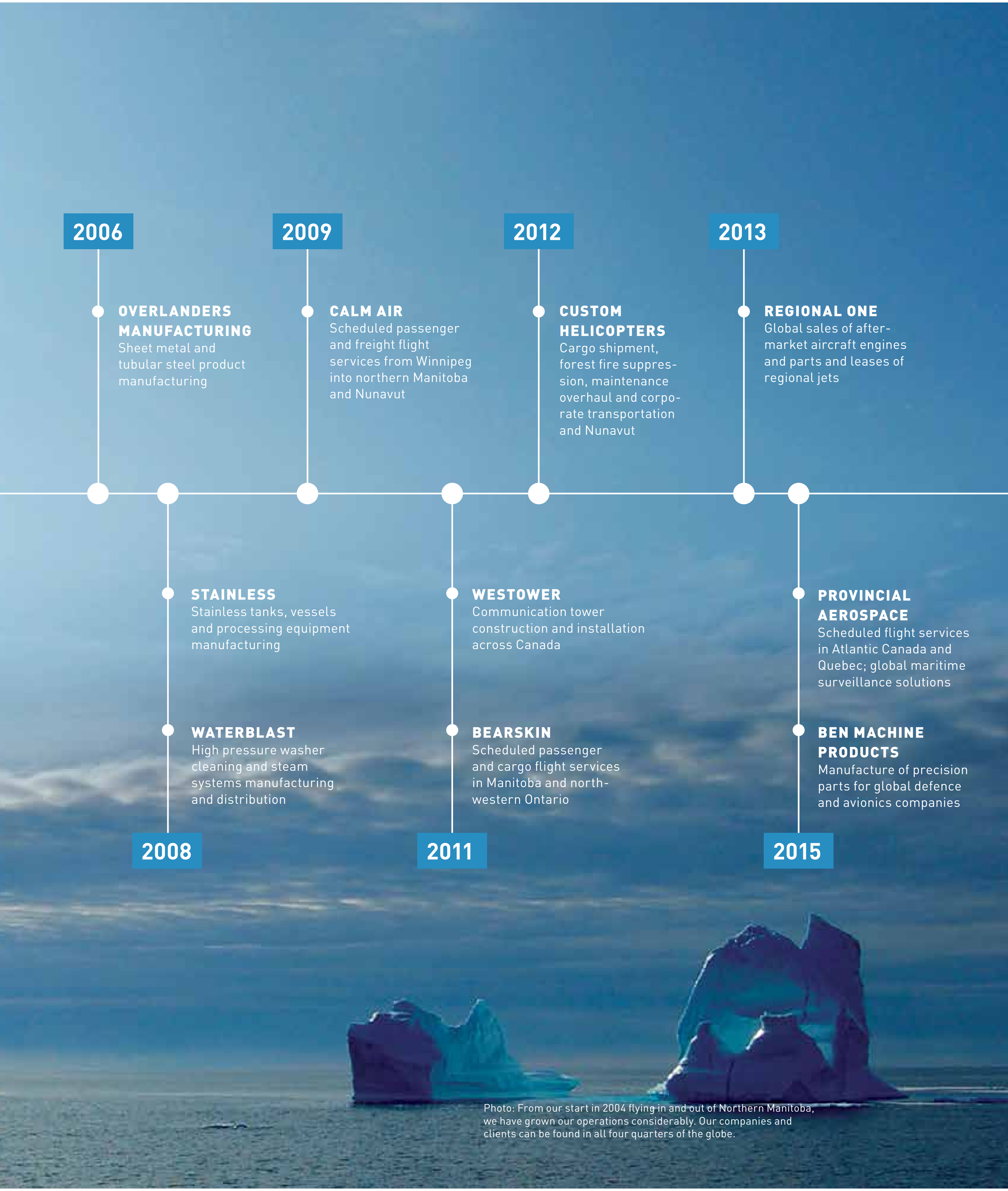
OUR OPERATIONS

FROM OUR START IN 2004 FLYING IN AND OUT OF NORTHERN MANITOBA, WE HAVE GROWN OUR OPERATIONS CONSIDERABLY. OUR COMPANIES AND CLIENTS CAN BE FOUND IN ALL FOUR QUARTERS OF THE GLOBE.

Our operating companies and the customers we serve now span the globe and intersect a number of industries ranging from aviation, aerospace, telecommunications, oil and gas, agriculture and food and beverage industries.

Our operations are purposefully diversified and every acquisition we make is meant to further our goal of becoming less reliant on any economic sector for growth and becoming more immune to swings in the economy.





2006

OVERLANDERS MANUFACTURING
Sheet metal and tubular steel product manufacturing

2008

STAINLESS
Stainless tanks, vessels and processing equipment manufacturing

WATERBLAST
High pressure washer cleaning and steam systems manufacturing and distribution

2009

CALM AIR
Scheduled passenger and freight flight services from Winnipeg into northern Manitoba and Nunavut

2011

WESTOWER
Communication tower construction and installation across Canada

BEARSKIN
Scheduled passenger and cargo flight services in Manitoba and northwestern Ontario

2012

CUSTOM HELICOPTERS
Cargo shipment, forest fire suppression, maintenance overhaul and corporate transportation and Nunavut

2013

REGIONAL ONE
Global sales of after-market aircraft engines and parts and leases of regional jets

2015

PROVINCIAL AEROSPACE
Scheduled flight services in Atlantic Canada and Quebec; global maritime surveillance solutions

BEN MACHINE PRODUCTS
Manufacture of precision parts for global defence and avionics companies

Photo: From our start in 2004 flying in and out of Northern Manitoba, we have grown our operations considerably. Our companies and clients can be found in all four quarters of the globe.

24%

OF PERIMETER'S 515 EMPLOYEES ARE OF FIRST NATIONS DESCENT

Photo: One of Perimeter's cargo handlers.

Photo: The larger Dash-8 aircraft is now an important piece in the fleet.

SPOTLIGHT ON

PERIMETER AVIATION

Established in 1960, Perimeter has been putting First Nations first by providing essential aviation services to the far north.

EIC's first acquisition took place in 2004, when we purchased Perimeter Aviation for $18 million. Perimeter was targeted because it operated as a niche airline. At the time, Perimeter had 19 aircraft, each with limited seating capacity flying into remote communities in northern Manitoba.

Perimeter's acquisition and our subsequent efforts to enhance its operations through investments and improvements to equipment and infrastructure are the benchmark for EIC's business model. We don't simply acquire companies. We invest in them, fueling opportunities for growth and sustained financial results.

Since 2004 Perimeter has grown to become the largest independent carrier in Manitoba largely as a result of increased access to capital.

Today, Perimeter has a fleet of more than 30 aircraft, and provides scheduled passenger, charter, air ambulance and cargo transportation services to First Nations communities that are largely remote and difficult to access, especially after winter ice roads have closed. Perimeter flies from Winnipeg to 22 destinations in Manitoba and north western Ontario. Its fleet of aircraft range from 4-seat charters to 45 seat airline operated aircraft. Every year, Perimeter flies more than 160,000 scheduled passenger flights and ships more 10 million pounds of freight.

Perimeter's success, as measured by its revenue growth of more than 220%, the increase in its fleet size by almost 60% and the addition of new routes over the past 12 years has served as a model for EIC to follow when making acquisitions.

Perimeter's core business is unchanged from 2004; the company just does more and does it better.

SPOTLIGHT ON

PROVINCIAL AEROSPACE

Headquartered in St. John's, Nfld, Provincial is a diversified aviation company acquired in January 2015.

Provincial is our largest acquisition to date. Acquired in January 2015 for $244 million, Provincial, helped us with our goal of increasing diversification and improving profitability. Much like EIC, Provincial is itself diversified, operating three businesses across the airline, aviation services and aerospace markets.

Its airline company, Provincial Airlines, has been in operation for more than 40 years, providing scheduled, charter and cargo services throughout Atlantic Canada and Quebec. Provincial also operates Innu Mikun airlines in partnership with the Innu First Nations of Labrador and operates fixed base operations at multiple locations.

Provincial Aerospace, Provincial's largest division, is a vertically integrated aerospace and defense company with a focus on mission systems integration, in-service support, maritime surveillance services to sovereign governments and private sector companies around the globe.

Provincial's customers extend beyond Canada and include the US Coast Guard, the Royal Dutch Navy and the United Arab Emirates Air Force. It also provides iceberg monitoring and tracking services to the major off-shore oil and gas companies operating in Atlantic Canada.

While still new as an EIC company, Provincial has already made a mark on our operations, helping to drive us to record results in 2015. Provincial was able to sign a 5-year in-service support agreement with an existing client in the Middle East in November 2015. The agreement is expected to generate additional revenues of in excess of $150 million to our consolidated revenue over the term of the contract.

The addition of Provincial to our operations also brought with it advanced aerospace maintenance and repair capabilities. This has allowed us to "insource" aircraft heavy engine checks and other maintenance work that our Legacy airlines previously had to outsource to third parties. The introduction of insourcing capabilities improves maintenance and repair scheduling while also reducing costs.

$150M

VALUE OF A 5-YEAR AGREEMENT SIGNED BY PROVINCIAL WITH CLIENT IN THE MIDDLE EAST

Photo: Regional One acquired 12 Bombardier CRJ700 aircraft from Cityline Lufthansa
Photo Credit: ©Michael Gill

$44.6M

REGIONAL ONE CAPITAL INVESTMENTS 2015

SPOTLIGHT ON

REGIONAL ONE

Based in Miami, Florida, Regional One purchases, sells and leases aircraft, aircraft parts, engines and engine parts to regional and commuter airline operators worldwide.

Regional One was acquired in 2013 for $84 million, principally because its management team had built a scalable, truly global business. The acquisition of Regional One met each of our acquisition criteria and also provided in-sourcing of parts and aircraft for our airlines, resulting in a level of vertical integration and mitigation of a risk area. Although it more than met each of our acquisition criteria, it also had significantly higher historic growth rates than our previous acquisitions.

While Regional One operated as a successful business prior to becoming an EIC company, the primary factor limiting the rate of growth of Regional One was access to capital. Since being acquired, Regional One has been able to access approximately $80 million in additional capital that it has used to grow its portfolio of parts, engines and aircraft that it makes available for sale or lease to its international base of customers.

The benefit of Regional One's access to more capital was made clear when it entered into an agreement with Lufthansa Cityline late in 2014 to purchase its fleet of 12 Bombardier CRJ700 aircraft.

Regional One is now monetizing the value of these acquired assets by taking a blended or opportunistic approach. Depending on customer requirements, Regional One sells, leases or parts out the equipment, providing a mix of recurring and fixed revenue streams.

Regional One's acquisition has proven to be highly strategic. Regional One's revenue contributions help to offset the costs for engine parts and components incurred by EIC's Aviation segment operations. With the rapid decline in value of the Canadian dollar, the benefits delivered by Regional One increased as its sales are in US currency, offsetting the impact of foreign currency as all aviation equipment purchased by EIC's other airlines are priced in US dollars.

Regional One's strong contributions in 2015 contributed to EIC's record results this year and our ability to increase our dividends to shareholders.

HONORABLE

GARY FILMON

P.C.,O.C.,O.M.
CHAIRMAN, BOARD OF DIRECTORS

RECORD LEVELS

OF EBITDA AND FREE CASH FLOW

$**75**M

OF RAISED EQUITY

$**550**M

INCREASE IN SENIOR DEBT FACILITY

Although 2015 was a remarkable year for EIC in many ways, at its core, the engine that drove our strong performance remained the disciplined execution of our business model, the same elements that have delivered consistent performance since our inception.

A very common school of thought about the stock market is that it tends to suffer from a very short term view of listed companies. This perspective is an all too easy trap to fall into and requires disciplined, vigilant leadership to look beyond the day to day noise of the markets. Fortunately, EIC was founded, and remains grounded, by principles and values that preclude the temptation to pursue the mirage of transient profits at the expense of creating sustainable value for shareholders. Our unwavering dedication to our business model of building a diversified portfolio of well run businesses with strong and defensible recurring cash flows through disciplined acquisition has been validated time and again. By remaining true to our business model and our values we have delivered shareholders an uninterrupted and growing stream of dividends in both good economic times and through once in a generation economic and capital market turmoil.

Our enhanced financial performance in 2015 was driven by the strong performance of our Legacy airlines, Regional One and through the acquisitions of Provincial Aerospace, Ben Machine and First Air's non-aircraft assets in the Kivalliq region. These strong pillars of performance once again validated our principle of diversification by more than offsetting the impact of challenges experienced within our manufacturing segment. In addition to the remarkable revenue growth and the record levels of EBITDA and Free Cash Flow we were also able to deliver our 10th dividend increase since 2004 while, at the same time, improving our dividend payout ratio.

I find it interesting that many commentators in the financial media have dubbed 2016 "The Year of the Balance Sheet", due to the challenges facing the global energy sector. Maintaining a strong balance sheet is an everyday strategy and discipline at EIC. Our strong capital structure is the foundation from which every leg of our growth has been launched. In addition to funding our acquisitions activities this year we were able to strengthen our capital structure and reduce our debt servicing costs by increasing our senior debt facility to $550 million, call an early redemption of our Series I and Series H convertible debentures and raise an additional $75 million of equity. This proactive management of our balance sheet has significantly enhanced our financial position and considerably increased the capital available for opportunities in 2016 and beyond. 2015 was a very active and remarkable year for EIC, a year when the culmination of many initiatives embarked upon in prior years began to manifest themselves in sustained financial performance. In 2016, we will continue to build on the strong performance of 2015 and find new opportunities both within our family of companies and through disciplined acquisition.

EIC has thrived as a public company with increased access to capital and a loyal shareholder base which has facilitated our growth from a Capital Pool Company with a market capitalization of less than $1 million in 2004 to a diversified corporation providing a sustainable and growing dividend with a year-end market capitalization of almost $800 million.

One of the challenges of being a public company is the focus on short term results, whether it be the most recent year or even the most recent quarter. This focus on "what have you done lately" can often be a distraction to staying focused on long term value creation and delivering on your business model for your shareholders. I am very pleased to be able to say that over the last 12 years, EIC has stayed true to the model in our initial prospectus where we promised a diversified company which would pay a growing, reliable dividend, and maintain a rock solid balance sheet for challenging economic times. 2015 has, without doubt, been the best year in EIC history, with new highs set in virtually every financial metric, a substantial increase in our dividend and a further strengthening of our balance sheet. While this performance is very exciting for our Board, management team and shareholders, it pales in significance when compared to our consistency and reliability over the last 12 years, which has included 10 dividend increases and with an annual CAGR in our monthly dividend of 5%. Short term success is important, but at the end of the day it is just that, short term. Consistency and delivering on your promise to your shareholders for over a decade is what creates shareholder value. To use a sports metaphor, many teams win championships but very few create dynasties. At EIC, our goal is not only to provide great short term results, but dependable dividends that grow over time together with a balance sheet that protects the company and its shareholders in challenging times.

We have delivered for our shareholders in a wide variety of economic conditions: $30 oil or $130 oil, a $0.70 Canadian dollar or a $1.10 Canadian dollar, the high of the commodity super cycle, or the low of the world financial crisis. In short, our business model of diversity through organic growth and acquisition while maintaining discipline in how much we pay and how we fund acquisitions, has paid dividends. (The pun very much intended!)

We began the process that led to our record 2015 performance several years ago with the commitment to investing in our Legacy airlines to improve their efficiency and profitability, as well with the acquisition of and additional investments in Regional One. The process continued in 2014 with the divestiture of Westower US and in January of 2015 with the acquisition of Provincial.

These transactions were accretive and served to improve our diversity and strengthen our cash flow, thereby providing the capability to increase our dividend while positioning our balance sheet for future growth. A further acquisition of Ben Machine in 2015 set the stage for our best year to date. The record performance of our continuing operations is detailed below.

- Revenue increased by approximately 50% to $807.4 million
- EBITDA increased by 90% to $179.2 million
- Free Cash Flow less maintenance capital expenditures grew by 112% to $74.4 million
- Net Earnings increased by 446% to $40.2 million
- Adjusted Net Earnings grew by 249% to $51.6 million
- On a basic per share basis
- Free Cash Flow less maintenance capital expenditures grew by 90% to $3.02
- Payout ratio improved to 60% from 106% last year
- Net Earnings per share grew by 408% to $1.63
- Adjusted Net Earnings per share increased by 212% to $2.09

From the start of 2015 and throughout the entire year, the performance of the Legacy airlines was consistently strong. Positive external factors, including a return to 'normal' weather conditions during the first three quarters of the year and falling fuel prices throughout the year, were bolstered by the enhanced efficiencies inside the Legacy airlines that were driven by past investments in fleet assets and ground infrastructure. The acquisition of First Air's Kivalliq non-aircraft assets during the year generated significant revenue growth within the Legacy airlines while resolving overcapacity issues in the central arctic region. The strong performance of the Legacy airlines was achieved in the face of the continued decline of the Canadian dollar throughout the year, which increased the costs of parts and overhauls which are generally priced in US currency.

The acquisitions of Provincial in January and Ben Machine in July were both immediately accretive to EIC while providing increased diversification of our operations and enhanced exposure to aerospace operations. Provincial was the largest contributor to both revenue and EBITDA in the Aviation segment and the Corporation as a whole. It also increased our product diversification with its aerospace division and our geographic diversification with operations in Atlantic Canada, the Caribbean and the Middle East. The acquisition of Ben Machine increased the size and breadth of our manufacturing operations and helped to partially offset the challenges faced by our Alberta Operations as a result of the very difficult Alberta economy.

Throughout 2015, Regional One continued to develop exciting and accretive opportunities in its markets that warranted additional investment. Regional One completed its acquisition of a fleet of CRJ700 jets in 2015. The monetization of this investment over the next year and beyond will enhance the sustained growth of Regional One.

The combined strong results from the Aviation segment, along with the newly acquired Ben Machine, more than offset the impact of weak demand in our Manufacturing segment, and propelled the Corporation to its strongest financial results ever, both in the aggregate and on a per share basis.

The outlook for the Aviation segment in 2016 remains strong. Our airlines are not exposed to the Alberta marketplace and have little exposure to the economy as a whole. As such we do not face the revenue challenges currently seen by other more traditional airlines. One-time costs associated with the integration of the expansion of our Kivalliq operations are substantially complete and will strengthen margins going forward as the acquisition is integrated by Calm Air over future quarters. Capital expenditures related to fleet renewal programs in the airlines are complete and the resulting operational and margin improvements from these investments will continue to be evident in our results. Fuel costs are anticipated to remain low throughout 2016. Ongoing initiatives to identify and implement quantifiable synergies that reduce costs throughout the Aviation segment continue and are expected to bear fruit in 2016. In November, Provincial announced a new five year $150 million contract in the Middle East that not only enhances its profile both within the industry and with the region's governments, it is also accretive to Provincial and EIC results.

Manufacturing segment results, despite facing external challenges on a number of fronts throughout the year, were fortified with the mid-year acquisition of Ben Machine, which had an immediate positive impact on the Manufacturing segment. Looking ahead to 2016, the negative impact of low energy prices will continue to significantly impact our Alberta Operations. However, the weak exchange rate for Canadian dollar versus the US dollar is expected to improve the competitiveness of Overlanders and Ben Machine while boosting the Canadian dollar value of the profits generated by Stainless.

Our strong operational performance facilitated further action to strengthen our balance sheet through the issuance of $75 million of equity at $24.85 per share and by expanding our senior debt facility from $335 million to $550 million. We also were able to redeem both our Series I and Series H debentures well in advance of their scheduled maturity dates, further reducing our borrowing costs. The balance of EIC's convertible debentures have staggered maturities with the first not occurring until 2018. However, the most significant impact of our strong performance during 2015 was our unprecedented ability to deliver a second dividend increase in ten months to an annualized rate of $1.92 per share, a 14% increase in less than a year and a 78% increase from our initial per unit distribution rate in 2004.

So, is this, as they say in the movies, "as good as it gets"? No, we certainly don't think so. We enter 2016 operationally and financially stronger than ever, positioned to withstand changes in the economy and to move quickly when we identify select, investible opportunities that match our well defined standards. Our portfolio of companies in aggregate has never been in a better position. It is a testament to the professionalism and dedication of our operating companies' management and employees.

We want to once again thank our shareholders for their unshakable confidence over the years in our ability to consistently deliver growing value. Since our inception, it has been our great privilege to be able to find opportunities that create sustained value for our shareholders under all economic circumstances, and we look forward to continuing our track record of performance into 2016 and beyond.

MIKE PYLE

CHIEF EXECUTIVE OFFICER

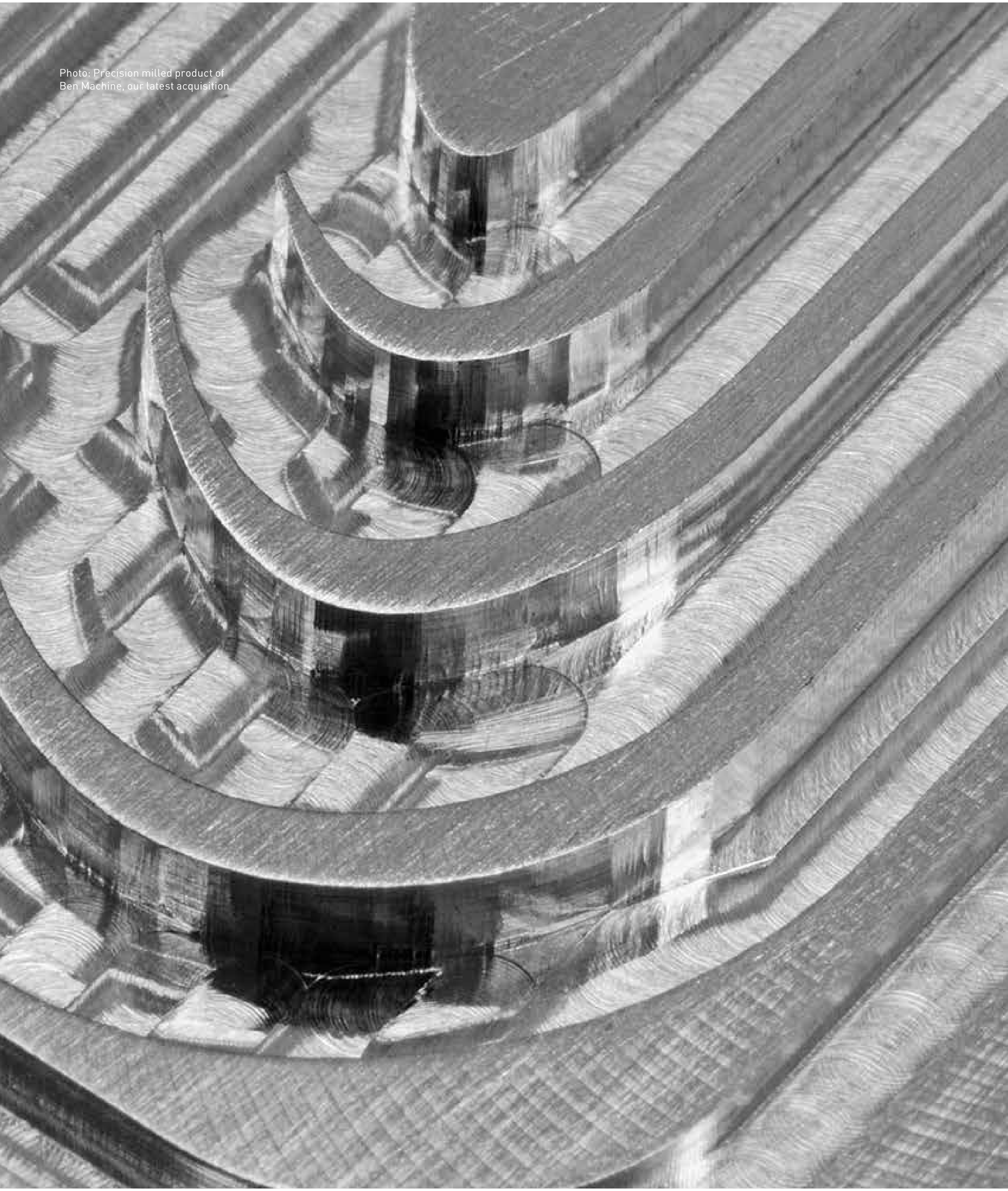
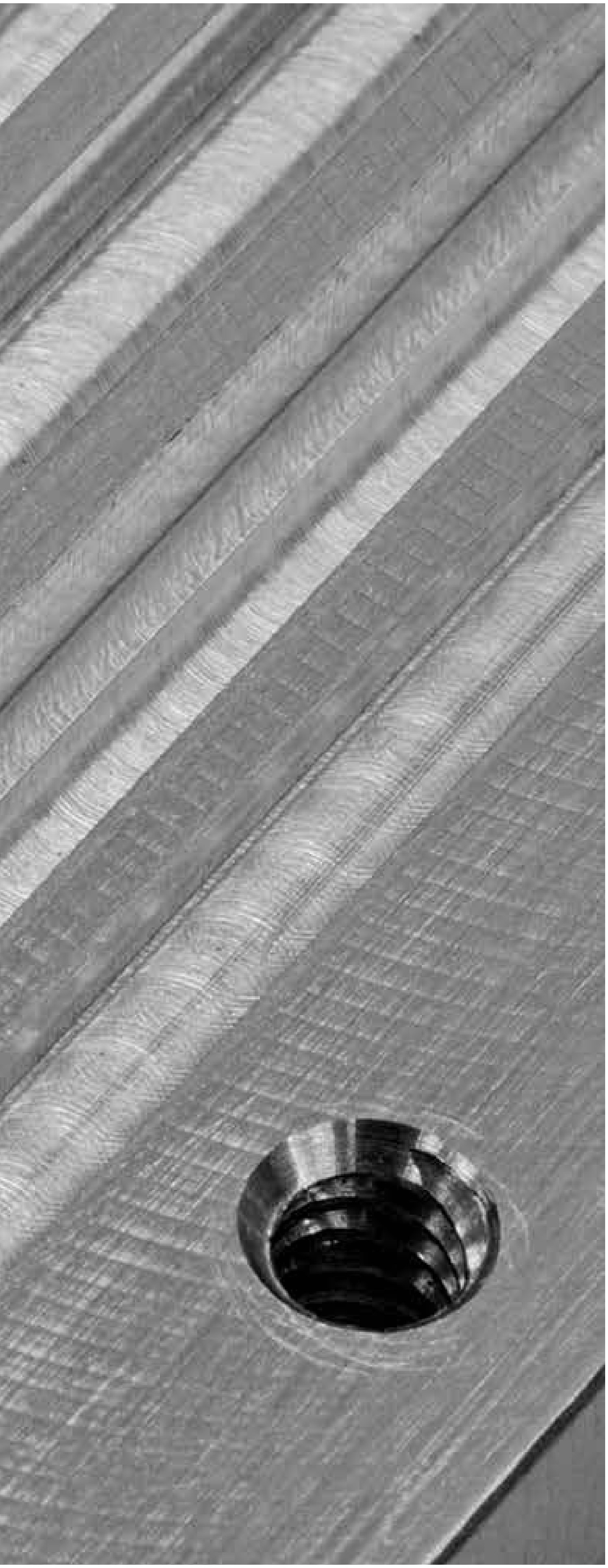


Photo: Precision milled product of Ben Machine, our latest acquisition



MD&A + FINANCIALS

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 23, 2016

FORWARD-LOOKING STATEMENTS

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

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

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

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement.

INTRODUCTION

This MD&A supplements the audited consolidated financial statements and related notes for the year ended December 31, 2015 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian dollars, unless otherwise noted and except per share information and share data.

This MD&A should be read in conjunction with the Consolidated Financial Statements of the Corporation for the year ended December 31, 2015. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board applicable to the preparation of financial statements.

DISCONTINUED OPERATIONS

As noted in Section 2 – Overview, during the fourth quarter of 2014, the Corporation sold the US operations of WesTower ("WesTower US"). As a result of this transaction, the Corporation's results are presented with the financial results of WesTower US segregated in the Corporation's statement of income as discontinued operations. This also includes the allocation of certain costs incurred in the consolidated entity from supporting the operations of WesTower US and the net gain on disposition (collectively as "Discontinued Operations"). The comparative results reflect this presentation and allow the reader to separate and differentiate the Corporation's subsidiaries, which continue to operate, from those of WesTower US.

1. FINANCIAL HIGHLIGHTS

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

For the year ended December 31	2015	per share basic	per share fully diluted	2014	per share basic	per share fully diluted
Financial Performance						
Revenue	$ 807,403			$ 542,503		
EBITDA	179,240			94,278		
Net earnings (loss) from continuing operations	40,234	$ 1.63	$ 1.60	(11,625)	$ (0.53)	$ (0.53)
Adjusted net earnings (loss) from continuing operations[1]	51,614	2.09	2.04	14,797	0.67	0.66
Net earnings	40,234	1.63	1.60	8,255	0.37	0.37
Free Cash Flow	139,772	5.67	4.76	76,980	3.48	2.96
Free Cash Flow less maintenance capital expenditures	74,405	3.02	2.73	35,119	1.59	1.55
Dividends declared	45,227	1.815		37,424	1.69	
Financial Position	December 31, 2015			December 31, 2014		
Working capital	$ 135,310			$ 95,784		
Capital assets	542,629			364,914		
Total assets	1,229,056			715,103		
Senior debt and finance leases	304,886			17,743		
Equity	446,618			299,593		
Share Information	December 31, 2015			December 31, 2014		
Common shares outstanding	27,633,217			22,507,341		
Weighted average shares outstanding during the year — basic	24,656,755			22,127,189		

(1) As detailed in Section 14 – *Non-IFRS Financial Measures*, the Corporation's adjusted net earnings from continuing operations includes an add back for the non-cash deferred tax expense of $22.9 million incurred in 2014 as a result of the settlement that the Corporation made with the CRA on certain deferred tax assets associated with the conversion of the Corporation to a corporation from an income trust in 2009.

2. OVERVIEW

EXCHANGE INCOME CORPORATION

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

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

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

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

SEGMENT SUMMARY

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

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

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

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

SIGNIFICANT EVENTS

ACQUISITION – PROVINCIAL AEROSPACE LTD.

On January 2, 2015, the Corporation completed the acquisition of Provincial Aerospace Ltd. ("Provincial") through a stock purchase agreement to acquire 100% of the shares of Provincial, a Canadian owned corporation based out of St. John's, Newfoundland and Labrador. Provincial was founded in 1972 and operates three distinct business units: a scheduled airline, aerospace and fixed base operations.

Provincial operates its scheduled airline service using fixed wing aircraft in Newfoundland and Labrador, Quebec, New Brunswick and Nova Scotia providing approximately 230 scheduled flights weekly as well as charter services across the territory. The fixed base operations are located in Newfoundland and Labrador and Nova Scotia. The aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft. It has maritime surveillance and support operations in Canada, the Caribbean and the Middle East. Provincial operates a large fleet of aircraft, including operating aircraft owned by customers as part of the surveillance services. The scheduled operations business has a fleet primarily comprised of Dash 8's and Twin Otters and the aerospace business operates various aircraft types for multiple customers.

The purchase price was $244.1 million, of which the Corporation paid $225.0 million with cash on closing being funded from the Corporation's credit facility and issued 523,188 of the Corporation's common shares ("Shares") with a value of $12.1 million to the vendors. During the third quarter, the Corporation finalized the opening working capital and made a payment of $7.0 million plus accrued interest to the vendors. The post-closing adjustments were mainly attributed to the $23.2 million of cash on the closing balance sheet which caused the closing working capital to exceed the working capital target in the stock purchase agreement. The Corporation's results include the financial results of Provincial's operations from the date of closing and are included in the Corporation's Aviation segment.

The acquisition is immediately accretive to the Corporation's key financial metrics. The acquisition allowed the Corporation to further diversify its revenue streams and cash flow by entering new product and geographical markets. Provincial's maritime surveillance and support operations, which constitute the largest segment of Provincial's operations, are a new niche market that the Corporation's existing Aviation segment entities do not operate in and the revenue streams come from several different geographic areas around the world. As a result, the addition of Provincial further diversifies the cash flows generated by the Corporation.

ACQUISITION – BEN MACHINE PRODUCTS

On July 2, 2015, the Corporation closed the acquisition of Ben Machine Products Company Inc. ("Ben Machine"), a Canadian owned corporation based in Vaughan, Ontario. Ben Machine is a leading manufacturer that provides complex precision-machined components and assemblies primarily for the aerospace and defence sector. Ben Machine is focused on providing a complete solution for their customers and offers a full range of services, including CNC machining and turning, brazing, casting, welding, complex assembly, sheet metal fabrication, and all necessary finishing services. Ben Machine's services are compliant with many military, aerospace, nuclear and commercial standards that have the highest acceptance rate standards and strict measurement guidelines.

The purchase price was $44.6 million, of which the Corporation paid $37.7 million with cash on closing being funded by the Corporation's credit facility and issued 329,552 Shares with a value of $6.7 million to the vendors. The purchase price was subject to customary adjustments, including working capital that was settled in the fourth quarter 2015 and pursuant to that settlement the Corporation made a payment of $0.2 million plus accrued interest to the vendors. The Corporation's results include the financial results of Ben Machine's operations from the date of closing and are included in the Corporation's Manufacturing segment.

The acquisition is immediately accretive to the Corporation's key financial metrics. The acquisition allows the Corporation to further diversify our revenue streams and cash flow by entering new product markets. Ben Machine's products are in new niche markets in which the Corporation's existing Manufacturing segment entities do not operate, Ben Machine does, however, deal with many of the same companies as Provincial, providing opportunities for those two entities to work together in the future.

ACQUISITION – FIRST AIR ASSETS IN THE KIVALLIQ REGION

On July 3, 2015 the Corporation acquired all of the non-aircraft assets of First Air in the Kivalliq region and assumed responsibility for all scheduled, freight and charter operations in the region. The costs associated with the acquisition, which have now been fully incurred, were approximately $8.0 million, which includes the purchase of some additional required assets in addition to the purchase price amount paid to First Air, and was funded by cash available through the Corporation's credit facility. The acquisition of First Air's assets will improve the service to the region by offering a better schedule, faster freight delivery and competitive pricing. The Corporation has contracted First Air to fly the Winnipeg to Rankin Inlet route on the Corporation's behalf through a wet lease arrangement.

CRA SETTLEMENT

The Corporation entered into an agreement during the first quarter of 2015 with the CRA regarding the CRA's objection to the tax consequences of the conversion of EIC's income trust structure into a business corporation in July 2009. The agreement did not give rise to any cash outlay by the Corporation for prior taxation years. The Corporation recorded a non-cash charge in the Corporation's consolidated net earnings in the 2014 year related to the write-off of certain of the Corporation's deferred tax assets. The Corporation was proactive with the CRA in order to resolve this issue, and the agreement gives EIC a highly satisfactory ending to an important chapter.

CONVERTIBLE DEBENTURES EARLY REDEMPTION – SERIES H & I

The Corporation announced on February 19, 2015 that it was exercising its right to call the Series I convertible debentures. These convertible debentures were repaid on March 31, 2015 using funds from the Corporation's credit facility.

The Corporation announced on June 8, 2015 that it was exercising its right to call the Series H convertible debentures. The majority of the convertible debentures outstanding were converted into Shares at the option of the debentureholders. The Corporation repaid the remaining $2.2 million of convertible debentures outstanding on July 15, 2015 using funds from the Corporation's credit facility.

DIVESTITURE – WESTOWER COMMUNICATIONS INC.

On October 20, 2014, the Corporation sold the US operations of WesTower. This is the first and only divestiture that the Corporation has completed in its history. The Corporation acquired WesTower US along with WesTower CDA in April 2011. At that time, WesTower US had operational revenues of approximately US$100 million. At the end of 2011, WesTower US entered into a turfing contract with AT&T and the US operations of WesTower grew approximately 400% since the start of the contract. With the rapid growth of WesTower US and a significant proportion of operations tied to one customer, the Corporation was no longer effectively diversified. The sale to MasTec Network Solutions, LLC ("MasTec") for approximately US$200 million enabled the Corporation to rebalance the portfolio of subsidiary operations, while providing access to capital to fund other acquisition opportunities, primarily the acquisition of Provincial in January 2015.

As a result of this transaction, the Corporation's results are presented with discontinued operations, which include the operational results of WesTower US, the allocation of certain costs incurred in the consolidated entity from supporting the operations of WesTower US and the net gain on disposition ("Discontinued Operations"). The results of the Corporation from continuing operations are reflective of the operations of the Corporation without WesTower US. The Corporation recorded a gain on the sale of the Discontinued Operations of $0.74 per share from the transaction in the Corporation's consolidated net earnings in the 2014 comparative results.

3. KEY PERFORMANCE INDICATORS

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

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

This discussion is directed at the continuing operations of the Corporation, which excludes WesTower US as a result of the sale of those operations in October 2014 (see Section 2 – Overview). As a result of that event, the results of WesTower US in the comparative period are presented within Discontinued Operations, which include the operational results of WesTower US and an allocation of certain costs incurred in the consolidated entity from supporting the operations of WesTower US. The net gain on the disposition was recognized in the 2014 comparative results. The Corporation allocated interest expense to Discontinued Operations representing the portion of interest expense related to the Corporation's senior credit facility that was repaid as a result of the transaction. For the period in 2014 up to the transaction closing date (October 20, 2014), the Corporation allocated cash interest expense of $4.7 million. The results of the Corporation aside from the Discontinued Operations are reflective of the operations of the Corporation without WesTower US ("Continuing Operations"). The current year results do not include any Discontinued Operations.

EBITDA FROM CONTINUING OPERATIONS

The following reconciles net earnings before income tax to EBITDA from continuing operations. Further discussion and analysis on the EBITDA results for the periods can be found in Section 4 – Analysis of Operations.

Year Ended December 31,	2015	2014
Earnings from continuing operations before income taxes	$ 59,559	$ 20,775
Depreciation and amortization	84,576	50,481
Finance costs — interest	30,041	21,493
Acquisition costs	5,064	880
Consideration liability fair value adjustment	—	(651)
Impairment and restructuring	—	1,300
	$ 179,240	$ 94,278

The EBITDA generated by the Corporation's continuing operations during the current year was $179.2 million, an increase of $85.0 million or 90% over the comparative year. The increase in EBITDA is mainly the result of improved performance in the Aviation segment (116% increase), partially offset by lower EBITDA generated by the Manufacturing segment (11% decrease) and higher head-office costs. The acquisition of Provincial at the beginning of 2015, with no comparatives in the prior period, was the largest factor in the improvement for the Aviation segment. The strong performance of the Legacy airlines was also a significant driver of the improvement. During 2015, the Legacy airlines reaped the benefits of previous growth capital expenditures, reduced fuel costs, improved weather in central Canada from the comparative period, and targeted cost control and efficiency initiatives. Regional One also contributed strong growth in its EBITDA as additional investments in its portfolio of aircraft assets yielded strong results. The Manufacturing segment declined as it continued to experience the impact of the significant reduction in demand in the oil and gas market, offset in part by the addition of Ben Machine, which is included for only the last half of the year.

FREE CASH FLOW FROM CONTINUING OPERATIONS

Year Ended December 31,	2015	2014
Cash flows from operations	$ 107,442	$ 99,832
Change in non-cash working capital items	27,266	(20,923)
Acquisition costs	5,064	880
Impairment and restructuring	—	1,300
Discontinued operations	—	(4,109)
	$ 139,772	$ 76,980
per share — Basic	$ 5.67	$ 3.48
per share — Fully Diluted	$ 4.76	$ 2.96

The Free Cash Flow generated by the Corporation's continuing operations for the current year was $139.8 million, an increase of $62.8 million or 82% over the comparative year. The change in Free Cash Flow is the result of a number of factors but primarily as a result of the increase in EBITDA generated in the current year. The higher EBITDA comes from the addition of Provincial with no comparative, the improvements in performance at the Legacy airlines and growth at Regional One.

Offsetting the additional EBITDA generated by the Corporation in the current year is additional cash interest incurred on the Corporation's credit facility. The comparative year's cash interest was impacted by the allocation of the Corporation's credit facility costs to Discontinued Operations associated with the disposition of WesTower US. The current year's cash interest from the Corporation's credit facility includes the cash interest incurred on its outstanding credit facility balance that resulted from funding the cash portion of the purchase prices of the Provincial and Ben Machine acquisitions, repayment of the early redemptions of the Corporation's Series H and I convertible debentures, amounts drawn for investments in Regional One and other cash outlays. The cash interest on the Corporation's convertible debentures was lower in the current period as a result of the early redemption of the Series I convertible debentures in the first quarter 2015 and the early redemption of the Series H convertible debentures in the third quarter 2015, but was also impacted by the March 2014 convertible debentures offering being outstanding for only a portion of the comparative year. As a result of these factors, the Corporation incurred net additional cash interest of $8.1 million in the current year.

The Corporation's cash taxes from continuing operations increased by $14.8 million in the current year which reduced Free Cash Flow. The higher cash taxes are a result of the increased EBITDA generated in the current period and the elimination of tax loss pools that accompanied the Corporation's conversion to a corporation due to the settlement with the CRA described in Section 2 – Overview.

Included in the current year's EBITDA are net gains on disposal of capital items totaling $0.8 million, in particular coming from the sale of redundant aircraft within the Legacy airlines. On the statement of cash flow, the net gain is treated outside of cash flows from operating activities and is part of the disposal proceeds of capital assets. There was $1.3 million of similar net gains for the Corporation's continuing operations in the comparative year.

The Corporation also incurred higher levels of non-cash equity based compensation in the current year associated with the deferred share plan. These costs are included in EBITDA but from a statement of cash flow perspective are non-cash and therefore excluded from cash flows from operating activities. There was an increase of $0.5 million in the current year for non-cash equity based compensation.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts and was partially offset by the higher number of Shares outstanding in the current year. The combined impact resulted in Free Cash Flow of $5.67 per share for the current year, an increase of $2.19 per share or 63% over the comparative year (fully diluted $4.76, an increase of $1.80 or 61%). Details around the increase in Shares outstanding can be found in Section 7 – Liquidity and Capital Resources. The number of Shares outstanding at year end includes the Shares issued through its equity offering that closed late in the third quarter of 2015; the average Shares outstanding also reflects the fact that those Shares were outstanding for less than four months of fiscal 2015.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENDITURES FROM CONTINUING OPERATIONS

Year Ended December 31,	2015	2014
Free Cash Flow	$ 139,772	$ 76,980
Maintenance Capital Expenditures	65,367	41,861
	$ 74,405	$ 35,119
per share — Basic	$ 3.02	$ 1.59
per share — Fully Diluted	$ 2.73	$ 1.55

The Free Cash Flow less maintenance capital expenditures generated by the Corporation's continuing operations for the current year was $74.4 million, an increase of $39.3 million or 112% over the comparative year. The increase is due to the increase in Free Cash Flow as described above, partially offset by the $23.5 million or 56% increase in maintenance capital expenditures, which is described in detail in the Capital Expenditures section.

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

On a basic per share basis, the increase in absolute Free Cash Flow less maintenance capital expenditures contributed to the increase in per share amounts and was partially offset by the higher base of the Corporation's Shares outstanding in the current year. The combined impact resulted in Free Cash Flow less maintenance capital expenditures of $3.02 per share for the current year, an increase of $1.43 per share or 90% over the comparative year (fully diluted $2.73, increase of $1.18 or 76%). Details around the increase in Shares outstanding can be found in Section 7 – Liquidity and Capital Resources.

CAPITAL EXPENDITURES FROM CONTINUING OPERATIONS

Year Ended December 31,	2015	2014
Cash maintenance capital expenditures	$ 64,488	$ 41,124
add: finance lease principal payments	879	1,319
less: discontinued operations maintenance capital expenditures	—	(582)
Maintenance capital expenditures for continuing operations	65,367	41,861
Growth capital expenditures	60,700	43,223
less: discontinued operations growth capital expenditures	—	(651)
Capital Expenditures for continuing operations	$ 126,067	$ 84,433
Maintenance capital expenditures per share — Basic	$ 2.65	$ 1.89
Growth capital expenditures per share — Basic	2.46	1.92
Total capital expenditures per share — Basic	$ 5.11	$ 3.81

MAINTENANCE CAPITAL EXPENDITURES FROM CONTINUING OPERATIONS

The Corporation's maintenance capital expenditures totaled $65.4 million in the current year, an increase of $23.5 million or 56% from the comparative year. The majority of the expenditures occurred in the Aviation segment. It invested $62.2 million versus the $2.7 million invested in the Manufacturing segment and the $0.5 million invested at head-office.

The $62.2 million invested by the Aviation segment was $22.8 million or 58% higher than the comparative year. Provincial invested $14.2 million of this increase, with no comparative as it was acquired at the beginning of 2015. This amount was in line with expectations for its operational results. Regional One's investment year over year increased due to both the additional investments made in Regional One and the weakening of the Canadian dollar, which has increased the Canadian equivalent of Regional One's expenditures. The majority of the Legacy airlines' and Provincial's investment is related to engine overhauls, heavy checks and rotable additions on the fleet of aircraft and may vary significantly from period to period, causing quarterly and annual comparisons to be lumpy. The Legacy airlines increased their investment by 5% in 2015. The increase in the Legacy airlines' investment was due to the weakening of the Canadian dollar as a large portion of their maintenance capital expenditures for aircraft related parts and services are denominated in US dollars. Without the change in the currency rate during 2015, the Legacy airlines would have realized a decrease in maintenance capital expenditures.

The Manufacturing segment's investment of $2.7 million is an increase of $0.3 million from the comparative year. This primarily related to new equipment and the principal portion of finance lease payments for vehicles. Ben Machine invested $0.2 million of this increase with no comparative as it was acquired in July 2015. The remaining increase came from Stainless that made some investments into equipment in its shop operations to help replace aging equipment and increase manufacturing capacity. Head-office's investments in the current year related to its expansion of the head-office building to create additional office space and some additional information technology infrastructure.

GROWTH CAPITAL EXPENDITURES FROM CONTINUING OPERATIONS

The Corporation's growth capital expenditures totaled $60.7 million in the current year, an increase of $18.1 million or 43% over the comparable year. The majority of the investments made were made in Provincial and Regional One totaling $55.3 million or 91% of the overall growth capital expenditures.

The Aviation segment's investments in 2015 were focused in three areas — net investment in Regional One, aircraft to replace leased aircraft at Provincial and avionics upgrades to the Legacy airlines' aircraft.

The net investment in Regional One in 2015 was $44.6 million. This is comprised of the capital assets purchased during the year, less assets sold to third parties or transferred to inventory for part-out. The 2015 activity included adding 11 CRJ700's to its aircraft portfolio in addition to the two purchased near the end of 2014. As at the end of 2015, the status of these 13 CRJ700 aircraft was:

- two aircraft have been sold, at an average return on investment consistent with Regional One's historical returns;
- six aircraft are on lease;
- two aircraft are available for lease or sale with negotiations on-going with identified customers; and
- three aircraft have been parted out.

The monetization of the CRJ700 portfolio, and its positive impact on revenue and profitability, remains in its early stages and will grow throughout 2016. These aircraft are expected to generate consistent or improved returns as the monetization takes place. In addition to the investment in CRJ700 aircraft and sale of two CRJ700s, several other purchases and sales of aircraft and engines occurred throughout the current year, primarily in the CRJ and ATR aircraft type markets. Regional One's parts inventory also increased over the year from various investments and transfers from capital assets for part-out.

During the current year, two Dash 8-100's were purchased by Provincial to replace Saab aircraft on lease for a total of $9.3 million. The investment in the newly purchased aircraft will generate a return on invested capital that exceeds the Corporation's target threshold and is consistent with the Corporation's longstanding practice of owning aircraft versus leasing. This completes the fleet change for Provincial from Saab 340's to the Dash 8 platform. Future aircraft purchases at Provincial would relate to market expansion in its airlines operations or in the aerospace operations designed for surveillance purposes. The remaining investments at Provincial during the current year related primarily to the expansion of one of its fixed based operations.

The remaining balance of investments made included $3.6 million in the Legacy airlines, net of $3.0 million of proceeds coming from the sale of two Beechcraft 1900 aircraft no longer used in the operations, and $1.8 million in the Manufacturing segment. A total of $5.2 million of the investments in Legacy airlines was made on the ongoing avionics upgrades of aircraft. The avionics upgrades improve aircraft safety and greatly expand the flight capabilities of the aircraft, allowing these aircraft to operate safely in an expanded range of weather conditions. The Manufacturing segment's investments were mainly spread between Stainless, including a building expansion to its shop operation and investments into new equipment that provides additional product size capabilities, and at WesTower CDA, which purchased new specialized equipment for a new service type it was offering.

DIVIDENDS & PAYOUT RATIO FROM CONTINUING OPERATIONS

The amounts and record dates of the dividends declared during the year ended December 31, 2015 and the comparative period in 2014 were as follows:

			2015 Dividends			2014 Dividends
Month	Record date	Per share	Amount	Record date	Per Share	Amount
January	January 30, 2015	$ 0.145	$ 3,342	January 31, 2014	$ 0.14	$ 3,039
February	February 27, 2015	0.145	3,347	February 28, 2014	0.14	3,043
March	March 31, 2015	0.145	3,349	March 31, 2014	0.14	3,054
April	April 30, 2015	0.145	3,352	April 30, 2014	0.14	3,080
May	May 29, 2015	0.145	3,354	May 30, 2014	0.14	3,097
June	June 30, 2015	0.145	3,358	June 30, 2014	0.14	3,100
July	July 31, 2015	0.145	3,550	July 31, 2014	0.14	3,103
August	August 31, 2015	0.16	3,919	August 29, 2014	0.14	3,112
September	September 30, 2015	0.16	4,404	September 30, 2014	0.14	3,134
October	October 30, 2015	0.16	4,407	October 31, 2014	0.14	3,138
November	November 30, 2015	0.16	4,419	November 28, 2014	0.145	3,260
December	December 31, 2015	0.16	4,426	December 31, 2014	0.145	3,264
Total		$ 1.815	$ 45,227		$ 1.69	$ 37,424

The Corporation's dividends declared for the current year increased by $7.8 million or 21% over the comparative year as a result of the dividend rate per share per month increasing and the higher number of Shares outstanding in 2015. The Corporation increased the monthly dividend rate per share by $0.005 (4% increase) in the fourth quarter of 2014 and increased it by $0.015 in the third quarter of 2015 (10% increase). This resulted in the dividends declared for fiscal 2015 totaling $1.815 per share compared to $1.69 per share in the comparative year, an increase of 7%. Dividends declared for fiscal 2015 totaled $45.2 million. Impacting the dividends declared for the current year would be the Corporation's issuance of shares through its equity offering that closed late in the third quarter 2015, which commenced receiving dividends for four months in the current year.

The Corporation compares the dividends declared in the period to the amount of cash flows generated by the Corporation in that period to determine a payout ratio. The dividends declared by the Corporation are presented as financing activities within the Corporation's statement of cash flows whereas Free Cash Flow and Free Cash Flow less maintenance capital expenditures, as defined, are driven from the Corporation's operating activities and exclude dividends. The payout ratio provides an indication of the Corporation's ability to generate sufficient funds from its operations to pay its dividends to shareholders. Normal seasonality factors can negatively impact these payout ratios during the beginning of each year as the Corporation's Legacy airlines are impacted by winter roads and the majority of operations are impacted by generally poorer weather conditions. Throughout the rest of the year, the payout ratios traditionally are stronger beyond the seasonally weak first quarter as seasonality factors normally improve financial results of the Corporation.

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

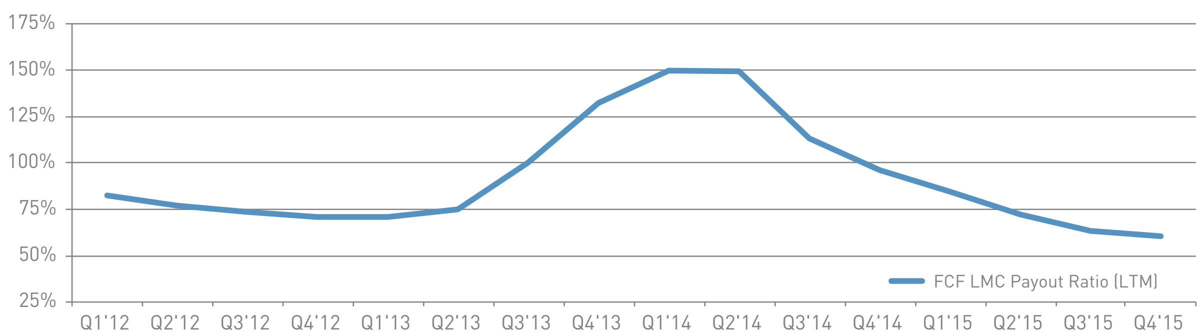
Payout Ratios for the Corporation's continuing operations		Per share	Per share		Per share	Per share
Year Ended December 31,	2015	basic	fully diluted	2014	basic	fully diluted
Free Cash Flow		32%	38%		49%	57%
Free Cash Flow less maintenance capital expenditures		60%	66%		106%	109%

All of the Corporation's payout ratios from continuing operations for the current year improved significantly over the comparative year. All of the ratios above exclude the Discontinued Operations of WesTower US in the comparative year. The improvement in 2015 is mainly the result of the accretive additions of Provincial and Ben Machine, growth at Regional One, and the additional Free Cash Flow less maintenance capital expenditures generated by the Legacy airlines. In addition, the payout ratios improved even though the Corporation paid out a 7% higher dividend rate in the current year on a larger number of Shares.

It is worth noting that the improvement in the current year includes only the initial stage of the monetization of Regional One's CRJ700 program, only a half year of operations from Ben Machine and minimal impact coming from the acquisition of First Air's non-aircraft assets. Had the current monthly dividend rate per share been paid throughout the 2015 year ($0.16 per month or $1.92 annualized), the 2015 Free Cash Flow less maintenance capital expenditures payout ratio would still be at the lower end of the Corporation's historical range under 65%, which does not take into account the full benefits of the monetization of the CRJ700 program or the acquisitions noted previously.

The following graph shows the Corporation's historical Free Cash Flow less maintenance capital expenditures trailing 12 months payout ratio, including the poor performance of the Discontinued Operations up to the sale of WesTower US in the fourth quarter of 2014. As can be seen in the graph, the current payout ratio of 60% is below historical levels.

FREE CASH FLOW LESS MAINTENANCE CAPITAL EXPENTIDURES PAYOUT RATIO (LTM)



The Corporation's Board of Directors regularly examines the dividends paid to shareholders. The decisions made a year ago to dispose of WesTower US and purchase Provincial together with management's cost control and efficiency initiatives allowed the dividend increase announced at that time. The performance during the first half of fiscal 2015 and the decision to acquire Ben Machine further supported another dividend increase that became effective in the third quarter 2015. This enhanced level of performance is not considered to be transitory but indicative of a newly established base level of performance to be further augmented with growing profitability. This established trajectory is expected to continue into the foreseeable future and will be further supported through the enhanced access to capital the Corporation secured through the raising $75 million of capital (gross) through an equity offering in the third quarter 2015 and the increases to its existing credit facility of $215 million during the year to $550 million. These additional capital resources allow the Corporation to move decisively when additional opportunities to grow its Free Cash Flow are identified.

FOURTH QUARTER KEY PERFORMANCE INDICATORS

For the Corporation's continuing operations Three months ended December 31,	2015	Per share basic	Per share fully diluted	2014	Per share basic	Per share fully diluted
EBITDA	$ 46,055			$ 26,151		
Free Cash Flow	36,025	$ 1.31	$ 1.14	22,480	$1.00	$ 0.84
Payout ratio		37%	42%		43%	51%
Free Cash Flow less maintenance capital expenditures	20,460	0.74	0.69	11,718	0.52	0.50
Payout ratio		65%	70%		83%	86%
Dividends Declared	13,252	0.48		9,662	0.43	

The EBITDA generated by the Corporation's continuing operations for the fourth quarter of 2015 was $46.1 million, an increase of $19.9 million or 76% over the comparative period. The items impacting the EBITDA generated in the current period are described in Section 6 – Review of Fourth Quarter Results. Overall the increase can be attributed to the additional EBITDA generated by the Aviation segment, in particular with the addition of Provincial and growth at Regional One. Together these two entities contributed more than the overall increase in EBITDA in the current period.

The Free Cash Flow generated by the Corporation's continuing operations for the fourth quarter of 2015 was $36.0 million, an increase of $13.5 million or 60% over the comparative period. Consistent with the discussion for the full year, the increase in EBITDA generated in the current period was the main factor in the increase in Free Cash Flow. Cash taxes incurred on the additional earnings in the current year along with higher levels of cash interest on the Corporation's credit facility partially offset the higher EBITDA. The Corporation's cash taxes increased by $4.5 million and overall cash interest incurred by the Corporation's net debt increased by $1.6 million.

On a basic per share basis, the increase in absolute Free Cash Flow contributed to the increase in per share amounts and was partially offset by the higher number of Shares outstanding. The combined impact resulted in Free Cash Flow of $1.31 per share for the fourth quarter of 2015, an increase of $0.31 per share or 31% over the comparative period (fully diluted $1.14, increase $0.30 or 36%). Details around the increase in Shares outstanding can be found in Section 7 – Liquidity and Capital Resources.

The Free Cash Flow less maintenance capital expenditures generated by the Corporation for the fourth quarter of 2015 was $20.5 million, an increase of $8.7 million or 75% over the comparative period. The increase is due to the increase in Free Cash Flow as described above partially offset by additional maintenance capital expenditures of $4.8 million or 45%, which is described further below.

On a basic per share basis, Free Cash Flow less maintenance capital expenditures for the fourth quarter of 2015 increased to $0.74, an increase of $0.22 or 42% over the comparative period (fully diluted $0.69, increase $0.19 or 38%). The increase is due to the higher levels of Free Cash Flow less maintenance capital expenditures generated by the Corporation partially offset by an increased base of Shares outstanding for the Corporation during the current period. The maintenance capital expenditure component of this metric is $0.57 per share (2014 – $0.48).

Total maintenance capital expenditures for the fourth quarter of 2015 totaled $15.6 million, an increase of $4.8 million or 45% over the comparative period. The Aviation segment spent an additional $4.8 million and the Manufacturing segment was relatively flat. The majority of the increase is associated with Provincial, with maintenance capital expenditures of $3.7 million and no comparative, and Regional One, consistent with their growing lease portfolio and the strengthening of the US dollar. For the Manufacturing segment, Stainless made some investments into equipment in its shop operations to help replace aging equipment and increase manufacturing capacity, and there is no comparative for Ben Machine.

Total growth capital expenditures for the fourth quarter was actually a recovery totaling net proceeds of $0.5 million (net cash inflow) due to Regional One capital asset sales exceeding the various growth capital expenditures during the current quarter.

The dividends declared by the Corporation for the fourth quarter of 2015 totaled $13.3 million, which is an increase of $3.6 million or 37% over the comparative period. This is the result of an increase in the dividend rate and a higher number of Shares outstanding. Part way through the comparative period there was a dividend rate increase and another dividend rate increase in the third quarter of 2015. Overall the total dividends declared in the current period was $0.48 per share compared to $0.43 per share in the comparative period, an increase of 12%. In addition, the average number of Shares outstanding in the current period was 27.6 million compared to 22.4 million in the fourth quarter of 2014. The change in the number of Shares is described in Section 7 – Liquidity and Capital Resources, but the largest impact is the issuance of over 3.0 million Shares in the third quarter of 2015 from the Corporation's bought deal equity raise.

The Corporation's payout ratios both showed improvement in the current period with the improved results for the fourth quarter of 2015 described above. The current period's basic Free Cash Flow payout ratio is 37% (2014 – 43%) and the basic Free Cash Flow less maintenance capital expenditures payout ratio was 65% (2014 – 83%).

4. ANALYSIS OF OPERATIONS

The following section analyzes the financial results of the Corporation's operations for the year ended December 31, 2015 and the comparative 2014 period.

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

Year Ended December 31, 2014	Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 339,084	$ 203,419	$ —	$ 542,503
Expenses[1]	259,562	177,784	10,879	448,225
EBITDA	79,522	25,635	(10,879)	94,278
Depreciation and amortization				50,481
Finance costs — interest				21,493
Acquisition costs				880
Consideration liability fair value adjustment				(651)
Impairment and restructuring				1,300
Earnings before income tax				20,775
Current income tax expense				788
Deferred income tax expense				31,612
Net loss from continuing operations				(11,625)
Net earnings from discontinued operations				19,880
Net earnings				$ 8,255

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

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

As noted in Section 2 – Overview, during the fourth quarter of 2014 the Corporation closed the sale of WesTower US. As a result of this transaction, the Corporation's results are presented with the financial results of WesTower US segregated in the Corporation's statement of income as Discontinued Operations, including an allocation of certain costs incurred in the consolidated entity from supporting the operations of WesTower US. The net gain on disposition was recognized in the fourth quarter of 2014 and therefore is excluded from the comparative figures. There is no Discontinued Operations for the current period. The comparative results reflect this presentation. The operations of WesTower CDA are included in the Manufacturing segment. The net earnings for Discontinued Operations is discussed further below.

AVIATION SEGMENT

Year Ended December 31,	2015	2014	Variance	Variance %
Revenue	$ 614,773	$ 339,084	$ 275,689	81%
Expenses	442,789	259,562	183,227	71%
EBITDA	$ 171,984	$ 79,522	$ 92,462	116%

The revenue of the Aviation segment for the current year was $614.8 million, an increase of $275.7 million or 81% over the comparative year. The growth in revenue, while primarily attributable to the acquisition of Provincial, was also significantly boosted by strong results of Regional One and the Legacy airlines. The acquisition of Provincial in January of 2015, with no comparative for the prior year, added an additional $203.3 million of revenue. Prior and ongoing investment in growth capital expenditure at Regional One and the Legacy airlines acquisition of First Air's non-aircraft assets in the Kivalliq region early in the third quarter accounted for most of the remaining revenue growth in the segment.

The EBITDA generated by the Aviation segment for the year ended was $172.0 million, an increase of $92.5 million or 116% over the comparative year. EBITDA margins were 28.0% in 2015 compared to 23.5% in 2014. The acquisition of Provincial in January of 2015, with no comparative for the prior year, and the growth at Regional One generated an additional $72.4 million EBITDA. The growth in EBITDA and EBITDA margin, while primarily driven by the acquisition of Provincial, were also driven by the sustained growth of Regional One and significant improvement in EBITDA across all of the Legacy airlines.

Provincial delivered revenue and EBITDA results in line with expectations throughout the year. Each of Provincial's operations — airlines, aerospace and fixed based operations — delivered consistent performance. A number of external factors had impacts on Provincial's results throughout the year. Provincial directly benefited from decreased costs due to the fall in fuel prices, but this decline also resulted in decreased revenues from the negative impact to customer demand associated with the oil and gas industry and reductions in government spending. The erosion of the value of Canadian dollar versus the US dollar throughout the year had a positive impact from US denominated aerospace contracts, which was partially offset by increased aircraft parts and repair costs.

The Legacy airlines' performance was enhanced by the operational benefits derived from the significant past investments in both fleet renewal and ground infrastructure assets and ongoing management initiatives to improve efficiency and cost controls. The acquisition of First Air's Kivalliq non-aircraft assets starting in the third quarter, with no comparative for the prior period, had a positive impact on the Legacy airlines' revenue. During the first ten months of the year the Legacy airlines benefited from a return to "normal" weather conditions in their operating regions. The improved weather conditions helped to increase revenue, through a shorter winter road season, increased demand for fire suppression and evacuation services and reduced operating costs. However, unseasonably mild and volatile weather conditions that persisted late into the fourth quarter resulted in extended periods of flight disruptions throughout the Legacy airlines' regions that negatively impacted results. The Legacy airlines benefited from the persistent decline in fuel prices throughout the year. However, the fuel cost saving were offset by increased costs of parts and overhauls due to the impact of the decline in the value of the Canadian dollar versus the US dollar.

Regional One generated significant revenue and EBITDA growth throughout the year, primarily driven by increased lease revenue and increased asset and part sales. In the last half of the year Regional One completed its investment in the CRJ700 portfolio and started to generate revenue and EBITDA, however the full impact of the return on this investment will not be realized until 2016 and onwards as these assets are deployed. The majority of the growth in comparison to the prior period was driven by investments made throughout the second half of 2014 and the first half of 2015. Regional One's results were positively impacted from gains due to the higher conversion rates on its US dollar results converted into the Corporation's Canadian reporting currency.

MANUFACTURING SEGMENT

Year Ended December 31,	2015	2014	Variance	Variance %
Revenue	$ 192,630	$ 203,419	$ (10,789)	-5%
Expenses	169,798	177,784	(7,986)	-4%
EBITDA	$ 22,832	$ 25,635	$ (2,803)	-11%

The revenue of the Manufacturing segment for the current year was $192.6 million, a decrease of $10.8 million or 5% from the comparative year. The acquisition of Ben Machine in July and revenue growth at Stainless only partially mitigated the revenue declines at WesTower CDA and the Alberta Operations.

The EBITDA generated by the Manufacturing segment for the current year was $22.8 million, a decrease of $2.8 million or 11% from the comparative year. The acquisition of Ben Machine in July, with no comparative for the prior period, partially mitigated the EBITDA declines from the Alberta Operations and WesTower CDA.

The Alberta Operations were negatively impacted by weak demand in the northern Alberta region due to low oil and natural gas prices that persisted throughout the year. These factors were the primary contributors to the Alberta Operations' reduction in revenue by $11.9 million or 30% from the comparative year.

WesTower CDA's revenue fell by $14.3 million or 13% from the comparative year. Through the first nine months of the year, WesTower was negatively impacted by equipment delays coming from third party OEM suppliers to the telecommunication companies. The delay caused several projects to be placed on hold until all the equipment was in place. The exceptionally harsh winter weather conditions in some regions, but particularly eastern Canada, negatively impacted revenue early in the year partially reversed itself during the latter part of the period, resulting in stronger activity late in the year due to initiation of weather deferred projects. Demand is expected to improve in 2016; the revenue mix, however, has shifted away from new tower construction to an increased proportion of higher margin, more labour intense, equipment upgrade and service work projects.

Stainless' revenue for the year increased by $4.2 million or 11% primarily due to the impact of the weaker value of the Canadian dollar in the current period that resulted in a higher converted Canadian dollar value of Stainless' US operations. However, Stainless' margins were negatively impacted by the prolonged weakness in demand for large field work projects throughout most of 2015. During the middle of 2015 Stainless experienced an increase in bid activity and a significantly improved backlog of orders for first half of 2016. Overlanders had steady revenue and EBITDA relative to 2014.

The EBITDA shortfall in the Manufacturing segment was most pronounced in the Alberta Operations as a result of weaker revenue across its markets throughout the year. As discussed above, the low oil and natural gas prices were the major contributors to this. WesTower CDA and Stainless each also experienced EBITDA shortfalls driven by lower revenue. Ben Machine, which was acquired at the start of the third quarter and has no comparatives for the prior period, generated EBITDA that was in line with expectations and partially offset the segment's overall EBITDA shortfall.

The Corporation remains confident that the Manufacturing segment's industry and geographic diversification and strong operating company management teams are competitively positioned within their respective markets to successfully withstand the immediate challenges they face.

HEAD-OFFICE COSTS

Year Ended December 31,	2015	2014	Variance	Variance %
Expenses	$ 15,576	$10,879	$ 4,697	43%

The head-office costs of the Corporation increased in the current year by $4.7 million or 43% over the comparative year. Factors impacting the increase came mainly as an increase in the number of personnel at head-office, a result of higher levels of performance based accruals, and additional share based award costs tied to the Corporation's deferred share plan. Also, higher levels of professional costs were incurred within the head-office relating to information technology infrastructure changes recently implemented.

OTHER NON-EBITDA ITEMS

Year Ended December 31,	2015	2014	Variance	Variance %
Depreciation and amortization	$ 84,576	$ 50,481	$ 34,095	68%

The Corporation's depreciation and amortization for the current year was $84.6 million, an increase of $34.1 million or 68% over the comparative year. The current year amount consisted of $75.2 million of depreciation on the Corporation's capital assets and the remaining $9.4 million related to intangible asset amortization. The change is mostly attributable to the increase in the Aviation segment for both capital asset depreciation and intangible asset amortization. The main factor causing the increase is the addition of Provincial into that segment with no comparative, the expansion of Regional One's lease portfolio and the previous capital expenditures made by the Legacy airlines. Provincial's depreciation and amortization expense in the current year is $21.7 million, including $5.0 million relating to the amortization of intangible assets that were recognized as part of the purchase price allocation. Ben Machine's depreciation and amortization expense in the current year since acquisition in July is $2.0 million, including $1.7 million relating to the amortization of intangible assets that were recognized as part of the purchase price allocation. The amount of expense at Regional One increased $7.0 million, which includes being translated in the current period at a higher rate with the weakening of the Canadian dollar in fiscal 2015.

Year Ended December 31,	2015	2014	Variance	Variance %
Finance costs — interest	$ 30,041	$ 21,493	$ 8,548	40%

The Corporation's interest incurred for the current year was $30.0 million, an increase of $8.5 million or 40% over the comparative year. The increase is mainly a result of additional interest costs on the Corporation's credit facility. The Corporation's comparative results included the Discontinued Operations of WesTower US and the Corporation's credit facility cash interest costs of $4.7 million were allocated to Discontinued Operations for that year. The current year's credit facility interest costs include the cost of having amounts outstanding for funding the cash portion of the purchase prices of the Provincial and Ben Machine acquisitions, repayment of the early redemptions of the Corporation's Series H and I convertible debentures, and other cash outlays, including amounts drawn for investments in Regional One. This resulted in additional credit facility interest of $5.6 million in the current year. The overall effective interest rate on the Corporation's credit facility is 3.63% for the current year, which includes standby charges on the credit facility.

During 2015, the Corporation redeemed early the Series I convertible debentures at the end of the first quarter of 2015 and the Series H convertible debentures at the beginning of the third quarter of 2015. Overall, the interest on the Corporation's convertible debentures decreased in the current year by $1.8 million as a result of the early redemptions, partially offset by the extra period that the March 2014 Unsecured Debentures were outstanding in the current year.

Year Ended December 31,	2015	2014	Variance	Variance %
Acquisition Costs	$ 5,064	$ 880	$ 4,184	475%

The acquisition costs incurred by the Corporation for the current year totaled $5.1 million compared to $0.9 million in the comparative year. Professional fees and certain other costs incurred in relation to the Corporation's acquisition strategy are expensed as acquisition costs and this can fluctuate based on the acquisition activities of the Corporation. The current year costs mainly relate to the closing of the Provincial and Ben Machine acquisitions during 2015 (no acquisitions closed in 2014). The Provincial acquisition was the largest acquisition in the history of the Corporation and was close to three times larger than the next largest acquisition. As a result, higher costs were incurred in relation to that acquisition. The Corporation has incurred costs for other various opportunities given the acquisition activity of the Corporation during the current year.

Year Ended December 31,	2015	2014	Variance	Variance %
Consideration liability fair value adjustment	$ —	$ (651)	$ 651	-100%

As a result of the structure of the consideration for the acquisition of Regional One (closed in April 2013), there were contingent consideration liability balances recorded pertaining to the planned future payment of cash and Shares of the Corporation. Certain liabilities were recognized that would be settled by the Corporation through issuing shares and according to IFRS the value of these liabilities fluctuate based on the Corporation's share price up to the time they are settled.

During fiscal 2014, the Corporation settled a portion of the liability through the issuance of Shares to the Regional One vendors. The comparative year included the change in the consideration liability up to the end of the comparative year. There was no corresponding impact on the Corporation's net earnings in the current period from fair value adjustments.

Year Ended December 31,	2015	2014	Variance	Variance %
Impairment and restructuring	$ —	$ 1,300	$ (1,300)	-100%

In the comparative year, the Corporation restructured Bearskin's operations to eliminate certain unprofitable routes. Management accrued total restructuring costs of approximately $1.3 million, which were expensed during the second quarter of 2014. No similar expense has been incurred by the Corporation in the current year.

Year Ended December 31,	2015	2014	Variance	Variance %
Current income tax expense	$ 15,544	$ 788	$ 14,756	1873%
Deferred income tax expense	3,781	31,612	(27,831)	-88%
Income tax expense	$ 19,325	$ 32,400	$ (13,075)	-40%

The Corporation's income tax expense on continuing operations for the year ended December 31, 2015 was $19.3 million, a decrease of $13.1 million or 40% from the comparative year. Current tax expense increased in 2015 as a result of the Corporation having fully utilized in 2014 the balance of any losses remaining after the settlement with the CRA as well as due to an overall increase in the Corporation's earnings before income taxes.

The effective tax rate in 2014 was unusually high as a result of several factors. Firstly, the effective tax rate in 2014 reflects the result of the settlement with the CRA and the Corporation writing off certain deferred tax assets in fiscal 2014 relating to the Corporation's conversion from an income trust to a corporation in 2009. Secondly, the effective tax rate in 2014 reflects the tax expense associated with the intercompany transactions that were eliminated in computing the Corporation's consolidated net earnings from continuing operations whereas the corresponding tax benefit of the intercompany transactions were included in the Corporation's Discontinued Operations. Additionally, the 2015 effective tax rate reflects the proportionate increase of income generated in Canada, primarily as a result of the additions of Provincial and Ben Machine, which is subject to a lower tax rate than the US.

DISCONTINUED OPERATIONS

With the sale of WesTower US in the fourth quarter of 2014, the Corporation presents Discontinued Operations in the consolidated financial statements. The following summarizes the results of the Discontinued Operations in the comparative year (nil for the current year).

Period ended December 31,	2015	2014
Revenue	$ —	$ 389,379
EBITDA	—	9,201
Net earnings from discontinued operations	—	19,880
Free Cash Flow	—	4,109
Free Cash Flow less maintenance capital expenditures	—	3,527

The Discontinued Operations in the comparative year are as a result of the disposition of WesTower US in the fourth quarter of 2014. Therefore, there are no results for Discontinued Operations for the current year.

Discontinued Operations includes the operational results of WesTower US and an allocation of certain costs incurred in the consolidated entity from supporting the operations of WesTower US. Outside of EBITDA, the Corporation recorded a net gain on disposal of WesTower US in net earnings from Discontinued Operations in the comparative year.

5. SUMMARY OF QUARTERLY RESULTS

The following summary of quarterly results reflects the continuing operations of the Corporation. The Discontinued Operations are only included in the net earnings (loss) and related per share amounts in the bottom section of the table.

				2015				2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
From continuing operations								
Total revenue	$ 224,504	$ 212,750	$ 196,214	$ 173,935	$ 138,726	$ 143,499	$ 134,219	$ 126,059
EBITDA	46,055	54,052	48,053	31,080	26,151	27,872	22,262	17,993
Net earnings (loss) — continuing operations	9,923	15,983	13,394	934	(17,729)	5,172	1,282	(350)
Basic	0.36	0.64	0.58	0.04	(0.79)	0.23	0.06	(0.01)
Diluted	0.35	0.60	0.54	0.04	(0.79)	0.23	0.06	(0.01)
Adjusted net earnings (loss) — continuing operations [1]	12,636	18,811	16,516	3,651	5,915	6,061	2,990	(169)
Basic	0.46	0.76	0.71	0.16	0.26	0.27	0.14	(0.01)
Diluted	0.45	0.69	0.64	0.16	0.26	0.27	0.14	(0.01)
Free Cash Flow (FCF)	36,025	42,195	37,626	23,926	22,480	22,819	18,884	12,797
Basic	1.31	1.70	1.63	1.04	1.00	1.03	0.86	0.59
Diluted	1.14	1.43	1.33	0.88	0.84	0.86	0.73	0.54
FCF less maintenance capital expenditures	20,460	24,966	19,870	9,109	11,718	13,143	8,802	1,455
Basic	0.74	1.01	0.86	0.40	0.52	0.59	0.40	0.07
Diluted	0.69	0.89	0.75	0.39	0.50	0.54	0.40	0.07
From continuing & discontinuing operations								
Net earnings / (loss)	9,923	15,983	13,394	934	(1,580)	5,546	4,122	167
Basic	0.36	0.64	0.58	0.04	(0.07)	0.25	0.19	0.01
Diluted	0.35	0.60	0.54	0.04	(0.07)	0.25	0.19	0.01

(1) As detailed in Section 14 – Non-IFRS Financial Measures, the Corporation's adjusted net earnings from continuing operations for the fourth quarter of 2014 includes an add back for the non-cash deferred tax expense of $22.9 million as a result of the settlement that the Corporation made with the CRA on certain deferred tax assets associated with the conversion of the Corporation to a corporation from an income trust in 2009.

6. REVIEW OF FOURTH QUARTER RESULTS

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

	Three months ended December 31, 2014			
	Aviation	Manufacturing	Head-office[2]	Consolidated
Revenue	$ 86,902	$ 51,824	$ —	$ 138,726
Expenses	64,877	44,988	2,710	112,575
EBITDA	$ 22,025	$ 6,836	$ (2,710)	$ 26,151

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

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

The Corporation generated revenue of $224.5 million in the fourth quarter of 2015, an increase of $85.8 million or 62% over the comparative period. EBITDA for the current period was $46.1 million, an increase of $19.9 million or 76% over the comparative period. The growth in revenue and EBITDA were both driven entirely from the Aviation segment which increased revenue by $87.3 million or 100% and EBITDA by $22.0 million or 100%. The growth in revenue and EBITDA was primarily attributable to the acquisition of Provincial as well as strong results at Regional One and improvements at the Legacy airlines. The acquisition of Provincial in January of 2015, with no comparative in the prior period, and the growth at Regional One added an additional $81.4 million of revenue and $20.2 million of EBITDA. Prior and ongoing investment in growth capital expenditures at Regional One and the Legacy airlines acquisition of First Air's non-aircraft assets in the Kivalliq region early in the third quarter, with no comparative for the prior period, accounted for most of the remaining revenue and EBITDA growth.

The strong revenue and EBITDA growth in the Aviation segment was only slightly impacted by a year over year revenue and EBITDA shortfall in the Manufacturing segment. Consistent with the annual discussion, the revenue and EBITDA shortfall in the Manufacturing segment was attributable to the persistent weak economic conditions facing the Alberta Operations and revenue shortfalls at WesTower CDA. Additional Manufacturing segment revenue and EBITDA from the acquisition of Ben Machine, with no comparative for the prior period, did not fully mitigate the shortfalls in the Alberta Operations and WesTower CDA. Head-office costs increased proportionately to overall rate of revenue growth.

7. LIQUIDITY AND CAPITAL RESOURCES

Our financial position strengthened significantly during 2015. This strengthening is attributable to strong operational performance, the acquisitions of Provincial and Ben Machine, the increases to funds available under our credit facility and the disposition of WesTower US in the latter part of 2014. The Corporation's working capital, Free Cash Flows and capital resources are strong and we have no long-term debt or debentures maturing before 2018. As a result we have sufficient liquidity and access to capital to make further acquisitions, invest in our operating subsidiaries and meet our obligations.

As at December 31, 2015, the Corporation had a net cash position of $15.5 million (December 31, 2014 of $15.0 million) and net working capital of $135.3 million (December 31, 2014 of $95.8 million), which represents a current ratio of 1.74 to 1 (December 31, 2014 of 1.93 to 1).

	December 31, 2015	December 31, 2014	Change
Cash and cash equivalents	$ 15,497	$ 14,968	$ 529
Accounts receivable	125,434	82,575	42,859
Costs incurred plus recognized profits in excess of billings	7,776	11,507	(3,731)
Inventory	118,645	84,020	34,625
Prepaid expenses and deposits	38,907	6,249	32,658
Income taxes receivable	10,955	—	10,955
Accounts payable and accrued expenses	(108,333)	(83,531)	(24,802)
Income taxes payable	—	(1,809)	1,809
Deferred revenue	(51,716)	(8,009)	(43,707)
Billings in excess of costs incurred plus recognized profits	(20,824)	(9,079)	(11,745)
Current portion of long-term debt and finance leases	(1,031)	(1,107)	76
Net working capital	$ 135,310	$ 95,784	$ 39,526

Working capital has increased by $39.5 million since the prior year. The majority of the increase is attributable to the acquisitions of Provincial and Ben Machine, which added to our working capital position by $52.3 million as at December 31, 2015. Strong operational performance enabled the pre-existing entities to decrease their working capital positions by $12.8 million. Partially offsetting those decreases was the currency translation on the Corporation's US subsidiaries reported with higher Canadian equivalent balances at year-end 2015 and also the investments made into Regional One's inventory of aircraft parts available for sale.

The Corporation obtained additional cash through the means described in this section, including a $75 million bought deal equity raise in the third quarter, and also generated $139.8 million of Free Cash Flow from operations during the current year, an 82% improvement from the comparative year. The Corporation used these funds for its dividends and capital expenditures over that period. See Section 3 – Key Performance Indicators for more information on the capital expenditures made by the Corporation.

While payment of reliable and growing dividends is an objective of the Corporation, the Corporation does not have a formal dividend policy. The Corporation's dividends are dependent on its ability to generate cash flow from operations and Free Cash Flow. During 2015, the Corporation declared dividends totaling $45.2 million in comparison to $37.4 million during the comparative year. This was a result of an increased number of Shares outstanding, the $0.005 increase in the monthly dividend rate announced in November 2014 and the $0.015 increase in the monthly dividend rate announced in August of 2015. The monthly dividend declared in any given month is paid to shareholders at the middle of the following month. The 10% or $0.015 per month dividend increase announced in August is the largest for the Corporation in the last ten years.

OVERVIEW OF CAPITAL STRUCTURE

The Corporation's capital structure is summarized below.

	December 31 2015	December 31 2014
Total senior debt outstanding (principal value)	$ 304,799	$ 16,125
Convertible debentures outstanding (par value)	219,965	276,902
Shares	425,561	308,919
Total capital	$ 950,325	$ 601,946

CREDIT FACILITY

In the latter part of 2014, the Corporation used the proceeds from the sale of WesTower US to repay all of its outstanding credit facility debt at that time.

In February, the Corporation entered into a new debt facility with a four year term maturing in May 2019, which was amended in October to increase the size of the facility to US $50 million allocated to EIIF Management USA Inc. and $500 million allocated to the Corporation's Canadian head-office. The facility allocated to head-office allows for borrowings to be denominated in either Canadian or US funds. At December 31, 2015, the Corporation had drawn US $41.0 million and $248.0 million.

During 2015, the Corporation closed the acquisition of Provincial and Ben Machine; these acquisitions were paid for primarily through the Corporation's credit facility. Cash payments to the vendors totaled $269.9 million. See Section 2 – Overview for more information about these two acquisitions.

In September, the Corporation closed a bought deal offering on 3,019,000 of its Shares, generating net proceeds of $71.4 million for the Corporation. The majority of the proceeds were used to repay $67.0 million of outstanding debt under its credit facility.

During the year, the Corporation made additional draws on the credit facility to support capital purchases, mainly for Regional One's CRJ700 fleet purchase, the purchase of the non-aircraft assets of First Air in the Kivalliq region and the early redemption of the Series I Convertible Senior Secured Debentures and the early redemption of the Series H Convertible Senior Secured Debentures. These redemptions are described further below.

CONVERTIBLE DEBENTURES

On March 31, 2015, the Corporation redeemed all issued and outstanding 5.75% Series I Convertible Debentures. The Series I debentures had a maturity date of January 31, 2016. At the time of redemption, there were 34,944 debentures outstanding with an aggregate principal amount of $34.9 million.

On July 15, 2015, the Corporation redeemed all issued and outstanding 6.5% Series H Convertible Senior Secured Debentures. The Series H debentures had a maturity of May 31, 2017. During 2015 up to the redemption, $19.8 million of the debentures were converted into Shares and the remaining 2,164 debentures were redeemed for an aggregate principal amount of $2.2 million.

The following summarizes the convertible debentures outstanding as at December 31, 2015 and the changes in the amount of convertible debentures outstanding during the year ended December 31, 2015:

Series — Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Series J — 2011	EIF.DB.D	May 31, 2018	6.25%	$30.60
Unsecured Debentures — 2012	EIF.DB.E	September 30, 2019	5.5%	$36.80
Unsecured Debentures — 2013	EIF.DB.F	March 31, 2020	5.35%	$41.60
Unsecured Debentures — 2014	EIF.DB.G	March 31, 2021	6.0%	$31.70

Par value	Balance, beginning of year	Issued	Converted	Redeemed/ Matured	Balance, end of year
Series H	$ 21,993	$ —	$ (19,829)	$ (2,164)	$ —
Series I	34,944	—	—	(34,944)	—
Series J	57,477	—	—	—	57,477
Unsecured Debentures — September 2012	57,500	—	—	—	57,500
Unsecured Debentures — March 2013	65,000	—	—	—	65,000
Unsecured Debentures — March 2014	39,988	—	—	—	39,988
Total	$ 276,902	$ —	$ (19,829)	$ (37,108)	$ 219,965

SHARE CAPITAL

The following summarizes the changes in the Shares outstanding of the Corporation during the year ended December 31, 2015:

	Date issued	Number of shares
Shares outstanding, beginning of year		22,507,341
Issued upon conversion of convertible debentures	various	991,450
Issued under dividend reinvestment plan (DRIP)	various	177,248
Issued under First Nations community partnership agreements	various	4,500
Issued to Provincial vendors on closing	January 2, 2015	523,188
Issued under deferred share plan	February 23, 2015	21,749
Issued to Ben Machine vendors on closing	July 2, 2015	329,552
Prospectus offering, September 2015	September 17, 2015	3,019,000
Issued under employee share purchase plan (ESPP)	November 19, 2015	59,189
Shares outstanding, end of year		27,633,217

At the beginning of the year, the Corporation completed its purchase of Provincial for $244.1 million, of which approximately 5% was paid through the issuance of 523,188 Shares of EIC having a value of $12.1 million.

At the beginning of the third quarter, the Corporation completed its purchase of Ben Machine for $44.6 million, of which approximately 15% was paid through the issuance of 329,552 Shares of EIC having a value of $6.7 million.

In September the Corporation closed a bought deal offering on 3,019,000 of its Shares, generating net proceeds of $71.3 million for the Corporation. The Corporation repaid $67.0 million of outstanding debt under its credit facility with the net proceeds and used the remainder within its operations.

The Corporation's dividend reinvestment plan ("DRIP") continued during 2015 and the Corporation received $4.0 million throughout the year for an aggregate 177,248 Shares being issued in accordance with the DRIP.

NORMAL COURSE ISSUERS BID

On December 24, 2014, the Corporation received approval from the Toronto Stock Exchange ("TSX") with respect to a normal course issuer bid (the "NCIB") to purchase up to an aggregate of 1,124,568 Shares, representing 5% of the issued and outstanding Shares as at December 12, 2014.

Purchases of Shares pursuant to the NCIB could be made through the facilities of the TSX commencing on December 30, 2014 and ending on December 29, 2015, or an earlier date in the event that the Corporation purchases the maximum number of the Shares available under the NCIB. The Corporation paid the market price at the time of acquisition for any Shares purchased through the facilities of the TSX. All Shares acquired directly by the Corporation under the NCIB would be cancelled with the exception of those purchased for the purpose of fulfilling certain obligations arising from the acquisition of Provincial in early 2015. The Corporation made several purchases of Shares during the first quarter of 2015 totalling 372,618 Shares to fully satisfy these obligations.

Since all Shares acquired under the NCIB in 2015 were purchased to fulfil the obligations arising from the acquisition of Provincial, no Shares acquired by the Corporation under the NCIB during 2015 were cancelled.

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

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

Subsequent to 2015, the Corporation has purchased a total of 57,710 Shares through several days of trading during the beginning of 2016 up to the date of this report. All of these purchased Shares under the current NCIB were cancelled. As of the date of this report, there are 1,323,949 Shares available for purchase under the NCIB ending January 4, 2017.

SCHEDULE OF CONTRACTUAL OBLIGATIONS

The following are the contractual obligations of the Corporation and its subsidiaries at December 31, 2015:

	Total	Less Than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	$ 304,799	$ —	$ 304,799	$ —
Convertible debentures (par value)	219,965	—	179,977	39,988
Operating leases	120,748	20,624	58,071	42,053
Finance leases	2,231	1,031	1,200	—
	$ 647,743	$ 21,655	$ 544,047	$ 82,041

8. RELATED PARTY TRANSACTIONS

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

PROPERTY LEASES

Various entities lease several buildings from related parties who were vendors of the entity that the Corporation purchased the business from originally. These vendors are considered related parties because of their continued involvement in the management of those businesses. In addition, EIC leases office space for its head office from a company controlled by a director of the Corporation. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2015 under these leases was $3.1 million (2014 – $2.7 million) and the lease term maturities range from 2016 to 2020. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Corporation's statement of financial position (2014 – nil).

KEY MANAGEMENT COMPENSATION

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

Compensation awarded to key management for the 2015 year and the comparative 2014 year is as follows:

Year ended December 31,	2015	2014
Salaries and short-term benefits	$ 5,865	$ 4,341
Share-based payments	1,902	1,510
	$ 7,767	$ 5,851

9. CRITICAL ACCOUNTING ESTIMATES

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

ACCOUNTING ESTIMATES

BUSINESS COMBINATION

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

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Corporation. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Corporation is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and trade names. To determine the fair value of these customer based intangible assets (excluding trade names), the Corporation adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates. To determine the fair value of the trade name intangible asset, the Corporation adopted the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates.

LONG-TERM CONTRACT REVENUE RECOGNITION

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

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

A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. Unpriced change orders are change orders that have been approved as to scope but unapproved as to price. For such change orders, contract revenue is recognized to the extent of costs incurred or, if lower, to the extent to which recovery is probable. Therefore, to the extent that actual costs recovered are different from expected cost recoveries, significant swings in revenue and profitability can occur from one reporting period to another.

Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that the Corporation seeks to collect from clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. In accordance with the Corporation's accounting policy, claims are recognized in revenue only when resolution is probable. Therefore, it is possible for the Corporation to have substantial contract costs recognized in one accounting period with associated revenue recognized in a later period. Given the above-noted critical accounting estimates associated with the accounting for construction contracts, including change orders and claims, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year or later could be different from the estimates and assumptions adopted and could require a material adjustment to revenue and/or the carrying amount of the asset or liability affected. The Corporation is unable to quantify the potential impact to the consolidated financial results from a change in estimate in calculating revenue.

DEPRECIATION & AMORTIZATION PERIOD FOR LONG-LIVED ASSETS

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2015 would result in an increase of approximately $5.9 million (2014 – $4.1 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 intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. The recoverable amount is forecasted with management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the cash generating units operate.

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

Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 2.5% and 5.0%, and discount rates (pre-tax) ranging between 11% and 15%.

The Corporation has concluded that no impairments of its indefinite lived intangible assets existed as a result of this assessment as at December 31, 2015. However, the assessment identified two cash generating units, with indefinite life intangible assets of $6.0 million and $2.1 million, respectively, which would not be able to generate a fair value less costs of disposal recoverable amount in excess of their carrying value if certain management assumptions were to change within a reasonable range. Based on the high end of management's range of the estimated fair value less costs of disposal of the two cash generating units, the value in use was greater than their carrying value by approximately $4.0 million (or 12%) and $3.0 million (or 10%), respectively. If a change in the assumptions of long-term growth rates decreased by approximately 2.0 percentage points, the carrying amounts of each of the two cash generating units would exceed the reasonable range of the estimated fair value less costs of disposal. If a change in the assumptions of discount rates (pre-tax) increased by approximately 1.5 percentage points, the carrying amounts of each of the two cash generating units would exceed the reasonable range of the estimated fair value less costs of disposal. These changes in assumptions have been assessed independently of one another.

DEFERRED INCOME TAXES

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

As described in Section 2 — Overview, the Corporation entered into an agreement with the CRA regarding the CRA's objection to the tax consequences of the conversion of EIC's income trust structure into a business corporation in July 2009. The agreement did not give rise to any cash outlay by the Corporation for taxation years 2009 to 2013, and a portion of the Corporation's 2014 year. The agreement results in a non-cash charge in the Corporation's consolidated net earnings for the 2014 year related to the write-off of certain of the Corporation's deferred tax assets.

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

CRITICAL ACCOUNTING JUDGMENTS

MEASUREMENT AND PRESENTATION OF CAPITAL ASSETS AND INVENTORY

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

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

10. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for years ended December 31, 2015 and 2014 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2015 consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 15 – REVENUE

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

IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9, Financial Instruments, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not carried at FVTPL. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. Adoption of IFRS 9 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – LEASES

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

11. CONTROLS AND PROCEDURES

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Management has evaluated the design and operation of the Corporation's internal controls over financial reporting as at December 31, 2015, and has concluded that the internal controls over financial reporting are effective.

There have been no other material changes to the Corporation's internal controls during the 2015 year that would have materially affected or are likely to materially affect the internal controls over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were designed effectively as at December 31, 2015.

12. RISK FACTORS

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

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

EXTERNAL

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

FINANCIAL

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

OPERATIONAL

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

HUMAN CAPITAL

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

EXTERNAL RISKS

ECONOMIC AND GEOPOLITICAL CONDITIONS

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

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

In our 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 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 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 or larger aerospace modification contracts. In the event that such events decrease, so does potentially the need for aerospace related services. Many of these aerospace contracts are long term, significant dollar contracts that continue to exist as minimum safeguards; therefore, even as such events and conditions change, there is a certain level maintained as a necessity in many instances to the continued safety of the region or country.

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

COMPETITION

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

The Aviation segment, other than Regional One, currently focuses on niche markets in Manitoba, Ontario, Nunavut, Newfoundland and Labrador, Quebec, Nova Scotia and New Brunswick and experiences different levels of competition depending on the geography and the nature of service provided. These companies focus on providing the best service through their low cost of operation, fleet of appropriately sized owned aircraft, significant ground infrastructure and their relationships with their customers. However, the Aviation segment would be exposed to downside earnings risk if a well-capitalized competitor were to commence operations or if a current competitor were to significantly expand services in the niche markets where the entities currently operate. The greatest impact would be on the segment's scheduled operations, as competition would put pressure on load factors resulting in declining margins due to the nature of fixed costs in these operating entities. This impact would be more pronounced in the short-term until the affected entity made the appropriate changes to its business to respond to the competition.

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

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

The manufacturing Subsidiaries face competition on their products and this competition is lower on some of their custom projects given the uniqueness of the products. Increased competition from current or new competitors would put pressure on margins and revenues. The Manufacturing segment's current competitive position in its principal markets is sound and they continuously look to differentiate themselves from their competitors by providing value added services that their competitors may otherwise not be able to provide.

The competitive environment in the manufacturing industry has intensified as customers seek to take advantage of low wage costs in Mexico, China, Korea, Thailand, India, Brazil and other low cost countries. As a result, there is potentially increased competition from suppliers that have manufacturing operations in low cost countries. The loss of any significant production contract to competitors in low cost countries could have an adverse effect on the profitability of the manufacturing Subsidiaries of the Corporation.

GOVERNMENT FUNDING FOR FIRST NATIONS HEALTH CARE

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

ACCESS TO CAPITAL

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

MARKET TRENDS AND INNOVATION

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

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

GENERAL UNINSURED LOSS

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

CLIMATE

The Corporation's results of operations could be impacted by fluctuations from weather and natural disasters. Severe weather conditions and natural disaster conditions can significantly disrupt service by impeding the movement of goods or disruptions with landing and take-offs, which could have an adverse effect on the Corporation's business, results of operations and financial condition. In addition, increases in frequency, severity or duration of severe weather events, including changes in the global climate, could result in increases in fuel consumption to avoid such weather, turbulence-related injuries, delays and cancellations, any of which would increase the potential for loss of revenue and higher costs. Certain operations within the Aviation segment are impacted by the length of winter road season, which is impacted by the weather during the first few months of the calendar year. The colder the winter season, the longer the winter roads are available for customers to use as an alternative to flying with the airlines of the Corporation.

ACTS OF TERRORISM

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

PANDEMIC

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

LEVEL AND TIMING OF DEFENCE SPENDING

A significant portion of the revenues of Provincial and Ben Machine come from sales to aerospace and defence customers, including sales to governments, directly and indirectly, from various countries. If defence budgets are decreased, these Subsidiaries will experience the effects of program restructures, reductions and cancellations. These events could have a material negative impact on the Corporation's Subsidiaries' future revenue, earnings and operations. The defence industry continues to experience delayed procurement processes, and potentially a smaller pipeline of opportunities across the globe. In order to minimize these impacts, management continuously reviews the Corporation's Subsidiaries current and future programs, developing risk mitigation strategies to address any potential change to each program.

OPERATIONAL RISKS:

SIGNIFICANT CONTRACTS AND CUSTOMERS

The Corporation and its Subsidiaries are currently party to a number of significant contracts with key customers, including governments. Within the Aviation segment, these significant contracts are for a variety of services but primarily relate to charter work, cargo, medevacs, medical related passenger travel, aircraft modifications, airborne maritime surveillance operations and the maintenance of certain specialized surveillance aircraft. Within the Manufacturing segment, these significant contracts are for the production of certain products and maintenance related services. Overall the Corporation's significant contracts are spread over a number of different Subsidiaries, thereby reducing the Corporation's overall reliance on a single contract or customer. The loss of any one of these significant contracts or customers could have a negative impact on the operations and cash flow of the Corporation.

OPERATIONAL PERFORMANCE AND GROWTH

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

LAWS, REGULATIONS AND STANDARDS

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

The airline industry in Canada, the United States and elsewhere in the world is subject to strict government standards and regulations. Government entities such as Transport Canada, the Competition Bureau, the Canadian Transportation Agency, the Federal Aviation Administration and other government entities may implement new laws or regulatory schemes, or render decisions, rulings or changes in policy that could have a material adverse effect on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations, increasing airport and/or user fees, or reducing the demand for air travel. With respect to Regional One, its products that are to be installed in an aircraft, such as engines, engine parts, components and airframe and accessory parts and components, must meet certain standards of airworthiness established by the Federal Aviation Administration or other regulatory agencies. New and more stringent governmental regulations may be adopted in the future that, if enacted, could have an adverse impact on the aviation Subsidiaries of the Corporation.

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

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

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

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

ACQUISITION RISK

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

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

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

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

CONCENTRATION AND DIVERSIFICATION RISK

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

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

MAINTENANCE COSTS

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

ACCESS TO PARTS AND RELATIONSHIPS WITH KEY SUPPLIERS

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

CASUALTY LOSSES

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

ENVIRONMENTAL LIABILITY RISKS

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

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

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

DEPENDENCE ON INFORMATION SYSTEMS AND TECHNOLOGY

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

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

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

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

INTERNATIONAL OPERATIONS RISKS

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

- military conflicts, civil strife, and political risks;
- export regulations that could erode profit margins or restrict exports;
- compliance with applicable anti-bribery laws;
- the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;
- contract award and funding delays;
- potential restrictions on transfers of funds;
- import and export duties and value added taxes;
- foreign exchange risk;
- transportation delays and interruptions; and
- uncertainties arising from foreign local business practices and cultural considerations.

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

FLUCTUATIONS IN PRICES OF AVIATION RELATED ASSETS

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

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

AVIATION RELATED ASSET ACQUISITIONS PRICE VOLATILITY

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

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

WARRANTY RISK

Provincial manufactures highly complex and sophisticated surveillance aircraft, incorporating various technologies and components. These aircraft are subject to detailed specifications, which are listed in contracts with customers, as well as to stringent certification or approval requirements. Defects may be found in products before and/or after they are delivered to the customer. As well, contractual service levels may not be achieved. This could result in significant additional costs to modify and/or retrofit to correct defects or remediate service levels. The occurrence of defects and failures could give rise to non-conformity costs, including warranty and damage claims, negatively affecting reputation and profitability and could result in the loss of customers. Correcting such defects could require significant capital investment where such claims cannot be passed on to component equipment suppliers.

UAE OFFSET RISK

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

FINANCIAL RISKS

AVAILABILITY OF FUTURE FINANCING

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

INCOME TAX MATTERS

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

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

COMMODITY RISK

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

Fuel costs are a significant component of total operating costs of the Aviation Segment. Fuel prices have and may continue to fluctuate widely depending on many factors including international market conditions, geopolitical events, jet fuel refining costs and the Canada/U.S. dollar exchange rate. The Corporation cannot predict future fuel prices. Management estimates that a $0.01 per litre change in the price of fuel has an approximately $0.5 million impact on the profitability of the Aviation segment. The timing of this estimated impact being realized by the Corporation is affected by various factors including the diverse regions serviced, certain customer and contractual arrangements, and existing fuel inventory levels of the Corporation at any given time. While most of the travel by the 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. As well, if the competitive environment were to change, and the aviation Subsidiaries were unable to pass these increased costs on to the customer, future profits would be negatively impacted.

The operations of the Manufacturing segment entities in Alberta act somewhat as a hedge to changes in fuel prices. When oil prices are low, the Aviation segment benefits from lower input costs but lower oil prices have a negative impact on WBM in the Manufacturing segment as lower oil prices hurt the Alberta oil and gas market. As oil prices increase, fuel costs increase for the Aviation segment but this will increase demand for products manufactured by WBM in the Manufacturing segment.

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

FOREIGN EXCHANGE

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

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

The Corporation does not regularly use derivative instruments to mitigate this risk but in certain circumstances the Corporation may utilize short-term forward contracts or other similar derivative instruments to lock in a currency position for an upcoming transaction. The Corporation also applies hedge accounting for its exposure on the US dollar debt outstanding in the Canadian portion of the Credit Facility.

INTEREST RATES

As at December 31, 2015, 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 $2.9 million (ignoring the impact of foreign exchange) per annum for the Credit Facility based on the amounts outstanding as at that time. The terms of the Credit Facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances or London Inter-Bank Offer Rate (LIBOR). The Corporation manages the base rate used on the outstanding facility and seeks financing terms in individual arrangements that are most advantageous. The Corporation considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps in order to manage this risk in the past. The Corporation's outstanding Debentures have fixed interest rates which are not affected by changes in rates.

CREDIT FACILITY AND THE TRUST INDENTURES

The Corporation has significant debt service obligations pursuant to the financing agreements relating to the Credit Facility and the Trust Indentures. The degree to which the Corporation and its Subsidiaries are leveraged could have important consequences to Shareholders, including:

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

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

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

DIVIDENDS

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

UNPREDICTABILITY AND VOLATILITY OF SHARE PRICES

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

DILUTION RISK

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

CREDIT RISK

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

HUMAN CAPITAL RISKS:

RELIANCE ON KEY PERSONNEL

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

EMPLOYEES AND LABOUR RELATIONS

The success of the Subsidiaries is dependent in large part upon their ability to attract and retain key management and employees. Recruiting and maintaining personnel in the industries in which the Subsidiaries are involved is highly competitive and it cannot be guaranteed that these entities will be able to attract and retain the qualified personnel needed for their businesses. In particular, skilled labour for the WesTower CDA operations of tower maintenance and erection, engineers in Provincial's modification operations, and certain specialized metal fabricators are specialized and it can be difficult to find qualified personnel and retain them given the competitive environments that these businesses operate in. As well, the pilots, nurses and maintenance personnel within the Aviation segment's operations are in high demand within the aviation industry. A failure to attract or retain qualified personnel could have an adverse effect on the Corporation's business, results from operations and financial condition.

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

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

CONFLICTS OF INTEREST

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

13. OUTLOOK

ACQUISITION STRATEGY

During 2015, the Corporation acquired Provincial and Ben Machine for a combined total consideration value of approximately $289 million as well as First Air's non-aircraft assets in the Kivalliq region for another $8.0 million, which includes the purchase of some additional required assets in addition to the purchase price amount paid to First Air. These acquisitions and the continued investment in growth opportunities within our portfolio of companies further advanced the Corporation's objectives of accretive investment and diversification.

The Corporation's disciplined approach to acquisitions is a key factor in the success that it has experienced to date. The Corporation continues to develop and expand its network of referral sources that regularly present it with potential acquisitions. The Corporation also independently assesses certain markets and regions to identify potential opportunities. The Corporation's business development and acquisitions team remains focused on accretive acquisition and investment opportunities that can positively impact shareholder value. While the deal flow brought to the Corporation is considered strong, there can be no assurance target companies meeting the Corporation's standards will be identified.

During 2015, the Corporation significantly enhanced the capital available to fund acquisitions through the issuance of $75 million of equity at $24.85 per share and by expanding the Corporation's senior debt facility to $550 million.

AVIATION SEGMENT

During 2015 the Aviation segment included: the five Legacy airlines, providing fixed and rotary wing, scheduled, charter, cargo, and medevac services in Manitoba, Ontario and Nunavut; Regional One, a leading provider of aircraft and engine aftermarket parts to regional airline operators in the global community; and Provincial, with three distinct business units: a scheduled airline, aerospace and fixed base operations.

In contrast to other North American and global airline carriers, a large percentage of the Corporation's Legacy airlines and Provincial's airline service operate in remote communities where demand is relatively inelastic, mitigating the impact of changes in the economic climate. The essential nature of these services creates additional stability in a core part of the segment's business. Also, the Legacy airlines had limited charter operations in the Alberta market which ended in the second quarter of 2015.Since then, the Legacy airlines have had no exposure to the Alberta market. Furthermore, due to the prolonged global weakness in commodity prices demand from natural resources related industries for aviation services in our markets has been limited for a number of years. As such, any further erosion in demand from natural resources related industries will be inconsequential to the financial performance of our airlines.

The Legacy airlines remain well positioned to benefit from positive external factors and their improved operational strengths during 2016. The previous investments in growth capital expenditures in the Legacy airlines aircraft and ground infrastructure assets have yielded ongoing revenue and EBITDA growth improvements that continues unabated. Although the Legacy airlines experienced flight disruptions due to unseasonably mild weather (which causes fog) during the fourth quarter, a resulting shortened winter roads season in the first quarter of 2016 is anticipated to enhance performance.

Non-recurring integration costs related to the acquisition of First Air's Kivalliq non-aircraft assets were primarily complete by the end of 2015, positioning the Legacy airlines for further growth and margin enhancement in 2016. This acquisition allowed the Corporation to resolve that region's chronic over capacity while improving both passenger and freight customer service and connectivity. The investment in the Kivalliq region is illustrative of the opportunities that exist for the Legacy airlines to grow market share within their existing markets.

Throughout 2015, both Provincial and the Legacy airlines' operations were positively impacted by the margin enhancing 'tailwind' created by significantly reduced fuel prices. In early 2016, fuel prices continued to decline significantly and are anticipated to remain at reduced levels for the foreseeable future. However the benefit of significantly reduced fuel prices has been considerably offset by the significant erosion of the Canadian dollar exchange rate against the US dollar, due in part to low energy prices, which negatively impacts both Provincial and the Legacy airlines' parts, maintenance and flight training costs.

The outlook for Regional One remains positive as consistent demand for parts and lease inventories has been augmented with additional growth in revenue and EBITDA as the CRJ700 aircraft are monetized. The appreciation of the US dollar relative to most other currencies along with dramatically reduced global jet fuel prices have significantly improved the economic viability of non-US airlines' continued operation of older aircraft. The extended economic viability of older aircraft is a positive driver of demand for Regional One's lease inventories, parts and components. Over eleven consecutive quarters since being acquired, Regional One's performance has been consistently strong. However, the nature of the Regional One's business is such that individual quarters may experience variability of customer demand that could lead to potentially lower profitability. As well, access to new purchase opportunities is required and cannot be assumed.

Despite the challenge of low commodity and energy prices that reduce demand for airline services from natural resource related customers, including travel by provincial governments reliant on natural resource related royalties, Provincial's scheduled and charter airline services in eastern Canada have effectively adapted to changing demand within their operational region. Demand for air travel service to the Lower Churchill project is expected to remain strong in 2016. The commencement of expansion to underground operations at the Voisey's Bay nickel/copper/cobalt mine in northern Labrador will generate significant additional demand for aviation services both during the multi-year construction phase of the project and the extended life of the mine that is anticipated to run through 2040.

In addition to the recently announced five year, estimated $150 million services contract in the UAE, Provincial's aerospace services division is pursuing a number of growth opportunities within Canada and internationally. These opportunities include Provincial's participation in one of three consortiums of aerospace companies pursuing the government of Canada's request for proposals to supply Fixed Wing Search and Rescue services throughout Canada. However, the procurement process for many of these opportunities can be very lengthy and the binary "win/loss" nature of the contract awards makes forecasting the impact and timing of any specific opportunity challenging.

The Corporation remains focused on identifying potential operational synergies amongst Provincial, Regional One and the Legacy airlines. The "insourcing" of heavy checks on owned aircraft by the Aviation segment to Provincial's aerospace services group has been both operational and economically successful. These mandated maintenance events that were previously outsourced to third party MRO shops, are being internalized.

Fuel prices declined throughout 2015 relative to pricing in 2014. Although further changes in the price of fuel are difficult to accurately predict, fuel prices have continued to decline in early 2016.

The Canadian dollar exchange rate against the US dollar has also declined significantly, impacting the six aviation companies' parts and maintenance costs. Regional One serves as a natural hedge for the segment's exposure to fluctuations in foreign currency as a result of the segment's dependency on aircraft and aircraft parts and services that are primarily incurred in US dollars. Regional One also creates a proxy for vertical integration into this major expense category. In addition, Provincial does have several aerospace contracts that generate US dollars which help mitigate the currency exposure.

MANUFACTURING SEGMENT

The Manufacturing segment includes the operations of WesTower CDA, Stainless, Overlanders, the Alberta Operations and Ben Machine, which was acquired in 2015.

WesTower CDA remains the dominant national provider of cell tower construction and support services in Canada and, due to its scale, has a significant competitive advantage over its regional competitors. Although reallocation of crews between regions to match customer demand can periodically lead to higher direct costs, WesTower's nation-wide reach provides it the unmatched ability to adapt to regional variations in customer demand.

The recent decision by the Canadian Radio-television and Telecommunications Commission ("CRTC") around charging rates between carriers using towers other than their own has reduced carriers' demand for same purpose additional new towers in areas where a competitor has an adequate tower since the cost incurred by the carrier is reduced and has a regulated ceiling. The impact of this CRTC decision has reduced demand for these types of new tower construction and is anticipated to persist into 2016. This impact will be somewhat mitigated by an increased proportion of labour intensive projects that typically generate higher margins.

During last half of 2015, Stainless experienced a significant improvement in the number of small to midsize field projects being bid, which has significantly strengthened their order book for the first half of 2016. Positive but slow US economic growth persists and as a result there remains a demand for the products and services provided by Stainless. Stainless has continued to meet the demand for shop built tanks utilizing innovative manufacturing processes along with ongoing production schedule balancing. Management is pursuing production efficiency and capacity opportunities for the shop operations. The continued pressure on the declining Canadian dollar has had a positive impact on the conversion of its US dollar results into the Corporation's Canadian dollar reporting currency.

The effect of low oil prices on the Alberta economy continues to negatively impact the Alberta Operations' sales. The weaker overall economy in this region has had a significant impact on the demand for the Alberta Operations' products and services. The Alberta Operations' dependence on purchasing much of its inventory from a US supplier has further eroded margins due to the weak Canadian dollar. While it is expected these challenging conditions will persist for the foreseeable future, the Corporation remains committed to this market and anticipates that, as it has experienced in past periods of weak demand, the Alberta Operations will emerge in an improved competitive position once the local market conditions eventually turn positive. Given the significance of the decline in this market, it is not clear on how long a recovery would take.

Ben Machine's order book remains solid as demand remains strong for its precision machined parts and components that are used primarily in the aerospace and defense industries. The demand for the products and services Ben Machine provides to the aerospace and defense markets are uncorrelated to the demand for the products and services of the other segment companies and are unaffected by the conditions which have an impact to the rest of the companies in this segment. With the continued weakening Canadian dollar improving the competitiveness of Canadian companies for export, Ben Machine could benefit directly or indirectly.

Overlanders continued to enjoy consistent demand through 2015. After a period of adjustment to an expanded level of production volumes and revenue in 2014, Overlanders has adapted to the higher volume of activity while maintaining quality and strengthening key customer relationships. The investment in the powder coating facility provided Overlanders with greater efficiency and improved quality control. The investment has allowed Overlanders to offer clients an integrated, 'turn-key' manufactured component solution, creating a further competitive advantage over its competitors.

14. NON-IFRS FINANCIAL MEASURES

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

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

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

					2015
Adjusted net earnings	Fiscal 2015	Q4	Q3	Q2	Q1
Net earnings — continuing operations	$ 40,234	$ 9,923	$ 15,983	$ 13,394	$ 934
Adjusting items, net of tax					
Acquisition costs	4,492	547	757	994	2,194
Intangible asset amortization	6,888	2,166	2,071	2,128	523
Adjusted net earnings — continuing operations	$ 51,614	$ 12,636	$ 18,811	$ 16,516	$ 3,651

					2014
	Fiscal 2014	Q4	Q3	Q2	Q1
Net earnings (loss) — continuing operations	$ (11,625)	$ (17,729)	$ 5,172	$ 1,282	$ (350)
Adjusting items, net of tax					
Write-off of deferred tax asset per CRA settlement	22,860	22,860	—	—	—
Acquisition costs	880	351	470	19	40
Intangible asset amortization	1,659	433	419	417	390
Impairment and restructuring	1,433	—	—	1,433	—
Consideration liability fair value adjustment	(410)	—	—	(161)	(249)
Adjusted net earnings (loss) — continuing operations	$ 14,797	$ 5,915	$ 6,061	$ 2,990	$ (169)

Free Cash Flow: for the period is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital and any unusual non-operating one-time items. Free Cash Flow is a performance measure used by investors to analyze the cash generated from operations before the seasonal impact of changes in working capital items or other unusual items.

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

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

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

ADDITIONAL INFORMATION

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

15. SELECTED ANNUAL INFORMATION

The following table provides selected annual information for the Corporation for the years ended 2013 through to 2015.

From continuing operations	2015	2014	2013
Revenues	$ 807,403	$ 542,503	$ 509,052
Expenses[1]	628,163	448,225	427,272
EBITDA	$ 179,240	$ 94,278	$ 81,780
Total non-operating expense	139,006	105,903	71,181
Net earnings (loss) from continuing operations	$ 40,234	$ (11,625)	$ 10,599
Earnings per share			
Basic	$ 1.63	$ (0.53)	$ 0.50
Diluted	1.60	(0.53)	0.49
Adjusted net earnings	$ 51,614	$ 14,797	$ 13,112
Basic	2.09	0.67	0.61
Diluted	2.04	0.66	0.61
Dividends declared	$ 45,227	$ 37,424	$ 35,889
Per share	1.815	1.69	1.68
Free Cash Flow	$ 139,772	$ 76,980	$ 64,372
Per share basic	5.67	3.48	3.00
Per share fully diluted	4.76	2.96	2.65
Free Cash Flow less maintenance capital expenditures	$ 74,405	$ 35,119	$ 27,061
Per share basic	3.02	1.59	1.26
Per share fully diluted	2.73	1.55	1.26
Financial Position			
Working capital	$ 135,310	$ 95,784	$ 256,646
Total assets	1,229,056	715,103	961,372
Total long-term liabilities[2]	524,553	272,164	435,799
Total liabilities	782,438	415,510	655,546
Share Information			
Common shares outstanding as at December 31,	27,633,217	22,507,341	21,752,400
Weighted average common shares outstanding during the year — basic	24,656,755	22,127,189	21,337,091

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

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

INDEPENDENT AUDITOR'S REPORT

February 23, 2016

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EXCHANGE INCOME CORPORATION

We have audited the accompanying consolidated financial statements of Exchange Income Corporation and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Exchange Income Corporation and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	As at December 31, 2015	As at December 31, 2014
Assets		
Current		
Cash and cash equivalents	$ 15,497	$ 14,968
Accounts receivable	125,434	82,575
Costs incurred plus recognized profits in excess of billings	7,776	11,507
Inventory	118,645	84,020
Prepaid expenses and deposits	38,907	6,249
Income taxes receivable	10,955	—
	317,214	199,319
Other assets	10,100	9,110
Capital assets	542,629	364,914
Intangible assets	112,813	42,760
Deferred income tax assets	226	397
Goodwill	246,074	98,603
	$ 1,229,056	$ 715,103
Liabilities		
Current		
Accounts payable and accrued expenses	$ 108,333	$ 83,531
Income taxes payable	—	1,809
Deferred revenue	51,716	8,009
Billings in excess of costs incurred plus recognized profits	20,824	9,079
Current portion of long-term debt and finance leases (Note 11)	1,031	1,107
	181,904	103,535
Long-term debt and finance leases (Note 11)	303,855	16,636
Other long-term liabilities	16,779	436
Convertible debentures (Note 12)	203,919	255,092
Deferred income tax liability	75,981	39,811
	782,438	415,510
Equity		
Share capital (Note 13)	425,561	308,919
Convertible debentures — equity component (Note 12)	11,200	13,877
Contributed surplus	1,788	124
Deferred share plan (Note 19)	5,123	3,802
Retained earnings		
Cumulative earnings	186,491	146,257
Cumulative dividends (Note 14)	(234,300)	(189,073)
	(47,809)	(42,816)
Accumulated other comprehensive income	50,755	15,687
	446,618	299,593
	$ 1,229,056	$ 715,103

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

Approved on behalf of the directors by:

Duncan Jessiman, Director

Donald Streuber, Director

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of Canadian dollars, except for per share amounts)	For the years ended December 31, 2015	2014
Revenue		
Aviation (Note 3)	$ 614,773	$ 339,084
Manufacturing	192,630	203,419
	807,403	542,503
Expenses		
Aviation expenses — excluding depreciation and amortization	374,707	217,496
Manufacturing expenses — excluding depreciation and amortization	146,519	155,244
General and administrative	106,937	75,485
	628,163	448,225
Operating Profit Before Depreciation, Amortization, Finance Costs And Other (Note 4)	179,240	94,278
Depreciation and amortization	84,576	50,481
Finance costs — interest	30,041	21,493
Acquisition costs	5,064	880
Consideration liability fair value adjustment	—	(651)
Impairment and restructuring	—	1,300
Earnings Before Income Taxes	59,559	20,775
Income Tax Expense		
Current	15,544	788
Deferred	3,781	31,612
	19,325	32,400
Net Earnings (Loss) from continuing operations	40,234	(11,625)
Net earnings from discontinued operations (Note 26)	—	19,880
Net Earnings	$ 40,234	$ 8,255
Earnings (Loss) Per Share — continuing operations (Note 17)		
Basic	$ 1.63	$ (0.53)
Diluted	$ 1.60	$ (0.53)
Earnings Per Share		
Basic	$ 1.63	$ 0.37
Diluted	$ 1.60	$ 0.37

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Attributable to common shareholders (in thousands of Canadian dollars)	For the years ended December 31, 2015	2014
Net Earnings	$ 40,234	$ 8,255
Other Comprehensive Income (Loss)		
Items that are or may be reclassified to the Statement of Income		
Cumulative translation adjustment, net of tax	42,853	21,080
Reclassification of cumulative translation adjustment to (profit)/loss (Note 26)	—	(17,521)
Net gain (loss) on hedge of net investment in foreign operation	(7,785)	(5,363)
Reclassification of hedge of net investment to (profit)/loss (Note 26)	—	9,517
	35,068	7,713
Comprehensive Income	$ 75,302	$ 15,968

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of Canadian dollars)	Share Capital	Convertible Debentures – Equity Component	Contributed Surplus – Matured Debentures
Balance, January 1, 2014	$ 295,939	$ 12,216	$ 102
Shares issued to acquisition vendors	2,411	—	—
Convertible debentures			
Converted into shares	4,297	(115)	—
Issued	—	1,798	—
Matured	—	(22)	22
Shares issued under dividend reinvestment plan	4,304	—	—
Shares issued under First Nations community partnership agreements (Note 13)	112	—	—
Shares issued under vesting of reserved shares	623	—	—
Deferred share plan vesting	—	—	—
Shares issued under ESPP	1,150	—	—
Deferred share plan issuance	83	—	—
Comprehensive income	—	—	—
Dividends declared	—	—	—
Balance, December 31, 2014	$ 308,919	$ 13,877	$ 124
Balance, January 1, 2015	$ 308,919	$ 13,877	$ 124
Shares issued to acquisition vendors (Note 6)	18,802	—	—
Convertible debentures (Note 12)			
Converted into shares	20,348	(1,047)	—
Matured/Redeemed	—	(1,630)	1,664
Shares issued under dividend reinvestment plan (Note 13)	3,987	—	—
Shares issued under First Nations community partnership agreements (Note 13)	98	—	—
Deferred share plan vesting	—	—	—
Deferred share plan issuance	482	—	—
Shares issued under ESPP (Note 19)	1,554	—	—
Prospectus offering, September 2015	71,371	—	—
Comprehensive income	—	—	—
Dividends declared (Note 14)	—	—	—
Balance, December 31, 2015	$ 425,561	$ 11,200	$ 1,788

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

		Retained Earnings			
Deferred Share Plan	Reserved Shares	Cumulative Earnings	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Total
$ 2,619	$ 623	$ 138,002	$ (151,649)	$ 7,974	$ 305,826
—	—	—	—	—	2,411
—	—	—	—	—	4,182
—	—	—	—	—	1,798
—	—	—	—	—	—
—	—	—	—	—	4,304
—	—	—	—	—	112
—	(623)	—	—	—	—
1,266	—	—	—	—	1,266
—	—	—	—	—	1,150
(83)	—	—	—	—	—
—	—	8,255	—	7,713	15,968
—	—	—	(37,424)	—	(37,424)
$ 3,802	$ —	$ 146,257	$ (189,073)	$ 15,687	$ 299,593
$ 3,802	$ —	$ 146,257	$ (189,073)	$ 15,687	$ 299,593
—	—	—	—	—	18,802
—	—	—	—	—	19,301
—	—	—	—	—	34
—	—	—	—	—	3,987
—	—	—	—	—	98
1,803	—	—	—	—	1,803
(482)	—	—	—	—	—
—	—	—	—	—	1,554
—	—	—	—	—	71,371
—	—	40,234	—	35,068	75,302
—	—	—	(45,227)	—	(45,227)
$ 5,123	$ —	$ 186,491	$ (234,300)	$ 50,755	$ 446,618

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)	For the years ended December 31, 2015	2014
Operating Activities		
Net earnings for the year	$ 40,234	$ 8,255
Items not affecting cash:		
Depreciation and amortization	84,576	53,837
Accretion of interest	5,515	4,980
Long-term debt discount	(355)	65
Gain on disposition of discontinued operations	—	(16,446)
Gain on sale of disposal of capital assets	(847)	(1,563)
Deferred income tax expense	3,781	29,166
Deferred share program share-based vesting	1,804	1,266
Consideration fair value adjustment	—	(651)
	134,708	78,909
Changes in non-cash operating working capital items (Note 23)	(27,266)	20,923
	107,442	99,832
Financing Activities		
Proceeds from (repayment of) long-term debt & finance leases, net of issuance costs	273,989	(214,060)
Proceeds from issuance of debentures, net of issuance costs	—	37,720
Redemption of convertible debentures	(37,108)	(319)
Issuance of shares, net of issuance costs	77,010	8,600
Cash dividends (Note 10)	(45,227)	(37,424)
	268,664	(205,483)
Investing Activities		
Purchase of capital assets, net of disposals	(124,145)	(84,050)
Purchase of intangible assets	(1,043)	(297)
Repayment of (investment in) other assets	(472)	2,146
Cash outflow for acquisitions, net of cash acquired	(254,093)	—
Disposal of discontinued operations, net of cash disposed of	—	182,937
Finance lease receivable payments, net of reserves	4,176	(3,285)
	(375,577)	97,451
Net Increase (Decrease) in Cash and Cash Equivalents	529	(8,200)
Cash and Cash Equivalents, Beginning of Year	14,968	23,168
Cash and Cash Equivalents, End of Year	$ 15,497	$ 14,968
Supplementary cash flow information		
Interest paid	$ 25,759	$ 20,347
Income taxes (recovered) paid	$ 30,799	$ (3,482)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014
(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 two sectors: aviation services and equipment, and manufacturing. In particular, the Corporation is focused on businesses that are suited for public markets, except, in certain circumstances, for their size. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at December 31, 2015, the principal wholly-owned operating subsidiaries of the Corporation are Perimeter Aviation LP ("Perimeter"), Keewatin Air LP ("Keewatin"), Calm Air International LP ("Calm Air"), Bearskin Lake Air Service LP ("Bearskin"), Custom Helicopters Ltd. ("Custom Helicopters"), 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders Manufacturing LP ("Overlanders"), Water Blast Manufacturing LP ("Water Blast"), WesTower Communications Ltd. ("WesTower CDA"), EIC Ireland Leasing Ltd. ("EIC Ireland"), R1 Canada LP ("Regional One Canada"), EIC Luxembourg Sarl ("EIC Luxembourg"), EIC Ireland Leasing No. Two Limited ("EIC Ireland Two"), Provincial Aerospace Ltd. ("Provincial"), Ben Machine Products Company Inc. ("Ben Machine"), and EIIF Management USA Inc. ("EIIF USA"). Stainless Fabrication, Inc. ("Stainless"), Dallas Sailer Enterprises, Inc. ("Water Blast Dakota"), and Regional One, Inc. ("Regional One") are wholly owned subsidiaries of EIIF USA. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aviation and Manufacturing.

On October 20, 2014, the Corporation completed the sale of WesTower Communications Inc. (the US operations of WesTower – "WesTower US") and within these consolidated financial statements the operations of WesTower US are presented as Discontinued Operations for the prior period (Note 26).

2. BASIS OF PREPARATION

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

The consolidated financial statements were approved by the Board of Directors of the Corporation for issue on February 23, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

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

A) BASIS OF MEASUREMENT

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

B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries Perimeter, Keewatin, Calm Air, Bearskin, Custom Helicopters, 4873999 Manitoba Ltd., 7328010 Canada Ltd., Overlanders, Water Blast, WesTower CDA, EIC Ireland, EIC Ireland Two, Regional One Canada, EIC Luxembourg, Provincial, Ben Machine, EIIF USA and its respective subsidiaries, including Stainless, Water Blast Dakota and Regional One. All significant inter-company transactions have been eliminated for purposes of these consolidated financial statements.

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

C) REVENUE RECOGNITION

The Corporation recognizes revenue on various types of transactions. The Aviation segment recognizes revenue on the provision of flight, flight ancillary services, and the sale and/or lease of aircraft and aftermarket parts. The Manufacturing segment recognizes revenue on the sales of manufacturing products and services.

AVIATION REVENUES

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

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

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

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

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

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

MANUFACTURING REVENUES

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

Revenues from long-term contracts associated with manufacturing products are recognized on a percentage-of-completion basis. The operations of Stainless and WesTower CDA within the Manufacturing segment include these contracts. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the period's revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue.

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

D) EXPENSES

AVIATION EXPENSES – EXCLUDING DEPRECIATION AND AMORTIZATION

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

MANUFACTURING EXPENSES – EXCLUDING DEPRECIATION AND AMORTIZATION

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

E) FOREIGN CURRENCY TRANSLATION

FUNCTIONAL AND PRESENTATION CURRENCY

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

The financial statements of entities that have a functional currency different from that of the Corporation ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments. For these consolidated financial statements, the functional currency of Regional One, Stainless, WesTower US, Water Blast Dakota, EIC Ireland, EIC Ireland Two, Regional One Canada, EIC Luxembourg and EIIF USA is US dollars.

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

TRANSACTIONS AND BALANCES

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

F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments having a maturity of three months or less. Interest is recorded on an accrual basis. As at December 31, 2015, cash equivalents was nil (December 31, 2014 – nil).

G) FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized on a trade date basis for regular way purchases and sales and when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. In the normal course of business, the Corporation may enter into master netting agreements of other similar agreements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be offset in certain circumstances, such as bankruptcy or the termination of the contracts.

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of income. Gains and losses arising from changes in fair value are presented in the statement of income in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid after twelve months, which is classified as non-current.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables are comprised of trade receivables, certain other assets and cash and cash equivalents. Loans and receivables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, long-term debt and finance leases and convertible debentures. Trade payables are initially recognized at fair value, net of any transaction costs incurred, and are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(iv) Derivative financial instruments: All derivatives are required to be classified as fair value through profit or loss and are included on the consolidated statement of financial position within accounts receivable or accounts payable and accrued expenses, as applicable, and are classified as current or non-current based on the contractual terms specific to the instrument. Gains and losses on re-measurement are included in finance costs in the case of interest rate swaps and other gains and losses within general and administrative costs in the case of forward contracts.

The Corporation has used derivatives in the form of foreign exchange forward contracts to manage risks related to fluctuations in foreign currencies and/or net investments in foreign operations.

HEDGES OF A NET INVESTMENT IN FOREIGN OPERATION

The Corporation applies hedge accounting to certain foreign currency differences arising between the functional currency of the foreign operation and the Corporation's presentation currency, regardless of whether the net investment is held directly or through an intermediate parent. The Corporation designates either financial liabilities and/or derivative financial instruments as hedging items of the net investments in a foreign operation.

FINANCIAL LIABILITIES

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

On initial designation of the derivative or financial liability as a hedging instrument, the Corporation formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk. To the extent that the hedge is ineffective, such differences are recognized in the statement of income. When the hedged net investment is disposed of, the relevant amount in the translation reserve is transferred to the statement of income as part of the gain or loss on disposal.

(v) The convertible debentures of the Corporation are compound instruments that contain a conversion feature 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 expected life of the convertible debentures discounted at a rate approximating the rate which would have been applicable to non-convertible debentures at the time the convertible debentures were issued. The residual between the principal amount of the convertible debentures and the present value of interest and principal payments over the expected life of the convertible debentures (the equity component) 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. Transaction costs incurred are proportionately allocated to the debt and equity components. For tax purposes a taxable temporary difference will result as the tax base of the convertible debentures is the face value of the notes while the accounting base is described above. This difference is considered temporary resulting in a deferred tax liability.

H) IMPAIRMENT OF FINANCIAL ASSETS

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss.

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 instrument's original effective interest rate. 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 and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

I) INVENTORY

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

The Corporation classifies its inventory into the following categories:

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

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

J) CAPITAL ASSETS

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

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

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

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

Buildings	20 – 25 years
Aircraft frames and rotables	5 – 13 years
Aircraft engines	2 – 20 years
Aircraft propellers	2 – 7 years
Aircraft landing gear	5 – 15 years
Equipment	5 – 10 years
Other	3 – 4 years
Leasehold improvements over the term of lease	

The aviation related capital assets of Regional One have useful lives that range between 1 – 12 years and depend on the condition and expected useful life of the asset in leasing arrangements. Gains or losses arising on the disposal of tangible fixed assets are included in the statement of income in earnings before income taxes.

K) INTANGIBLE ASSETS

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

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

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

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

L) GOODWILL

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

M) IMPAIRMENT OF LONG-LIVED ASSETS

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

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

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

N) CURRENT AND DEFERRED INCOME TAXES

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

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

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

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

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

O) EMPLOYEE BENEFITS

SHARE-BASED COMPENSATION – DEFERRED SHARE PLAN

Certain employees of the Corporation and the Corporation's Board of Directors participate in a share-based compensation plan of the Corporation's shares (Note 19). The plan consists of individuals being granted "deferred shares" which are essentially phantom shares. The deferred shares granted to the Corporation's non-management Board of Directors vest immediately at the time of the grant and the deferred shares granted to the employees of the Corporation vest evenly over a three-year period. The deferred shares are redeemable upon certain events and the Corporation will issue from treasury common shares equal to the number of deferred shares that have vested.

The dividend rate declared by the Corporation on issued Corporation shares is also applied on 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 on.

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

SHARE-BASED COMPENSATION – EMPLOYEE SHARE PURCHASE PLAN

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

PENSION PLAN

The Corporation has pension-related costs associated with the defined contribution pension plans to which certain Calm Air, Bearskin, Custom and Provincial personnel are entitled. The Corporation's accounting policy is to expense contributions as earned during the period when the contributions become payable and are recorded within general and administrative expenses of the Aviation segment. During 2015, the Corporation recorded defined contribution pension plan costs of $2,782 (2014 – $1,214).

P) PROVISIONS

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

Q) BORROWING COSTS

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

R) LEASES

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

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

S) SHARE CAPITAL

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

T) RESERVED SHARES

As part of the acquisition of WesTower US and WesTower CDA in 2011, the Corporation assumed an obligation associated with certain employees. The payment of the obligation will be settled with the issuance of the Corporation's shares. As a result the Corporation presents the equity-settled share-based obligation as reserved shares in equity. When the shares are issued, the obligation is reclassified to Common shares also within equity.

U) 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.

V) EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Corporation's potential dilutive common shares comprise of convertible debentures and deferred shares under the Corporation's Deferred Share Plan. The dilutive impact of convertible debentures is calculated using the "if converted" method.

W) ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 15 – REVENUE

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

IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9, Financial Instruments, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39. IFRS 9 also introduces an expected loss impairment model for all financial assets not carried at FVTPL. Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. Adoption of IFRS 9 will be effective for the Corporation beginning on January 1, 2018, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its financial statements.

IFRS 16 – LEASES

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

ACCOUNTING ESTIMATES

BUSINESS COMBINATION

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

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Corporation. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by the Corporation is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer contracts, customer relationships, customer lists, certifications and trade names. To determine the fair value of these customer based intangible assets (excluding trade names), the Corporation adopted the excess earning method. This valuation technique values the intangible assets based on the capitalization of the earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates. To determine the fair value of the trade name intangible asset, the Corporation adopted the royalty relief method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates.

LONG-TERM CONTRACT REVENUE RECOGNITION

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

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

A change order results from a change to the scope of the work to be performed compared to the original contract that was signed. Unpriced change orders are change orders that have been approved as to scope but unapproved as to price. For such change orders, contract revenue is recognized to the extent of costs incurred or, if lower, to the extent to which recovery is probable. Therefore, to the extent that actual costs recovered are different from expected cost recoveries, significant swings in revenue and profitability can occur from one reporting period to another.

Claims are amounts in excess of the agreed contract price, or amounts not included in the original contract price, that the Corporation seeks to collect from clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved as to both scope and price, or other causes of unanticipated additional costs. In accordance with the Corporation's accounting policy, claims are recognized in revenue only when resolution is probable. Therefore, it is possible for the Corporation to have substantial contract costs recognized in one accounting period with associated revenue recognized in a later period. Given the above-noted critical accounting estimates associated with the accounting for construction contracts, including change orders and claims, it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year or later could be different from the estimates and assumptions adopted and could require a material adjustment to revenue and/or the carrying amount of the asset or liability affected. The Corporation is unable to quantify the potential impact to the consolidated financial results from a change in estimate in calculating revenue.

DEPRECIATION & AMORTIZATION PERIOD FOR LONG-LIVED ASSETS

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2015 would result in an increase of approximately $5,872 (2014 – $4,118) 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 intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. The recoverable amount is forecasted with management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the cash generating units operate.

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

Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates. The assumptions include the Corporation's pre-tax weighted average cost of capital at the assessment date (level 3 within the fair value hierarchy). Management has prepared cash flow estimates for a three year period which are extrapolated using estimated terminal growth rates ranging between 2.5% and 5.0%, and discount rates (pre-tax) ranging between 11% and 15%.

The Corporation has concluded that no impairments of its indefinite lived intangible assets existed as a result of this assessment as at December 31, 2015. However, the assessment identified two cash generating units, with indefinite life intangible assets of $6.0 million and $2.1 million, respectively, which would not be able to generate a fair value less costs of disposal recoverable amount in excess of their carrying value if certain management assumptions were to change within a reasonable range. Based on the high end of management's range of the estimated fair value less costs of disposal of the two cash generating units, the value in use was greater than their carrying value by approximately $4.0 million (or 12%) and $3.0 million (or 10%), respectively. If a change in the assumptions of long-term growth rates decreased by approximately 2.0 percentage points, the carrying amounts of each of the two cash generating units would exceed the reasonable range of the estimated fair value less costs of disposal. If a change in the assumptions of discount rates (pre-tax) increased by approximately 1.5 percentage points, the carrying amounts of each of the two cash generating units would exceed the reasonable range of the estimated fair value less costs of disposal. These changes in assumptions have been assessed independently of one another.

DEFERRED INCOME TAXES

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

The Corporation entered into an agreement with the CRA regarding the CRA's objection to the tax consequences of the conversion of EIC's income trust structure into a business corporation in July 2009. The agreement did not give rise to any cash outlay by the Corporation for taxation years 2009 to 2013, and a portion of the Corporation's 2014 year. The agreement results in a non-cash charge in the Corporation's consolidated net earnings for the 2014 year related to the write-off of certain of the Corporation's deferred tax assets.

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

CRITICAL ACCOUNTING JUDGMENTS

MEASUREMENT AND PRESENTATION OF CAPITAL ASSETS AND INVENTORY

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

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

6. ACQUISITIONS

ACQUISITION OF PROVINCIAL AEROSPACE LTD.

On January 2, 2015, the Corporation completed the acquisition of Provincial Aerospace Ltd. through a stock purchase agreement to acquire 100% of the shares of Provincial, a Canadian owned corporation based out of St. John's, Newfoundland and Labrador. Provincial was founded in 1972 and operates three distinct business units, a scheduled airline, fixed base operations and aerospace.

Provincial operates its scheduled airline service using fixed wing aircraft in Newfoundland and Labrador, Quebec, New Brunswick and Nova Scotia providing approximately 230 scheduled flights weekly as well as charter services across the territory. The fixed base operations are located in Newfoundland and Labrador and Nova Scotia. The aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft. It has maritime surveillance and support operations in Canada, the Caribbean and the Middle East. Provincial operates a large fleet of aircraft, including operating aircraft owned by customers as part of the surveillance services. The scheduled operations business has a fleet primarily comprised of Dash 8's and Twin Otters and the aerospace business operates various aircraft types for multiple customers.

The acquisition allowed the Corporation to further diversify its revenue streams and cash flow by entering new product and geographical markets. Provincial's maritime surveillance and support operations, which constitute the largest portion of Provincial's operations, are a new niche market that the Corporation's existing Aviation segment entities do not operate in and the revenue streams come from several different geographic areas around the world. As a result, the addition of Provincial further diversifies the cash flows generated by the Corporation.

The results of operations are included in the Corporation's condensed consolidated interim statement of operations within the Aviation segment for the period since the date of acquisition. During the year ended December 31, 2015, Provincial contributed third party revenues of $203.3 million, earnings before income tax of $30.0 million and total assets of $388.8 million.

The purchase agreement contained working capital estimates to be maintained as of the acquisition date. During the 2015 year, the Corporation finalized the opening working capital and made a payment of $6,959 plus accrued interest to the vendors. The post-closing adjustments were created mainly from excess working capital of the acquired balance sheet of Provincial over the $5,000 target in the stock purchase agreement.

Consideration given:	
Cash	$ 225,000
Working capital consideration	6,959
Issue of 523,188 Shares of the Corporation at a price of $23.20 per share	12,138
Total purchase consideration	$ 244,097

Details of the fair values of the net assets acquired at the time of the transaction are as follows:

Fair value of assets acquired:	
Cash	$ 23,236
Accounts receivable	25,115
Inventory	9,125
Prepaid expenses and deposits	4,255
Costs incurred plus recognized profits in excess of billings	321
Capital assets	102,308
Other assets	1,548
Intangible assets	52,614
	218,522
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	32,566
Income taxes payable	5,531
Deferred revenue	7,654
Other long-term liabilities	12,488
Deferred income tax liabilities	27,938
Fair value of identifiable net assets acquired	132,345
Goodwill	111,752
Total purchase consideration	$ 244,097

Of the $52,614 acquired intangible assets, $20,500 was assigned to trade name, $20,700 was assigned to customer relationships, $6,750 was assigned to certifications and $3,300 was assigned to backlog and $1,364 assigned to other. The customer relationship, backlog and other are all subject to amortization while the trade name is considered to have indefinite life and the certifications will be unamortized until they are no longer valid or used by the Corporation.

ACQUISITION OF BEN MACHINE PRODUCTS COMPANY INCORPORATED.

On July 2, 2015, the Corporation completed the acquisition of Ben Machine Products Company Incorporated through a stock purchase agreement to acquire 100% of the shares of Ben Machine, a Canadian owned corporation, based out of Vaughan, Ontario.

Ben Machine is a manufacturer that provides complex precision-machined components and assemblies primarily for the aerospace and defence industry. Ben Machine is focused on providing a complete solution for their customers and offers a full range of services, including CNC machining and turning, brazing, casting, welding, complex assembly, sheet metal fabrication and all necessary finishing services.

The acquisition further adds to the Corporation's Manufacturing segment's operations and complements and expands the Corporation's niche within the aerospace sector. Ben Machine is a service company that provides solutions for top of class aerospace and defence companies in Canada and the United States. This established niche has enhanced Ben Machine's position with its customers as they rely on Ben Machine to produce and deliver high precision complex parts as part of their manufacturing supply chain.

The results of operations are included in the Corporation's consolidated statement of operations within the Manufacturing segment for the period since the date of acquisition. During the six months ended December 31, 2015 since acquisition, Ben Machine contributed third party revenues of $11.5 million, earnings before income tax of $1.7 million and total assets of $54.0 million.

The purchase agreement contained working capital estimates to be maintained as of the acquisition date. During the year the Corporation finalized the working capital settlement and made a payment of $237 to the vendors.

Consideration given:	
Cash	$ 37,668
Working capital consideration	237
Issue of 329,552 shares of the Corporation at a price of $20.22 per share	6,664
Total purchase consideration	$ 44,569

Details of the fair values of the net assets acquired at the time of the transaction are as follows:

Fair value of assets acquired:	
Cash	$ 561
Accounts receivable	3,178
Inventory	2,124
Prepaid expenses	29
Capital assets	2,442
Intangible assets	18,674
	27,008
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	2,529
Taxes payable	331
Deferred revenue	2
Deferred taxes	5,147
Fair value of identifiable net assets acquired	18,999
Goodwill	25,570
Total purchase consideration	$ 44,569

Of the $18,674 acquired intangible assets, $3,800 was assigned to trade names, $11,877 was assigned to customer relationships, $1,060 was assigned to certificates and $1,937 was assigned to backlog. All the intangibles acquired are subject to amortization with the exception of the trade names, which is considered to have indefinite life, and the certifications, which will be unamortized until they are no longer valid or used by the Corporation.

ASSET ACQUISITION — FIRST AIR ASSETS IN THE KIVALLIQ REGION

On July 3, 2015, the Corporation acquired all of the non-aircraft assets of First Air in the Kivalliq region and assumed responsibility for all scheduled, freight and charter operations in the region. The acquisition cost was approximately $8,026, which includes the purchase of some additional required assets for those operations as well as the purchase price paid to First Air, and was funded by cash available through the Corporation's credit facility.

7. INVENTORIES

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

	December 31 2015	December 31 2014
Parts and other consumables	$ 89,760	$ 57,373
Raw materials	18,552	18,661
Work in process	2,278	1,161
Finished goods	8,055	6,825
Total inventory	$ 118,645	$ 84,020

During 2015, inventory from the Aviation segment with a value of $52,882 (2014 – $44,221) was recorded as a direct operating expense and inventory from the Manufacturing segment with a value of $45,520 (2014 – $57,070) was recorded as a cost of goods sold expense.

8. OTHER ASSETS

The other assets of the Corporation consist of the following:

	December 31 2015	December 31 2014
Long term security deposits and long term finance lease receivables	$ 3,335	$ 5,167
Other investments	6,765	3,943
Total other assets	$ 10,100	$ 9,110

As part of the acquisition of Provincial, the Corporation acquired an equity accounted investment in a non-trading entity. The legal name of the entity is Innu Mikun Limited Partnership and the Corporation's ownership percentage is 49%. This investment, for which fair market value is not available, has a carrying value of $2,021 at December 31, 2015, and has been included in the other investments line above.

During 2014, the Corporation made an investment in a non-trading entity which is accounted for as an available for sale financial asset. The legal name of the entity is SAF CRJ-200LR Holdings, LLC and the Corporation's ownership percentage is 14.29%. The entity, for which fair market value is not available, has a carrying value of $4,744 at December 31, 2015, and holds several aviation assets that will generate future cash or assets returned to Regional One.

9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

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

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

During 2015, the Corporation completed the acquisitions of Provincial, Ben Machine, and the non-aircraft assets of First Air in the Kivalliq region. The fair value of assets acquired on the date of acquisition for each has been included in the acquisition column above.

During 2014, as a result of the sale of WesTower US, the Corporation disposed of all capital assets relating to the operations of WesTower US. The sale of these capital assets as a part of the overall sale of WesTower US has been included in the disposals column below.

			December 31, 2014
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 7,390	$ —	$ 7,390
Buildings	81,165	14,117	67,048
Aircraft frames	189,854	50,927	138,927
Aircraft engines	124,278	41,759	82,519
Aircraft propellers and rotors	21,208	8,583	12,625
Aircraft landing gear	13,460	3,180	10,280
Aircraft rotable parts	25,634	4,374	21,260
Equipment	55,645	34,223	21,422
Other	6,505	4,762	1,743
Leasehold improvements	3,463	1,763	1,700
Total	$ 528,602	$ 163,688	$ 364,914

							Year Ended December 31, 2014
Net Book Value	Opening	Acquisition (Note 6)	Additions	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 7,073	$ —	$ 492	$ (175)	$ —	$ —	$ 7,390
Buildings	67,565	—	2,051	(73)	(2,495)	—	67,048
Aircraft frames	108,106	—	53,936	(6,999)	(18,362)	2,246	138,927
Aircraft engines	72,964	—	28,853	(5,604)	(15,288)	1,594	82,519
Aircraft propellers and rotors	12,585	—	3,020	(504)	(2,476)	—	12,625
Aircraft landing gear	10,100	—	1,584	(342)	(1,062)	—	10,280
Aircraft rotable parts	20,419	—	3,712	(776)	(2,095)	—	21,260
Equipment	28,403	—	6,857	(6,042)	(8,377)	581	21,422
Other	1,725	—	743	(77)	(661)	13	1,743
Leasehold improvements	2,411	—	453	(600)	(598)	34	1,700
Total	$ 331,351	$ —	$ 101,701	$ (21,192)	$ (51,414)	$ 4,468	$ 364,914

10. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2015 and 2014:

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

							Year Ended December 31, 2015
Net Book Value	Opening	Acquisition (Note 6)	Additions	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 32,756	$ 24,300	$ —	$ —	$ —	$ 2,784	$ 59,840
Finite Life Assets							
Customer contracts	385	32,577	—	—	(3,259)	—	29,703
Customer relationships	5,866	—	—	—	(3,669)	973	3,170
Non-compete agreements	202	—	—	—	(128)	5	79
Certifications	861	7,810	—	—	(73)	12	8,610
Information technology systems	508	—	136	—	(118)	—	526
Other	2,182	9,985	907	—	(2,189)	—	10,885
Total	$ 42,760	$ 74,672	$ 1,043	$ —	$ (9,436)	$ 3,774	$ 112,813

During 2015, the Corporation completed the acquisitions of Provincial, Ben Machine, and the non-aircraft assets of First Air in the Kivalliq region. The fair value of assets acquired on the date of acquisition for each has been included in the acquisition column above.

During 2014, as a result of the sale of WesTower US, the Corporation disposed of all intangible assets relating to the operations of WesTower US. The sale of these intangible assets as a part of the overall sale of WesTower US has been included in the disposals column below.

			December 31, 2014
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 32,756	$ —	$ 32,756
Finite Life Assets			
Customer contracts	1,367	982	385
Customer relationships	13,631	7,765	5,866
Non-compete agreements	804	602	202
Certifications	1,599	738	861
Information technology systems	1,709	1,201	508
Other	2,832	650	2,182
Total	$ 54,698	$ 11,938	$ 42,760

							Year Ended December 31, 2014
Net Book Value	Opening	Acquisition (Note 6)	Additions	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 34,389	$ —	$ —	$ (2,914)	$ —	$ 1,281	$ 32,756
Finite Life Assets							
Customer contracts	483	—	—	—	(98)	—	385
Customer relationships	7,482	—	—	(203)	(1,872)	459	5,866
Non-compete agreements	572	—	—	(161)	(211)	2	202
Certifications	923	—	—	—	(69)	7	861
Information technology systems	326	—	297	—	(115)	—	508
Other	2,240	—	—	—	(58)	—	2,182
Total	$ 46,415	$ —	$ 297	$ (3,278)	$ (2,423)	$ 1,749	$ 42,760

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

Goodwill	2015	2014
Balance, beginning of year	$ 98,603	$ 107,435
Goodwill from business acquisitions (Note 6)	137,322	—
Derecognition on sale of WesTower US	—	(13,918)
Translation of goodwill of foreign operations (Stainless, Regional One, and Water Blast Dakota)	10,149	5,086
Balance, end of year	$ 246,074	$ 98,603

As a result of the foreign currency translation policy for the consolidation of Stainless, Water Blast Dakota, and Regional One as described in Note 3e), the goodwill recorded in Stainless (US $14,751), in Water Blast Dakota (US $476), and Regional One (US $30,105) are valued at the period-end exchange rate. As a result the goodwill fluctuates as the Canadian dollar reporting currency changes in comparison to the US dollar.

The Corporation completed its annual impairment testing for goodwill and indefinite life intangible assets as at December 31, 2015 based on management's best estimates of market participant assumptions including weighted average cost of capital. The recoverable amounts, determined based on fair value less costs of disposal for goodwill and indefinite life intangible asset CGUs, were determined using EBITDA multiples based on financial forecasts prepared by management (Level III inputs from the fair value hierarchy). The forecasts are based on management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the CGUs operate.

As at December 31, 2015, there was no impairment of goodwill or indefinite life intangible assets based on management's assessment (Note 5).

11. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at December 31, 2015 and December 31, 2014:

	December 31 2015	December 31 2014
Revolving term facility:		
Canadian dollar amounts drawn	$ 248,000	$ —
United States dollar amounts drawn (US$41,040 and US$13,900, respectively)	56,799	16,125
Total credit facility debt outstanding, principal value	304,799	16,125
less: unamortized transaction costs	(1,789)	(911)
less: unamortized discount on outstanding Banker's Acceptances	(355)	—
Net credit facility debt	302,655	15,214
Finance leases	2,231	2,529
Total net credit facility debt and finance leases	304,886	17,743
less: current portion of finance leases	(1,031)	(1,107)
Long-term debt and finance leases	$ 303,855	$ 16,636

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, 2015.

During 2015, the allocation of the total credit available between EIC head-office and EIIF USA was amended as part of the closing of the acquisition of Provincial. Total credit available to EIC head-office increased to $320,000, while total credit available to EIIF USA decreased to $15,000. The total credit available to the Corporation remained unchanged at $335,000. In February 2015, the Corporation amended the terms of its credit facility which resulted in an increase to the credit available to $450,000 and extended the maturity to May 2019. With the changes, the amount of credit allocated to EIC head-office and EIIF USA was changed to $400,000 and $50,000, respectively. Furthermore, in October 2015 the Corporation amended its credit facility to have a combined $550,000 of credit available. This includes $500,000 allocated to EIC head-office and $50,000 to EIIF USA. No other significant changes were made to the terms included within the credit facility during the year.

Interest expense recorded by the Corporation's continuing operations during the year ended December 31, 2015 for the long-term debt and finance leases was $11,292 (2014 – $991). In the comparative period, the Corporation allocated interest expense of $4,705 to Discontinued Operations representing the portion of interest expense related to the operations of WesTower US up to the date of disposition.

CREDIT FACILITY

The following is the continuity of long-term debt for the year ended December 31, 2015:

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

				Year Ended December 31, 2014	
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar portion	$ 51,150	$ 11,500	$ (62,650)	$ —	$ —
United States dollar portion	167,195	48,478	(210,035)	10,487	16,125
	$ 218,345				$ 16,125

FINANCE LEASES

The Corporation leases vehicles from a third party under finance leases expiring at various times through to fiscal 2018. The assets and liabilities under finance leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Interest rates on finance leases vary from 4% to 7%.

The following is the continuity of the finance leases outstanding for the year ended December 31, 2015 and the comparative 2014 period:

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

				2014
Finance leases	Opening	Assumed / Entered Into	Repayments / Disposals	Ending
Canadian dollar leases	$ 2,073	$ 1,467	$ (1,011)	$ 2,529
US dollar leases	826	—	(826)	—
	$ 2,899	$ 1,467	$ (1,837)	$ 2,529

The impact of the sale of WesTower US is included above in the Repayments/Disposals column for the prior period. All US dollar leases were held by WesTower US and were transferred as part of the closing of the transaction.

The future minimum lease payments and the net present value of the future minimum payments of the Corporation's finance leases as at December 31, 2015 are as follows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years	Total
Total future minimum lease payments	$ 1,116	$ 1,251	$ —	$ 2,367
less: amount representing interest	(85)	(51)	—	(136)
Present value of future minimum lease payments	$ 1,031	$ 1,200	$ —	$ 2,231

The cost and accumulated depreciation of the finance leased equipment consists of the following as at December 31, 2015 and December 31, 2014:

	December 31 2015	December 31 2014
Vehicles under finance leases	$ 3,501	$ 3,535
less: accumulated depreciation	(1,345)	(1,414)
	$ 2,156	$ 2,121

12. CONVERTIBLE DEBENTURES

Series — Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Series J — 2011	EIF.DB.D	May 31, 2018	6.25%	$ 30.60
Unsecured Debentures — 2012	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures — 2013	EIF.DB.F	March 31, 2020	5.35%	$ 41.60
Unsecured Debentures — 2014	EIF.DB.G	March 31, 2021	6.0%	$ 31.70

Summary of the debt component of the convertible debentures:

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

	2014 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Repaid on Maturity	2014 Balance, End of Year
Series F	$ 1,128	$ —	$ 6	$ (1,008)	$ (126)	$ —
Series G	3,214	—	39	(3,060)	(193)	—
Series H	21,142	—	237	(103)	—	21,276
Series I	33,941	—	449	—	—	34,390
Series J	54,285	—	632	—	—	54,917
Unsecured — 2012	53,477	—	591	—	—	54,068
Unsecured — 2013	60,896	—	551	—	—	61,447
Unsecured — 2014	—	37,272	234	(11)	—	37,495
						263,593
less: unamortized transaction costs						(8,501)
Convertible Debentures — Debt Component, end of year						$ 255,092

During the 2015 year convertible debentures totaling a face value of $19,829 were converted by the holders at various times into 991,450 Shares of the Corporation (2014 – $4,210 face value into 311,803 Shares). Interest expense recorded during the 2015 year for the convertible debentures was $18,749 (2014 – $20,502).

The Series I debentures due January 31, 2016, were redeemed on March 31, 2015 pursuant to the trust indenture. This resulted in a payment of $35,269, comprising of $34,944 in principal plus accrued interest. The redemption was funded through a draw on the Corporation's senior credit facility. The related equity component and tax impacts were transferred to contributed surplus.

The Series H debentures due May 31, 2017, were redeemed on July 15, 2015 pursuant to the trust indenture. This resulted in a cash payment of $2,181, comprising of $2,164 in principal plus accrued interest, on the date of redemption. The related equity component and tax impacts were transferred to contributed surplus.

SERIES F CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date. At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Corporation also has the ability to redeem these Series F debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time.

The Series F convertible debentures have nil of principal outstanding as at December 31, 2015 and matured in April 2014.

SERIES G CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date. At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Corporation also has the ability to convert these Series G debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time.

The Series G convertible debentures have nil of principal outstanding as at December 31, 2015 and matured in September 2014.

SERIES H CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $20.00. At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Corporation also has the ability to convert these Series H debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After May 31, 2013, but prior to May 31, 2015, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after May 31, 2015 but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Corporation at the conversion price.

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

SERIES I CONVERTIBLE DEBENTURE OFFERING

Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $26.00. Each debenture is convertible, at the debenture-holders' option, into Shares of the Corporation at any time prior to the close of business on the day prior to the maturity date. At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Corporation also has the ability to convert these Series I debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time.

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

SERIES J CONVERTIBLE DEBENTURE OFFERING

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

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days prior to the maturity date. The Corporation also has the ability to convert these Series J debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After May 31, 2014, but prior to May 31, 2016, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after May 31, 2016 but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Corporation at the conversion price.

The Series J convertible debentures have $57,477 of principal outstanding as at December 31, 2015 and mature in May 2018.

SEPTEMBER 2012 UNSECURED CONVERTIBLE DEBENTURE OFFERING

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

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The Corporation also has the ability to convert these unsecured debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After September 30, 2015, but prior to September 30, 2017, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after September 30, 2017 but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Corporation at the conversion price.

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

MARCH 2013 UNSECURED CONVERTIBLE DEBENTURE OFFERING

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

At the Corporation's option, on the maturity date, the debentures (or any portion thereof) shall be convertible into Shares at the Corporation's forced conversion price equal to 95% of the weighted average trading price of the Shares for the 20 trading days ending five days prior to the maturity date. The Corporation also has the ability to convert these unsecured debentures, in whole or in part, on or after the third anniversary of the date of issuance of the debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. After March 31, 2016, but prior to March 31, 2018, the Corporation has the option to redeem these debentures provided that certain thresholds are met surrounding the weighted average market price of the Shares at that time. On and after March 31, 2018 but prior to the maturity date the Corporation has the option to redeem these debentures without any weighted average market price thresholds. If the Corporation elects to redeem the debentures, the debentureholders have the option to convert the debentures into Shares of the Corporation at the conversion price.

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

MARCH 2014 UNSECURED CONVERTIBLE DEBENTURE OFFERING

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

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

Transaction costs of $2,280 were incurred during the year ended December 31, 2014 in relation to the issuance of these debentures.

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

CONVERTIBLE DEBENTURES EQUITY COMPONENT

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

Summary of the equity component of the convertible debentures:

	December 31 2015	December 31 2014
Series H — 2010	$ —	$ 1,188
Series I — 2011	—	1,489
Series J — 2011	3,136	3,136
Unsecured Debentures — 2012	3,204	3,204
Unsecured Debentures — 2013	3,063	3,063
Unsecured Debentures — 2014	1,797	1,797
Convertible Debentures — Equity Component, end of year	$ 11,200	$ 13,877

The Series J debentures are secured, subordinate only to senior security, by a charge on the assets and undertakings of the Corporation and it subsidiaries. The September 2012, March 2013 and March 2014 convertible debenture offerings represent direct unsecured debt obligations of the Corporation.

13. SHARE CAPITAL

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

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

Changes in the Shares issued and outstanding during the year ended December 31, 2014 are as follows:

		2014
	Number of shares	Amount
Share capital, beginning of year	21,752,400	$ 295,939
Issued for Regional One vendors on contingent liability payment	130,175	2,411
Issued under vesting of reserved shares	28,746	623
Issued under deferred share plan	3,781	83
Issued upon conversion of convertible debentures	311,803	4,297
Issued under dividend reinvestment plan	220,542	4,304
Issued under employee share purchase plan	53,894	1,150
Issued under First Nations community partnership agreements	6,000	112
Share capital, end of year	22,507,341	$ 308,919

14. DIVIDENDS DECLARED

The Corporation's dividend policy is to pay 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 2015 year and the comparative 2014 year are as follows:

Year Ended December 31	2015	2014
Cumulative dividends, beginning of year	$ 189,073	$ 151,649
Dividends during the year	45,227	37,424
Cumulative dividends, end of year	$ 234,300	$ 189,073

The amounts and record dates of the dividends during the 2015 year and the comparative 2014 year are as follows:

			2015 Dividends			2014 Dividends
Month	Record date	Per share	Amount	Record date	Per Share	Amount
January	January 30, 2015	$ 0.145	$ 3,342	January 31, 2014	$ 0.14	$ 3,039
February	February 27, 2015	0.145	3,347	February 28, 2014	0.14	3,043
March	March 31, 2015	0.145	3,349	March 31, 2014	0.14	3,054
April	April 30, 2015	0.145	3,352	April 30, 2014	0.14	3,080
May	May 29, 2015	0.145	3,354	May 30, 2014	0.14	3,097
June	June 30, 2015	0.145	3,358	June 30, 2014	0.14	3,100
July	July 31, 2015	0.145	3,550	July 31, 2014	0.14	3,103
August	August 31, 2015	0.16	3,919	August 29, 2014	0.14	3,112
September	September 30, 2015	0.16	4,404	September 30, 2014	0.14	3,134
October	October 30, 2015	0.16	4,407	October 31, 2014	0.14	3,138
November	November 30, 2015	0.16	4,419	November 28, 2014	0.145	3,260
December	December 31, 2015	0.16	4,426	December 31, 2014	0.145	3,264
Total		$ 1.815	$ 45,227		$ 1.69	$ 37,424

Subsequent to December 31, 2015 and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.16 per Share for January 2016 and February 2016.

15. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aviation and Manufacturing. The Aviation segment provides airline services to communities in Manitoba, Ontario and Nunavut and also provides aircraft and engine aftermarket parts to regional airline operators around the world. With the acquisition of Provincial, our airline services have expanded to eastern Canada. In addition, Provincial's aerospace business designs, modifies, maintains and operates custom sensor equipped aircraft. Provincial is included in the Aviation segment as of the date of acquisition (Note 6). The Manufacturing segment consists of niche specialty metal manufacturers in markets throughout Canada and the United States. Ben Machine is included in the Manufacturing segment as of the date of acquisitions (Note 6). The Discontinued Operations includes the results of WesTower US that was disposed of in the fourth quarter of 2014.

The Corporation evaluates each segment's performance based on EBITDA. The Corporation's method of calculating EBITDA may differ from that of other corporations and therefore may not be comparable to measures utilized by them. The Corporation's method of calculating EBITDA is consistent with the Corporation's Operating Profit before Depreciation, Amortization, Finance Costs and Other presented in the consolidated statement of income. There are no inter-segment revenues, and all segment revenues presented in the tables below are from external customers.

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

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

			Year Ended December 31, 2014	
	Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 339,084	$ 203,419	$ —	$ 542,503
Expenses	259,562	177,784	10,879	448,225
EBITDA	79,522	25,635	(10,879)	94,278
Depreciation and amortization				50,481
Finance costs — interest				21,493
Acquisition costs				880
Consideration liability fair value adjustment				(651)
Impairment and restructuring				1,300
Earnings before income tax				20,775
Current income tax expense				788
Deferred income tax expense				31,612
Net loss from continuing operations				(11,625)
Net earnings from discontinued operations				19,880
Net earnings				$ 8,255

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

				December 31, 2014
	Aviation	Manufacturing	Head Office	Consolidated
Total assets	$ 448,025	$ 145,172	$ 121,906	$ 715,103
Net capital asset additions	79,645	4,335	70	84,050
Indefinite lived intangible assets	23,884	8,872	—	32,756
Goodwill	60,921	37,682	—	98,603

The following is the geographic breakdown of revenues for the year ended December 31, 2015 and the 2014 comparative year, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Year Ended December 31	2015	2014
Canada	$ 585,726	$ 432,931
United States	122,911	81,559
Other	98,766	28,013
Total revenue for the year — from continuing operations	$ 807,403	$ 542,503

	As at December 31, 2015		As at December 31, 2014	
	Capital Assets	Goodwill	Capital Assets	Goodwill
Canada	$ 413,591	$ 183,335	$ 313,186	$ 46,013
United States	129,038	62,739	51,728	52,590
	$ 542,629	$ 246,074	$ 364,914	$ 98,603

PERCENTAGE-OF-COMPLETION REVENUES

The operations of Stainless and WesTower within the Manufacturing segment and Provincial within the Aviation segment have long-term contracts where revenues are recognized on a percentage-of-completion basis. The percentage complete is calculated based upon contract costs incurred to date compared with total estimated contract costs. The percentage complete is then applied to total anticipated contract revenue to determine the percentage-of-completion revenue. A provision for the estimated loss is made when contract costs are expected to exceed estimated contract revenue. During the year ended December 31, 2015, the Corporation recognized revenue from continuing operations on these types of long-term contracts totaling $164,256 (2014 – $151,708).

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2015 and the 2014 comparative year:

As at December 31	2015	2014
Costs incurred on uncompleted contracts	$ 103,110	$ 89,228
Estimated earnings	23,141	22,087
	126,251	111,315
less: billings to date	(139,299)	(108,887)
Total	$ (13,048)	$ 2,428
Costs incurred plus recognized profits in excess of billings	$ 7,776	$ 11,507
Billings in excess of costs incurred plus recognized profits	(20,824)	(9,079)
Total	$ (13,048)	$ 2,428

AVIATION SEGMENT SUPPLEMENTAL DISCLOSURE

The Aviation segment's revenues and expenses combine services provided and the sale and lease of goods. The following summarizes the breakdown of the significant categories for the year ended December 31, 2015 and the 2014 comparative periods:

Year Ended December 31,	2015	2014
Sale of services	$ 451,851	$ 262,567
Sale and lease of goods	162,922	76,517
Aviation revenues	$ 614,773	$ 339,084
Direct operating expenses — sale of services	$ 288,144	$ 183,370
Cost of goods sold and lease expenses	86,563	34,126
Aviation expenses — excluding depreciation and amortization	$ 374,707	$ 217,496

16. IMPAIRMENT AND RESTRUCTURING

During 2014, the Corporation restructured Bearskin's operations to eliminate certain unprofitable routes. Management accrued and expensed restructuring costs of $1,300 which mainly related to severance costs for reducing personnel levels. As at December 31, 2015, Bearskin has paid the majority of the amounts accrued on restructuring.

In addition, as part of the restructuring at Bearskin, $663 of additional depreciation was recorded as the residual value and remaining useful lives of certain assets were reassessed as part of the restructuring.

17. EARNINGS PER SHARE

Basic earnings per share for the Corporation's continuing operations is calculated by dividing the net earnings from continuing operations by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential 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 the Corporation's continuing operations for basic and diluted earnings per share for the year ended December 31, 2015 and comparative in 2014 year are as follows:

Year Ended December 31	2015	2014
Net earnings (loss) from continuing operations	$ 40,234	$ (11,625)
Effect of dilutive securities		
Convertible debentures	738	—
Diluted earnings (loss) from continuing operations	$ 40,972	$ (11,625)
Basic weighted average number of shares	24,656,755	22,127,189
Effect of dilutive securities		
Deferred shares	390,267	—
Convertible debentures	581,664	—
Diluted basis average number of shares	25,628,686	22,127,189
Earnings (loss) per share from continuing operations:		
Basic	$ 1.63	$ (0.53)
Diluted	$ 1.60	$ (0.53)

18. EXPENSES BY NATURE

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

	2015	2014
Salaries, wages & benefits	$ 209,812	$ 145,693
Aircraft operating expenses	216,484	130,981
Materials	99,797	116,114
General and administrative	45,987	33,578
Building rent and maintenance	10,773	6,199
Communication and information technology	6,084	3,677
Advertising	3,503	3,177
Sub-contracting services	3,801	3,887
Other	31,922	4,919
	$ 628,163	$ 448,225

19. EMPLOYEE BENEFITS

DEFERRED SHARE PLAN

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

	2015	2014
Deferred shares outstanding, beginning of year	289,761	201,976
Granted during the year	94,230	70,110
Granted through dividends declared during the year	28,025	21,456
Redeemed during the year	(21,749)	(3,781)
Deferred shares outstanding, end of year	390,267	289,761
Vested portion of deferred shares outstanding, end of year	250,107	186,737

The fair value of the deferred shares granted during the 2015 year was $2,121 at the time of the grant (weighted average grant price of $22.51 per share) and was based on the market price of the Corporation's shares at that time (2014 – $1,444, weighted average grant price of $20.60 per share). During the 2015 year, the Corporation recorded compensation expense of $1,804 for the Deferred Share Plan within the general and administrative expenses of head-office (2014 – compensation expense of $1,266).

EMPLOYEE SHARE PURCHASE PLAN

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

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

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

During 2014, 53,894 Shares were issued out of Treasury at a weighted average price of $21.34 per share, effective November 18, 2014 for the 2014 program that will vest in 18 months (Quarter 2 of 2016). The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $430 based on the share price and monthly dividend rate as at that time.

The ESPP plan is adjusted for changes in the Corporation's share price at the period-end, any changes in the Corporation's dividend rate and any estimated forfeitures. During 2015, total expenses recorded in head-office expenses was $131 (2014 – $851).

20. CONTINGENCIES AND COMMITMENTS

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

Commitments	December 31, 2015	December 31, 2014
Less than 1 year	$ 20,624	$ 6,903
Between 1 year and 5 years	58,071	13,935
More than 5 years	42,053	15,512
	$ 120,748	$ 36,350

Included in the table above are commitments to related parties in association with leased property used in the operations which are described further in Note 21. The increase in commitments was due to two factors. First, the acquisitions of Provincial and Ben Machine added to the commitments disclosed above with no comparative in the prior year. Second, Calm Air entered into an aircraft lease in conjunction with its expansion into the Kivalliq region.

During the year the Corporation's continuing operations expensed $21,372 (2014 – $6,749) of operating lease costs.

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

21. RELATED PARTY TRANSACTIONS

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

PROPERTY LEASES

Various entities lease several buildings from related parties who were vendors of the entity that the Corporation purchased the business from originally. These vendors are considered related parties because of their continued involvement in the management of those businesses. In addition, EIC leases office space for its head office from a company controlled by a director of the corporation. These leases are considered to be at market terms and recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2015 under these leases was $3,055 (2014 – $2,734) and the lease term maturities range from 2016 to 2020. The expense is recorded within general and administrative expenses and is paid monthly, therefore no balance exists on the Corporation's statement of financial position (2014 – nil).

KEY MANAGEMENT COMPENSATION

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

Compensation awarded to key management for the 2015 year and the comparative 2014 year is as follows:

Year ended December 31,	2015	2014
Salaries and short-term benefits	$ 5,865	$ 4,341
Share-based payments	1,902	1,510
	$ 7,767	$ 5,851

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

MARKET RISK

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

CURRENCY RISK

The Corporation has US$41,040 or $56,799 (2014 – US$13,900 or $16,125) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its Manufacturing and Aviation segment subsidiaries, in particular, the operations of Stainless and Regional One throughout the United States.

The Corporation`s US subsidiary investments are partially hedged by US$40,500 (2014 – US$13,900) of the secured bank loan 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 2014, with the proceeds from the disposition of WesTower US, the Corporation repaid all of its outstanding debt in its credit facility at that time. As a result, the Corporation reclassified $9,517 (net of tax) of net losses previously accumulated in other comprehensive income on the hedged US debt in the EIC head-office portion of its credit facility that was repaid. This amount is included in the gain on disposal (Note 26).

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, 2015 would have a nil (2014 – nil) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $0.6 million (2014 – $0.2 million).

INTEREST RATES

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

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances or London Inter Bank Offer Rate ("LIBOR"). At December 31, 2015, US$33,000 (2014 – US$13,900) was outstanding under US LIBOR, US$8,040 (2014 – nil) was outstanding under USD Prime, $16,000 (2014 – nil) was outstanding under Prime and $232,000 (2014 – nil) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2015, net of cash and cash equivalents, a 1% increase in interest rates for the Corporation would decrease net earnings by approximately $3.0 million ($2.1 million after-tax) (2014 – $1.9 million ($1.2 million after tax)).

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

CREDIT RISK

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

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

In addition, the Corporation is exposed to credit risk from its customers. While the operations serve markets across Canada and the United States, the Corporation has a large number of customers and the customer receivables are monitored at each business entity level.

As at December 31, 2015, $18,511 (2014 – $9,618) of the outstanding receivables were greater than 90 days outstanding. Approximately $1,624 (2014 – $1,250) of this relates to the Manufacturing segment and $16,887 (2014 – $8,368) relates to the Aviation segment. Management at each of the Corporation's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Corporation's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

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

LIQUIDITY RISK

Liquidity risk is the risk that the Corporation is not able to meet its financial obligations as they become due or can do so only at excessive cost. The Corporation's growth is financed through a combination of the cash flows from operations, borrowing under existing credit facilities, the issuance of either or a combination of debentures and equity. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through adequate amount of committed credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as cash flows. Due to the nature of the business, the Corporation aims to maintain flexibility in funding by keeping committed credit facilities available (Note 11).

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

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Accounts payable and accrued expenses	$ 108,333	$ 108,333	$ —	$ —
Long-term debt (principal value)	304,799	—	304,799	—
Convertible debentures (par value)	219,965	—	179,977	39,988
Total	$ 633,097	$ 108,333	$ 484,776	$ 39,988

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Recurring fair value measurements	Carrying Value December 31, 2015	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities — Other financial liabilities	$ (484)	$ —	$ —	$ (484)
Fair Value Disclosures				
Other assets — Loans and receivables	3,335	—	3,335	—
Other assets — Equity method investment	6,765	—	—	6,765
Long term debt — Other financial liabilities	(302,655)	—	—	(304,799)
Convertible debt — Other financial liabilities	(203,919)	(212,991)	—	—

Recurring fair value measurements	Carrying Value December 31, 2014	Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Liabilities				
Consideration liabilities — Other financial liabilities	$ (2,162)	$ —	$ —	$ (2,162)
Fair Value Disclosures				
Other assets — Loans and receivables	5,167	—	5,167	—
Other assets — Equity method investment	3,943	—	—	3,943
Long term debt — Other financial liabilities	(15,214)	—	—	(16,125)
Convertible debt — Other financial liabilities	(255,092)	(251,982)	—	—

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

The following table summarizes the changes in the consideration liability originally recorded on the acquisition of Regional One, including any changes for settlements, changes in fair value and foreign currency:

Consideration Liability Summary For the periods ended	December 31 2015	December 31 2014
Opening	$ 2,162	$ 12,582
Accretion	23	102
Consideration liability fair value adjustment	—	(651)
Settled during the year	(2,009)	(10,393)
Translation loss	308	522
Ending	$ 484	$ 2,162

The remaining consideration liability outstanding at December 31, 2015 consists of certain tax related liabilities owing to the vendors. Additionally, there were 438,209 Shares of the Corporation that were originally issued into escrow at the time of acquisition and relate to the retention of the vendor as CEO. The remaining Shares are anticipated to be settled and released from escrow evenly on each of the next three anniversaries of closing the acquisition (262,925 Shares in escrow as at December 31, 2015).

FINANCIAL INSTRUMENT FAIR VALUE DISCLOSURES

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

As at December 31, 2015, management had determined that the fair value of its long term debt approximates its carrying value as such debt is subject to floating interest rates and the Corporation's credit risk profile has not significantly changed in current market conditions as the debt was recently amended (Note 11).

As at December 31, 2015, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $212,991 (December 31, 2014 — $251,982) and a carrying value of $203,919 (December 31, 2014 — $255,092).

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 year.

23. CHANGES IN WORKING CAPITAL ITEMS

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

Period Ended December 31	2015	2014
Accounts receivable	$ (14,566)	$ (18,427)
Costs incurred plus recognized profits in excess of billings	4,052	(12,343)
Inventory	(23,376)	(15,136)
Prepaid expenses	(28,373)	(452)
Accounts payable and accrued charges	(8,696)	11,690
Income taxes receivable/payable	(18,626)	7,288
Deferred revenue	36,053	(1,054)
Billings in excess of costs incurred plus recognized profits	11,745	36,678
Foreign currency impact	14,521	12,679
Net change in working capital items	$ (27,266)	$ 20,923

24. CAPITAL MANAGEMENT

The Corporation manages its capital to utilize prudent levels of debt. The Corporation's goal is to maintain its level of senior debt within a range of 1.5 – 2.5 times funded senior debt to pro forma Operating profit before Depreciation, Amortization, Finance Costs and Other.

The Corporation's objective in managing capital is to:

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

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

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

	December 31 2015	December 31 2014
Total senior debt outstanding (principal value)	$ 304,799	$ 16,125
Convertible debentures outstanding (par value)	219,965	276,902
Shares	425,561	308,919
Total capital	$ 950,325	$ 601,946

There are certain capital requirements of the Corporation resulting from the Corporation's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs and other non-cash items ("EBITDA") ratio. Management uses these capital 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 2015 year.

Changes in the capital of the Corporation over the year ended December 31, 2015 are mainly attributed to three events during the year. First, the Corporation closed a public offering on a bought deal basis of Shares of the Corporation in September 2015, generating gross proceeds of $75,022. Second, the Corporation used its credit facility to finance the acquisitions of Provincial and Ben Machine during the year. Finally, the Corporation used its credit facility to pay for the early redemptions of Series H and Series I convertible debentures in 2015.

25. INCOME TAX

RECONCILIATION OF EFFECTIVE TAX RATE

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

	2015	2014
Earnings before provision for income taxes	$ 59,559	$ 20,775
Combined Canadian federal and provincial tax rates	27.0%	27.0%
Income tax expense at statutory rates	16,081	5,609
Increase (decrease) in taxes resulting from:		
Permanent differences	287	360
Realized capital gains	284	778
Impact of foreign tax rate differences	1,559	452
Derecognition of deferred tax asset due to CRA settlement	—	22,860
Amounts in respect of prior periods	1,089	(162)
Impact of discontinued operations	—	2,504
Other	25	(1)
Provision for income taxes	$ 19,325	$ 32,400

UNRECOGNIZED DEFERRED TAX LIABILITIES

At December 31, 2015, no deferred tax liability for temporary differences related to investments in subsidiaries was recognized because the Company 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 company's foreign subsidiaries are approximately $32,239 (2014 – $25,529).

MOVEMENT IN DEFERRED TAX BALANCES DURING THE YEAR

The movement in the net deferred income tax balances during the 2015 year and the 2014 comparative year are as follows:

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

	December 31, 2013	Business Divestiture	Credited / (charged) through statement of income	Credited/ (charged) to other comprehensive income	Credited/ (charged) through equity	Credited/ (charged) through discontinued operations	December 31, 2014
Deferred income tax assets							
Accruals — deductible when paid	$ 2,846	$ (2,840)	$ (206)	$ —	$ —	$ 819	$ 619
Capital and non-capital loss carryforwards	30,259	(964)	(27,982)	—	—	927	2,240
Other comprehensive income	—	—	—	76	—	—	76
Other	2	—	91	—	—	—	93
Total deferred income tax asset	$ 33,107	$ (3,804)	$ (28,097)	$ 76	$ —	$ 1,746	$ 3,028
Deferred income tax liability							
Capital assets	$ (27,348)	$ 892	$ (1,303)	$ (149)	$ —	$ 644	$ (27,264)
Intangible assets	(7,601)	1,240	(2,645)	—	—	56	(8,950)
Financing costs	(255)	—	(441)	—	—	—	(696)
Convertible debentures	(3,604)	—	741	—	(729)	—	(3,592)
Non-deductible reserves	(2,061)	—	121	—	—	—	(1,940)
Total deferred income tax liability	(40,869)	2,132	(3,527)	(149)	(729)	700	(42,442)
Net	$ (7,762)	$ (1,672)	$ (31,624)	$ (73)	$ (729)	$ 2,446	$ (39,414)

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 2015	December 31 2014
Deferred tax assets	$ 226	$ 397
Deferred tax liabilities	(75,981)	(39,811)
	$ (75,755)	$ (39,414)

During the year, the Corporation entered into an agreement with the Canada Revenue Agency ("CRA") regarding the CRA's objection to the tax consequences of the conversion of EIC's income trust structure into a business corporation in July 2009. The agreement did not give rise to any cash outlay by the Corporation for prior taxation years. The agreement results in a non-cash charge in the Corporation's consolidated net earnings for the 2014 year related to the write-off of certain of the Corporation's deferred tax assets.

26. DISCONTINUED OPERATIONS

In 2014, the Corporation entered into a stock purchase agreement with MasTec Network Solutions, LLC ("MasTec") to sell the wholly owned subsidiary WesTower US, for US$200,000, subject to customary adjustments. The operations sold include all of the operations of WesTower US in the United States. The Corporation retained the operations of WesTower CDA, which includes all the operations of WesTower in Canada and is reported within the Corporation's Manufacturing segment. The effective date of the closing was October 1, 2014. With the rapid growth of WesTower US since the beginning of fiscal 2012 and having significant operations tied to one customer, the Corporation was no longer effectively diversified. The sale enabled the Corporation to rebalance the portfolio of subsidiary operations, while providing access to capital to fund other acquisition opportunities.

As a result of the transaction, the Corporation presented the results of WesTower US as Discontinued Operations in the prior period consolidated statement of income. The WesTower US assets and liabilities are not part of the Corporation's consolidated statement of financial position at December 31, 2014 as a result of the sale.

The sale price was funded in cash and is subject to customary adjustments, including adjustments for working capital. The Corporation collected proceeds of US$199,031 in October 2014 and these funds were used to repay all of the Corporation's debt outstanding under its senior credit facility at that time. Customary adjustment accruals were estimated on closing, including adjustments for working capital. Settlement of these accruals were in line with original estimates.

The following describes the net assets of WesTower US (translated in Canadian currency) sold as part of the transaction:

As at	October 20 2014
Assets	
Current	
Cash and cash equivalents	$ 20,207
Accounts receivable	77,799
Costs incurred plus recognized profits in excess of billings	177,807
Inventory	40,311
Prepaid expenses and deposits	4,578
	320,702
Capital assets	6,572
Intangible assets	3,459
Goodwill	13,918
	$ 344,651
Liabilities	
Current	
Accounts payable and accrued expenses	$ 79,350
Income taxes payable	983
Billings in excess of costs incurred plus recognized profits	71,201
Current portion of finance leases	124
	151,658
Finance leases	233
Deferred income tax liability	(1,632)
	150,259
Carrying value of net assets held for sale	$ 194,392
Proceeds	
Proceeds, net of adjustments	$ 209,180
Transaction costs	(4,440)
	204,740
Carrying value of net assets disposed	194,392
Pre-tax gain on disposal	10,348
Income taxes	(1,906)
Gain on disposal of discontinued operations	$ 8,442

The stock purchase agreement included certain indemnities, tangible net worth and working capital settlement mechanisms. The Corporation has recorded its best estimate of such amounts and any resolution of such uncertainties will be recognized in subsequent periods. Adjustments to the amounts recorded will be recognized at that time.

Included in Discontinued Operations are the results of WesTower US, the allocation of certain costs to WesTower US and the net gain on disposition. The following is the results from operating activities of the Corporation's Discontinued Operations for the period ended October 20, 2014 (nil for current period):

For the periods ended,	October 20 2014
Revenue	$ 389,379
Expenses	
Manufacturing expenses — excluding depreciation and amortization	346,196
General and administrative	33,982
Operating profit before depreciation, amortization, finance costs and other	9,201
Depreciation and amortization	3,356
Finance costs — interest[1]	4,745
Earnings before tax	1,100
Current income tax expense	112
Deferred income tax recovery[2]	(2,446)
Results from operating activities	$ 3,434

(1) The Corporation allocated interest expense to Discontinued Operations representing the portion of interest expense related to the Corporation's senior credit facility that was repaid as a result of the transaction. During the period ended October 20, 2014, the Corporation allocated interest expense of $4,705 to discontinued operations.

(2) The presentation of Discontinued Operations have certain inter-company transactions between WesTower US and the Corporation's continuing operations eliminated in computing consolidated net earnings for continuing operations. The tax benefits of the inter-company transactions are included in Discontinued Operations.

During 2014, the Corporation's net earnings from Discontinued Operations was $19,880. Included in the 2014 net earnings from Discontinued Operations are the results from operations in 2014 of $3,434 prior to the disposition and the gain on the disposition totaling $16,446, net of tax. The gain on disposition is comprised of the gain on disposal of Discontinued Operations, the reclassification of certain items from other comprehensive income relating to the repayment of debt in the Corporation's credit facility previously accounted for as a hedge of the net investment in WesTower US, and cumulative translation adjustments. The basic earnings per share for 2014 is $0.90 ($0.89 fully diluted).

The following are the cash flows from the Corporation's Discontinued Operations for the period ended December 31, 2014:

Cash flows from discontinued operations For the periods ended December 31,	2014
Net cash from (used in) operating activities	$ 22,139
Net cash from (used in) investing activities	(732)
Net cash from (used in) financing activities	(16,387)
Cash flows from discontinued operations	$ 5,020

Included within the Financing Activities of the Discontinued Operations are intercompany cash flow transactions between WesTower US and EIC. These cash flows relate to inter-company financing activities related to additional investments to fund working capital shortfalls or return capital, as applicable. The financing activities also include principal payments on finance leases of $500 for the period ended December 31, 2014.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Hon. Gary Filmon, P.C., O.C., O.M
Chairman

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

Brad Bennett, O.B.C.

Gary Buckley
Chair, Compensation Committee

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

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

Jeffrey Olin, B.Comm, MBA

Michael Pyle
Chief Executive Officer

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

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

SENIOR MANAGEMENT AND OFFICERS

Michael Pyle
Chief Executive Officer

Carmele Peter, LL.B.
President

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

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

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

Darwin Sparrow
Chief Operating Officer

Gary Beaurivage
Vice-President & Chief Operating Officer, Aviation

Dianne Spencer
Corporate Secretary

LEGAL COUNSEL

Aikins, MacAuley & Thorvaldson LLP
Winnipeg, MB

AUDITORS

PricewaterhouseCoopers LLP
Winnipeg, MB

BANKERS

The Toronto-Dominion Bank

Roynat Inc.

Canadian Imperial Bank of Commerce

Bank of Montreal

Alberta Treasury Branches

National Bank of Canada

Laurentian Bank of Canada

Export Development Canada

TRANSFER AGENT

CST Trust Company
Calgary, AB

STOCK EXCHANGE LISTING & SYMBOL

TSX: EIF

ANNUAL GENERAL MEETING

Calm Air Hangar Facility
930 Ferry Road
Winnipeg, MB R3H 0Y8
Date: May 11, 2016
Time: 10:30 am CT

CORPORATE OFFICE

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

WEBSITE LISTINGS FOR SUBSIDIARY COMPANIES

Bearskin Airlines
bearskinairlines.com

Calm Air
calmair.com

Custom Helicopters
customheli.com

Keewatin Air
keewatinair.com

Perimeter Aviation
perimeter.ca

Provincial Aerospace
provincialaerospace.com
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Regional One
regionalone.com

Alberta Operations
hotsyab.com
jaspertank.com

Ben Machine
benmachine.com

Overlanders Manufacturing
overlanders.com

Stainless Fabrication
stainlessfab.com

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