Exchange Income Corporation

Year End Report

For the year ended December 31, 2023

Chairman's Message

Looking forward to 2024, EIC will be celebrating its 20th anniversary since its first acquisition of Perimeter on May 6, 2004. Twenty years of growth and success is an incredible achievement and I wanted to congratulate our management teams and say thank you to current and former Board members. When the founders of EIC (and its predecessor, Exchange Industrial Income Fund) developed the purpose for the Corporation we wanted it to provide its shareholders with stable and growing cash distributions, maximize share value associated with its portfolio of subsidiaries and employ a disciplined acquisition strategy. These three tenets were the foundation upon which the Corporation was "built to last." Management and the Board are collectively guided by those core sets of values which directly impact our decision making and behavior on a daily basis. This purpose, which was developed at inception, is deeply ingrained into the culture of the Corporation, and will lead the Corporation into the future.

Many business books focus on the concept of a purpose-built company or a purpose-built culture, with purpose being a company's motivation or reason for being. The establishment of EIC was based on those foundational concepts before they were in vogue. Every leader throughout the Corporation are all believers in EIC's purpose. Our purpose is authentically aligned with strategy and operations, and this has allowed EIC to succeed. As EIC continues to grow, whether by acquisition or additions to our management teams and workforce, it is imperative for us to collectively re-enforce this purpose-built culture. In the remainder of my message to our shareholders, I will look back at 2023 as a year in review, but my focus will be on the future and how the decisions made today are for the long-term future and align with that purpose created back in 2004.

With an eye on the future, 2023 will be characterized as a foundation building year for EIC.

Firstly, the Corporation announced a five percent dividend increase on November 9, 2023, bringing its per annum dividend to $2.64 per share. This marked its 17th dividend increase since May 2004 and represents a cumulative annual growth rate in the dividend of approximately 5% per annum. I am extremely proud of that track record of dividend increases.

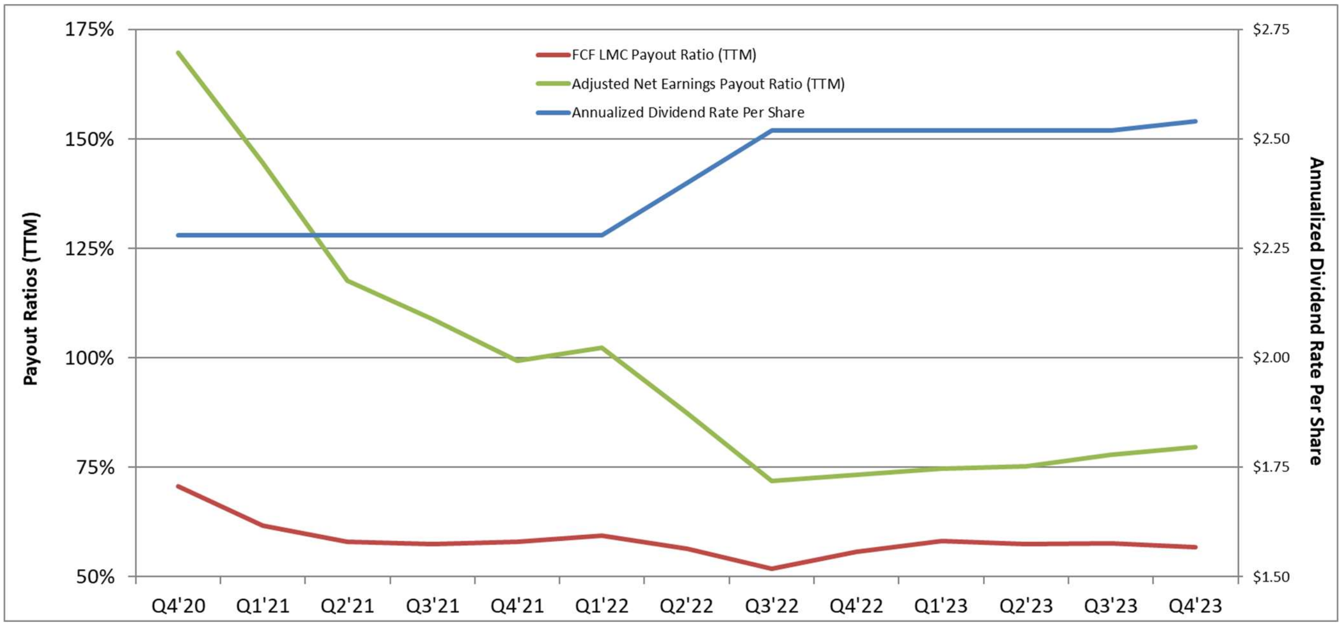
Secondly, EIC continued to focus on maximizing the revenues and operating profit of its underlying subsidiaries. During 2023 EIC announced several new contracts which will result in further future growth for its subsidiaries. Some of the highlights during 2023 include the regional services contract with Air Canada, the British Columbia fixed wing medevac contract, the Manitoba fixed wing medevac contract, the Intelligence, Surveillance and Reconnaissance support contract for the United Kingdom Home-Office, and other contractual successes which are too numerous to list. These contracts are direct evidence of how subsidiary management teams are continuing to expand their underlying businesses, which will drive future profitability for the Corporation overall.

Lastly, EIC continued to execute on its disciplined acquisition strategy. EIC's acquisition attributes have stayed consistent with its initial purpose back in 2004. Our business plan focuses on investing in profitable, well-established companies with strong cash flows operating in niche markets. The acquisitions of Hansen Industries Ltd., BVGlazing Systems Ltd., and DryAir Manufacturing Corp. all met those criteria. Such companies were chosen for their operational success and financial attributes, however more importantly their management teams and cultures aligned with that of EIC. Management at each of the acquisitions understands that the Corporation is focused on the long-term success of their businesses. While there may be short-term gyrations due to monetization of investments or aligning businesses, management at each subsidiary is keenly aware of the longer-term goals of growing the underlying portfolio of subsidiaries to allow the Corporation to provide its shareholders with stable and growing cash dividends.

The growth that has occurred since inception until today, has proven the business model - that you can achieve growth whilst paying a stable and growing dividend in any environment, including during a pandemic. Furthermore, the growth of EIC has also resulted in greater diversification of the business amongst various business lines resulting in more predictable and stable financial results. The business model is perfectly summarized with a visual representation. The chart below demonstrates the total shareholder returns for EIC since inception compared to an investor in the S&P/TSX index. While a return of 343% in an index-based fund is laudable over a 20-year period, the EIC total shareholder return was a spectacular 2,851%. We are very proud of that achievement and believe that the decisions made in the past set the Corporation up for further long-term growth.

At the inception of our business, the founders believed there was a market segment that was underserved by the capital markets. They saw that private company multiples were well below their public company comparables, and these companies with strong cash flow and niche business models could be aggregated. The hypothesis turned out true and EIC built out a resilient organization through the tireless work of our executive teams. This business model can be imitated but will be very difficult to duplicate. What sets us apart is our people - EIC is powered by its people. It is both the people that exist in the head office and the cultural fit of the people at our subsidiaries. For example, at our most recent acquisition, DryAir Manufacturing Corp., the President and founder, Claude Bourgault, commented, “When we decided to sell, we foremost wanted a partner that held the same values as ourselves and our community. When I met the executive team at EIC, I immediately knew we had found our partner. We are very excited about the next phase for our Company and our future growth prospects with EIC’s support.” This cultural attitude of finding the right acquisitions at the right price has served EIC well over the past 20 years and will continue to endure as each acquisition adds to the foundational success of EIC.

The diversification amongst the companies in our two segments has provided us with a resilient cash flow stream through a wide variety of economic conditions. The chart below shows the sustainability of our dividend over the past 5 years, a time during which our payout ratios have reached historic lows for the Corporation. The conservative payout ratio, along with our strong balance sheet, has allowed EIC to continuously reinvest in its subsidiaries. Our balance sheet management has allowed EIC to grow and evolve our medevac business into the largest medevac provider in Canada. It has also allowed our Aerospace business line to win major international contracts with the governments in the Netherlands and the United Kingdom Home-Office. These capabilities were competencies that existed in the businesses acquired, however through the power of EIC’s collective strength and access to capital, it was able to expand its capabilities and become nationally and internationally recognized.



The Board maintains a long-term focus and ensure we demonstrate a commitment to good governance, strong community and stakeholder relations, and environmental protection, to ensure the long-term sustainability of our businesses. Our purpose drives our strategy and the decisions that we make, however underpinning EIC's successes has always been doing the right thing. Those commitments have not changed over the past 20 years and will not change in the future.

EIC continues to focus on best practices and innovation to minimize its environmental footprint. Our Essential Air Services are a critical link between northern Indigenous communities and health care and supplies in the south. The aircraft that EIC flies are specific to the routes, terrain, and runways within those communities. While management is constantly evaluating new technologies to provide our Essential Air Services, they remain steadfast in providing a safe and reliable mode of transportation to those who have no other means of transportation. Furthermore, due to the harsh conditions of the north, economic and supply factors do not allow us to currently utilize environmentally friendly fuels such as sustainable aviation fuel. The Corporation continues working with governments and experts in reducing emissions, however there is no imminent solution. That being said, management is continuously monitoring the business' impacts on our environment. Each of our subsidiaries has developed policies and procedures to track our scope 1 and 2 emissions. In 2024, we are undertaking a project to understand and compute our most material scope 3 emissions.

Lastly, but perhaps, most importantly, one of EIC's hallmarks is giving back to the communities we serve. Through community partnerships in our Essential Air Services business line, we provide profit sharing, free and discounted service, and investment capital for local economic or social development projects. This concept was established with EIC's very first acquisition of Perimeter in 2004 and continues to this day. Furthermore, EIC's efforts have continued to expand through the Atik Mason Indigenous Pilot Pathway. The second season of the Atik Mason Indigenous Pilot Pathway saw six students from the first-year return to further their training and the Corporation welcomed twelve new Indigenous students to commence their aviation journey. I was incredibly proud to see five of the students offered jobs to join our organization either as pilots in our operating airlines or flight instructors at MFC Training following the completion of their flight training. In 2023, EIC also witnessed the first graduate of Custom Helicopters Indigenous Pilot Training program. Additionally, the Corporation announced the expansion of the Pilot Pathway to Rankin Inlet, Nunavut, in 2024. It is important for us as an organization to provide opportunities to the members of communities we serve.

On September 29, 2023, we brought over 1,000 Indigenous people from across Canada to attend the Winnipeg Blue Bombers Canadian Football League game and bring attention to the need for reconciliation with our Indigenous peoples to a nationally broadcast audience. In fact, six of the nine CFL teams joined in the National Day for Truth and Reconciliation. Collectively, through the Blue Bomber and Atik Mason Indigenous Pilot Pathway, EIC invested over $2 million annually back into our relationships with our Indigenous communities and partners. With the expansion of the Atik Mason Indigenous Pilot Pathway program into Rankin Inlet, this investment is expected to approach $3 million in 2024. These are just a couple of examples of subsidiaries giving back to the communities that they serve.

The Board is very proud of our record results for 2023. Moreover, I am very proud of the continuation of our purpose-built culture that the Board and management continue to maintain. Our track record over the last two decades demonstrates how far we have come as an organization and illustrates the power of the EIC business model and its capability for the future. The business model generated remarkable returns through periods of uncertainty, whether that be the global financial crisis of 2007/2008 to the more recent pandemic. EIC was purpose built in 2004 and continues to be "built to last". I personally want to thank all our stakeholders for their ongoing support, and I look forward to seeing many of you at our annual general meeting in May, where we can celebrate our first 20 years and look forward to the next 20 years.

Don Streuber, FCPA, FCA
Chairman, Board of Directors

CEO’s Message

The fundamentals of our business are strong. Over the past 20 years, since our first acquisition of Perimeter Aviation Limited, we have developed a business model and acquired companies that were “build to last.” The current year was characterized by a theme of “fueled for growth.” We were able to complete accretive acquisitions, invest in strategic capital investments, and win significant new contracts, all of which will contribute to future sustainable growth for 2024 and beyond. We were not immune to the macroeconomic factors associated with tight labour supplies (especially with pilots), sustained inflationary pressures, supply chain disruptions at the beginning of the year and higher interest rates throughout 2023. However, we set several financial records in spite of such macroeconomic conditions which will serve us well into the future as such pressures continue to moderate or reduce. We, as a management team, truly believe that we are poised for growth for the next 20 years.

Let’s start with a quick review of our 2023 financial results.

Highlights from EIC’s 2023 Financial Performance

- Revenue grew by 21% to $2.5 billion.
- Adjusted EBITDA increased by 22% to $556 million.
- Net Earnings grew 12% to $122 million.
- Adjusted Net Earnings reached $144 million, up 8%.
- Free Cash Flow reached $377 million, up 14%.
- Free Cash Flow less Maintenance Capital Expenditures grew by 15% to $202 million.
- Increase in the dividend by 5% to $2.64 per annum.

Fiscal 2023 is another step in the journey towards normalization of operations at our various operating subsidiaries. Management at each subsidiary was focused on returning the operations to pre-pandemic norms despite the macro-economic forces that impacted each of them, namely supply chain disruptions, inflationary cost escalation and tight labour markets. Management was incredibly diligent in navigating through those conditions, whilst making investments and winning new contracts. This will allow us to reset our course for 2024 and beyond with stronger momentum than ever before. Our strong financial results, despite such headwinds, allowed us to increase our dividend in November by 5% to a per annum amount of $2.64 per share. Our dividend growth rate is approximately 5% per annum since our inception, a performance metric we are all very proud of.

We also continued to execute on our disciplined acquisition strategy during 2023 through the closing of three separate acquisitions. Each of the acquisitions was accretive individually to EIC and just as importantly they culturally aligned with our EIC values. These acquisitions will set us up for future growth on both an aggregate and per share basis. As important as the acquisitions we announced were the prospective acquisitions that we didn’t execute on. This is a testament to our disciplined acquisition strategy. Our acquisition team reviews a significant number of potential transactions throughout each year. If the acquisition metrics are not consistent with our key criteria, including expected returns, or if the target is not a cultural fit, we pass on the opportunity. This disciplined acquisition approach has served us well as we look at our 20-year track record, and will continue to serve us well in the future.

We acquired Hansen Industries Ltd. on April 1, 2023, for $44 million, including $4 million in EIC common shares. Hansen, located in Richmond, B.C., provides custom fabrication of precision metal components and assemblies using automated equipment within its two key divisions: sheet metal, its largest division, and machining. Hansen also has a high-volume metal stamping shop offering a full-service solution to its customers. This expands our sheet metal footprint in southern British Columbia and provides services that our existing subsidiary did not provide, namely machining and high-volume metal stamping.

On March 16, 2023, we announced the acquisition of BVGlazing Systems Ltd. for purchase consideration of $96 million, including $23 million in EIC common shares. The acquisition closed on May 1, 2023, following receipt of regulatory approval under the Competition Act (Canada). BVGlazing, located in Southern Ontario, designs, engineers, manufactures, and supplies window, door, and railing systems for mid-rise and high-rise building projects in Canada and the United States. BVGlazing manufactures unitized and stick curtain wall systems and railing systems, in addition to window wall glazing systems similar to those produced by EIC’s existing subsidiary Quest. BVGlazing’s added capability to provide curtain wall and railing products together with Quest's integrated installation capability will allow our collective window operations to offer complete solutions to their customers, an increasingly important attribute as developers turn to mixed-use projects that integrate residential, office and retail spaces to make more efficient use of their properties.

Finally, on October 5, 2023, we announced the acquisition of DryAir Manufacturing Corp. for purchase consideration of $60 million, including $15 million in EIC common shares. DryAir, located in St. Brieux, Saskatchewan, provides portable hydronic heating systems that offer affordable and reliable climate control solutions and is included in our Precision Manufacturing & Engineering business line. It is an original equipment manufacturer selling its hydronic heating equipment to rental companies throughout North America. There are a number of tailwinds that exist due to large infrastructure spending bills and propensity of construction firms to rent equipment as opposed to purchasing equipment to fix costs and increase utilization of equipment.

In addition to our disciplined acquisition strategy, we embarked on several growth initiatives through deploying capital into our existing subsidiaries. During the year, we announced several significant contractual wins including new medevac contracts in British Columbia and Manitoba and acquisition of aircraft required to support some domestic Air Canada routes on the East Coast. Such deployment of growth capital is entirely consistent with our business model to maximize the profitability of our existing portfolio companies. Unlike acquisitions, which are immediately accretive, the investment in Growth Capital Expenditures will require time and the Corporation will reap the rewards of such investments in 2024 and beyond.

To fund the acquisitions and Growth Capital Expenditures, the Corporation amended its credit facility in May 2023 and closed a bought deal financing of common shares in June 2023. The enhanced credit facility was increased to approximately $2 billion, and its term was extended to May 2027. The credit facility allows us to make investments in our existing businesses and fund the immediately accretive acquisitions. The level of senior debt continues to be within management's prudent range of 1.5 to 2.5 times funded senior debt to Adjusted EBITDA. In June 2023, we also closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 3,306,250 shares at $52.25 per share, for gross proceeds of approximately $173 million.

In the current year we modified our reporting based on business lines to provide a more concise discussion of our various businesses. We continue to manage the business as two separate operating segments and all resource allocation decisions are based on the operating segments, namely Aerospace & Aviation and Manufacturing. The business line characterization was based on our discussions with our various stakeholders and is expected to simplify the discussion of our diversified business model and allow us to better communicate our business strengths, opportunities and risks.

Within our Aerospace & Aviation segment, we have three business lines: Essential Air Services, Aerospace, and Aircraft Sales & Leasing.

Our Essential Air Services includes both fixed wing and rotary wing operations. During 2023, the business line continued to build on its solid foundation that was set 20 years ago when we made our first acquisition of Perimeter Aviation Limited. Our overall fleet of aircraft was expanded due to ongoing demand for essential passenger travel from our Northern communities. We were also elated to announce the expansion of our fleet to support certain Air Canada routes on the East Coast. This contract started in mid-2023 and ramped up throughout the year with full-scale flying occurring during the first quarter of 2024. Lastly, we announced the award of the fixed wing medevac contracts for both British Columbia and Manitoba, both with initial 10-year terms. The first flights of the contract with Manitoba started during the first quarter of 2024 with the results more fully evident in the second half of 2024. The British Columbia contract commenced in late 2023 utilizing temporary aircraft. Twelve new aircraft have been ordered, new bases are being set up, and crews are being hired to deliver on this contract, and we anticipate the full financial impact to be reflected in 2025. One aircraft was received late in 2023 and modifications to install the medical interior are currently underway. 2023 represented a year of monumental defining contractual wins for our Essential Air Services business line and sets a foundation for future growth.

Our Aerospace business line benefited from the previously awarded Netherlands Coast Guard Contract that began in the fourth quarter of 2022 along with the United Kingdom Home-Office contract that was awarded in May 2023 for an 18-month period. The United Kingdom Home-Office issued an RFP for a new contract that would begin after the expiry of our 18-month interim contract and our bid to the RFP was submitted in January 2024. Our Aerospace business continues to grow along with the brand recognition of PAL Aerospace around the world. This business line is characterized by long-term government contracts, and we foresee growth in the future in light of geopolitical events around the globe. The long-term is characterized by factors that are expected to increase demand for such services and management and the Aerospace team are well positioned to execute on future growth prospects.

Our Aircraft Sales & Leasing business benefited from continued strong demand for parts, aircraft, and engines. The well publicized production issues with new aircraft and the risks/uncertainties thereto have led to an uptick in demand for parts, aircraft and engines for prior generation aircraft. Furthermore, leasing revenue has continued to increase, showing steady improvements throughout the year and we anticipate leasing revenues and demand to be near pre-pandemic levels later in 2024 on an annualized basis. Our strategic investments made over the past number of years in aircraft types and readying aircraft for leasing opportunities are expected to pay dividends as we move forward. The long-term investment philosophy by management of the Aircraft Sales & Leasing business is shaping up to be a driver of future profitability assuming demand continues to ramp.

Within the Manufacturing segment, we have three business lines: Environmental Access Solutions, Multi-Storey Window Solutions, and Precision Manufacturing & Engineering.

The Environmental Access Solutions business line has moderated from record levels in 2022 and continues to meet our expectations based on the operational metrics upon which it was acquired. Fiscal 2022 and the first couple of months of 2023 represented the perfect alignment of price, demand, supply, and weather that drove results higher than our expectations. These periods benefitted from long, linear projects in Western Canada that largely wrapped up their use of rental mats in early 2023. The remainder of 2023, in contrast, was characterized by forest fires, a dry summer, and an industry wide increase in mat supply all of which provided headwinds. Accordingly, the financial results normalized consistent with our expectations. That being said, results in 2023 continued to exceed the economics upon which the deal was priced, and the deal overall continues to be accretive. The Environmental Access Solutions business has continued to invest in developing production efficiencies and long-term industry trends would indicate growth prospects in several industries including transmission and distribution and emerging resource industries. The long-term fundamentals of the business remain strong, and management is poised to execute on the new growth cycle.

The Mutli-Storey Window Solutions business line experienced rapid growth due to the acquisition of BVGlazing in 2023. We are beginning to see the benefits of additional economies of scale as the businesses are brought together. We have devoted additional resources from Head Office to assist the businesses in maximizing their profitability over the long-term. Our backlog remains strong and the quoting for new builds remains at elevated levels. While our order backlog remains strong, in certain markets we have seen a shift of new projects from condominiums to apartments. The interest rate environment and general economic uncertainty have resulted in delays from developers awarding new work, however our pipeline is at the highest level it has ever been because of the housing deficit, and the very high cost of single family and low-rise multi-family facilities. We anticipate when the interest rate and mortgage environment gain more certainty as to the pace of interest rate reductions, such projects will become part of the backlog. The long-term fundamentals of the business remain robust as we move forward.

The Precision Manufacturing & Engineering business line illustrates the importance of our diversification strategy and the focus on the long-term fundamentals. During 2023, we executed two transactions which will poise the business line for future growth. In April we completed the acquisition of Hansen, and in October, we completed the acquisition of DryAir. Both acquisitions were immediately accretive to our financial metrics, and both have fit in seamlessly with our existing businesses and culture. Hansen was strategic as it expanded our capabilities in the southern British Columbia marketplace. We have become a full service one stop shop for our customers and can now offer stamping and machining services to our already developed sheet metal capabilities. DryAir allowed us to enter a new industry, hydronic heating, and benefit from their growing sales to rental companies in North America. Long term fundamentals demonstrate that the companies are more apt to rent as opposed to own equipment to maximize utilization of equipment and fix project costs. Furthermore, DryAir is characterized as an innovative leader in their industry and continues to develop new products for the rental industry. Our Precision Manufacturing & Engineering business line provides products and services to a myriad of industries. This diversification allows for risk mitigation due to the various industries it is exposed to and provides for a consistent level of cash flow with relatively low Maintenance Capital Expenditures. We continue to strategically deploy growth capital for such businesses as they look to expand and automate processes.

Executing on our strategy is all “powered by our people.” Our people and our culture are our most important resources. Firstly, I wanted to thank every employee for the work that they do on a daily basis. It is both important for our business and also for our broader communities. We are blessed with a strong and stable workforce due to the family-like atmosphere that each business fosters. We are very fortunate to have the leaders that we do within each business to inspire our people on a daily basis to always do the right thing. Each subsidiary has detailed succession plans for all key roles. Those succession plans are updated on an annual basis and presented to the Board of Directors. Furthermore, a robust talent identification network exists to help high potential candidates achieve their maximum potential along with a mentorship program that is currently being rolled out. We are confident that as we continue to grow and our senior leadership team expands or retires, we have capable individuals within each organization to take the lead. The individuals are indoctrinated with the EIC purpose and specific subsidiary culture which is important. Our culture is one of our most powerful advantages, hence why such attention is placed on our succession plans and recruiting of new team members.

Culture and the development of our own internal talent was the rationale for the Life in Flight Program (“Life in Flight”). Such program was unveiled in May 2019 and its express purpose was to proactively address the shortage in pilots in our airline operations. Life in Flight was later expanded to include aircraft maintenance engineers (“AME”) to address the shortage in AMEs within the industry. Additionally, in April 2022, we announced the opening of the Atik Mason Indigenous Pilot Pathway (“Pilot Pathway”) program in Thompson, Manitoba. In September 2023, we announced the completion of a successful second season of the Pilot Pathway program and announced the expansion of this program to Rankin Inlet in 2024. The Pilot Pathway is a fully funded program that provides an opportunity for Indigenous community members to learn to fly and build careers as professional pilots. The Pilot Pathway removes significant barriers to flight training faced by Indigenous candidates, including cost and location, and honors the importance of retaining a deep connection to Indigenous culture while training. With the support of Manitoba Keewatinowi Okimakanak Inc., the Pilot Pathway saw six returning students from the first year further their training and 12 new Indigenous students commence their journey. Furthermore, we were proud to announce that five students received offers of employment from our operating airlines and MFC Training pending completion of their training programs. The development and investment in such programs were important to give back to the communities we serve. Furthermore, we discovered greater success rates and improved retention rates by developing our own as opposed to hiring from outside. These programs required significant investment up front to set up the programs, however we are starting to reap the benefits from such investments.

The one thing I am most proud of is our focus on the long term. Although short term metrics are always important to chart our progress, we think in years as opposed to quarters when making our strategic decisions. This was evidenced through our deployment of Growth Capital Expenditures into new contracts. Those contracts, such as the medevac contracts, require several quarters to invest in the fleet, infrastructure to support the fleet and hiring additional team members to execute on the contracts. The full financial impact will only impact subsequent quarters and years after those initial investments. Another recent example was the decision to purchase our own full motion King Air simulator. We will become one of the largest King Air operators in the world when our fleet of new King Air aircraft are delivered for the British Columbia medevac contract. We determined that it would be beneficial for our pilots and will significantly reduce fuel burn and GHG emissions to install a simulator in Winnipeg. These investments with a long-term lens are accretive to the business, however, they do impact our per share metrics negatively as capital was raised and utilized for deposits and milestone payments in advance without any related operating profit over the shorter term.

Our focus on the long-term also applies to our relationships with our customers, our communities, and our employees. We have always been focused on the sustainability of our business even before the advent of ESG metrics and reporting. We are proud of each and every one of our over 8,500 employees that crisscross Canada and around the world. We are very proud of our Circle of Excellence award program. Back in 2017, management came up with a program to recognize and celebrate efforts made by employees across the organization. Not just efforts, but those that have gone above and beyond what would be expected of their jobs. Since 2017, it has been celebrated every year except for 2020 due to the pandemic. Since the inception of the program, 91 individuals have been recognized. Annually, award recipients are recognized in person at a gala event during our third quarter meetings. Seeing the passion and the difference each award winner makes at their respective job inspires everyone. It is truly a special moment that is shared amongst the group and demonstrates our family-oriented culture that exists at EIC. Our board members and executive management teams hear firsthand about how our employees make a difference for EIC and in our communities.

Safety is of upmost importance to EIC, its subsidiaries and our customers. We are proud of our safety record and continue to innovate to improve the tools that are available to our airlines. We invest significant hours, dollars and effort into our safety culture. As an example, as previously discussed, we are investing in a full motion King Air simulator which will allow us to simulate the landscapes and environments we are flying into. This will allow our pilots to complete their training in a full motion simulator and be able to replicate landing in variable conditions. Furthermore, emergency scenarios are capable of being simulated which develops the skills pilots need when they encounter unusual situations and leads to optimal safety outcomes. EIC has also been recognized with the Diamond Goal Zero award by Shell Aviation. Such an award is for health, safety, security, and environmental performance. Our Aerospace & Aviation and Manufacturing segments have achieved several certifications and recognition which are too numerous to mention, however they illustrate the importance that we all place on doing the right thing.

In 2021, we started a program in partnership with the Winnipeg Blue Bombers where Indigenous peoples from the communities we serve would be invited to attend a Blue Bomber game on or around the National Day for Truth and Reconciliation. After the amazing success in the first year, we continued and expanded the event in 2022 and 2023. The game has become a collaboration with more than 100 Indigenous communities and four Indigenous governing bodies. Our attendees in 2023 were from across Canada, mainly from remote communities, many of which have never had the opportunity to attend a Winnipeg Blue Bomber game or be part of a facility where over 30,000 people are present and cheering for a sports team. The excitement of the children and their chaperones was palpable as they arrived the evening before and the day of the game. The employees of EIC volunteer their time to help plan and make this event possible. As part of our commitment to Truth and Reconciliation, each volunteer completed Indigenous sensitivity training as recommended by our Indigenous partners. I will never forget the smiles on the children's faces as they travel to the game and get to see the stadium in person. Those moments of sheer joy warm your heart and reinforce the importance of what we do on a daily basis with the Indigenous communities at EIC. EIC covers the cost of transportation, lodging, and incidentals, in addition to providing each of the participants with orange gear to wear to the game. We look forward to continuing this tradition in 2024 and several CFL teams have joined the ranks in honoring the National Day for Truth and Reconciliation.

In retrospect, 2023 was definitely a year of building upon our foundation for 2024 and beyond. Even though there continues to be a great amount of geopolitical uncertainty including a number of countries heading to the election polls around the world, we are confident in our business model now more than ever. We anticipate that labour challenges are mostly behind us along with inflationary pressures based on current signals from central banks. Furthermore, we anticipate that our Essential Aviation Services entities will continue to improve in 2024 as we continue to make investments to expand our operations. Furthermore, the medevac contractual wins in Manitoba and British Columbia will start to positively impact results in 2024. Our Aerospace business continues to execute in accordance with our current contracts and we see future growth associated with geopolitical concerns around the world. We see positive signs in our Aircraft Sales & Leasing business as lease utilization rates return to historical norms. We are seeing increased demand for regional aircraft across the globe as airlines adjust their routes and pilot shortages start to abate. Our Environmental Access Solutions business has normalized to expected returns. Our margins within our Multi-Storey Window Solution business will continue to improve as we continue to integrate the business with our pre-existing business. Lastly, our Precision Manufacturing & Engineering business continues to diversify their revenues as we integrate our acquisitions from 2023. In short, we are excited for 2024!

I would like to thank all our shareholders, employees, and stakeholders for their continued support. I look forward to discussing our progress with the release of our 2024 first quarter results and seeing some of you at our AGM in May. I also wanted to say thank you for your support over the past 20 years. EIC started as a dream and has exceeded all expectations - we truly are built to last.

Mike Pyle

Chief Executive Officer

February 22, 2024

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PREFACE

This Management's Discussion and Analysis ("MD&A") supplements the audited consolidated financial statements and related notes for the year ended December 31, 2023 ("Consolidated Financial Statements") of Exchange Income Corporation ("EIC" or "the Corporation"). All amounts are stated in thousands of Canadian dollars, except per share information and share data, unless otherwise stated.

This MD&A should be read in conjunction with the Consolidated Financial Statements of the Corporation for the year ended December 31, 2023. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FORWARD-LOOKING STATEMENTS

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

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

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

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

EXCHANGE INCOME CORPORATION

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

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

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

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

Segment Summary

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

All consolidated revenue percentages noted below have been calculated by adjusting revenues for acquisitions that were completed in fiscal 2023 to reflect a full year contribution. Acquisitions completed in the current year are not included.

Aerospace & Aviation Segment

The Aerospace & Aviation segment is comprised of three lines of business: Essential Air Services, Aerospace, and Aircraft Sales & Leasing.

Essential Air Services includes both fixed wing and rotary wing operations. Under various brand names across Canada, our subsidiaries provide essential services to Canada's northern and remote communities, including medevac, passenger, charter, freight services, and auxiliary services. The majority of the communities we serve are not accessible year-round by ground transportation, meaning our airlines provide a vital link into these communities. Our operations span across Canada, and more specifically include operations in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Nunavut, Ontario, and Quebec. The Corporation also operates two flight schools, training pilots both for our own airlines and for airlines around the world.

Essential Air Services accounted for approximately 32% of the Corporation's consolidated revenues in fiscal 2023. Items impacting margins within this business are fuel prices, load factors, weather, and, in the current operating environment, the ability to source a full complement of pilots and aircraft mechanics. Labour costs in these areas have increased well above the rate of inflation and in certain circumstances cannot be immediately flowed through to the customer.

Essential Air Services includes the operations of Calm Air International LP, CANLink Aviation Inc. (MFC Training), Carson Air Ltd, Custom Helicopters Ltd., Keewatin Air LP, PAL Airlines Ltd., and Perimeter Aviation LP (including its operating division, Bearskin Airlines).

Aerospace includes our vertically integrated aerospace offerings that provide customized and integrated special mission aircraft solutions primarily to governments across the globe. These services encompass mission systems design and integration, aircraft modifications, intelligence, surveillance, reconnaissance operations ("ISR"), software development, logistics and in-service support. Most of these services are provided pursuant to long term government contracts. In addition, our subsidiaries deliver training solutions across an array of aviation platforms and have in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft for governmental agencies.

Aerospace accounted for approximately 14% of the Corporation's consolidated revenues in fiscal 2023. Training solutions typically generate lower margins as there are low capital requirements outside of working capital, whereas ISR flying operations typically have higher margins as the upfront investment in the owned assets to perform the ISR flying operations is reflected as an expense through depreciation.

Aerospace includes the operations of Crew Training International, Inc. and PAL Aerospace Ltd.

Aircraft Sales & Leasing includes aftermarket aircraft, engine and parts sales and aircraft and engine leasing along with aircraft management services. Our subsidiaries specialize in regional and commuter aircraft, and seek to monetize their portfolio over the full life cycle of the asset. Our subsidiaries are not typical finance lessors; rather, assets are leased for shorter durations to consume the available green time on those assets. Once the green time has been consumed, the assets can then either be overhauled and leased out again, or torn down into piece parts and sold to airlines around the world to generate further cash flows. Revenue streams include selling whole aircraft, engines and components of those assets, leasing of aircraft and engines and fee income earned through the provision of services for third parties such as asset management or consignment sales. Our expertise in understanding the value of each component of an aircraft and the anticipated demand for those components, including the next major shop visits and next major overhaul event for each platform we specialize in, provides a competitive advantage on what to buy and what to pay.

Aircraft Sales & Leasing accounted for approximately 12% of the Corporation's consolidated revenues in fiscal 2023. The most significant item impacting margins in this line of business is sales mix. Leasing contributes very high margins and therefore variability in leasing revenue has the largest impact on margin. Within this business line, parts revenue is the most predictable and stable from both sales and margin perspectives; whereas the sale of aircraft and engines varies on a period to period basis, both in volume and in price, but are generally higher dollar and lower margin transactions.

Aircraft Sales & Leasing includes the operations of EIC Aircraft Leasing Limited and Regional One, Inc.

Manufacturing Segment

The Manufacturing segment is comprised of three lines of business: Environmental Access Solutions, Multi-Storey Window Solutions and Precision Manufacturing & Engineering.

Environmental Access Solutions is the largest provider of temporary access solutions in Canada, providing a turnkey service which includes planning, consultation, delivery and installation, logistical support, and removal and washing solutions. Our access solutions and related services provide temporary ground protection that allow customers to access job sites or use heavy machinery and equipment on wet, loose, or otherwise unstable or environmentally sensitive ground. Access mats and bridges provide access to remote areas in a much more environmentally friendly manner than the construction of temporary gravel roads and installation of culverts and water-diversion devices, which are difficult to remove and remediate and can cause cross-contamination of soil. As the largest operator in this industry, we provide a one-stop solution for our clients with a vertically integrated platform including in-house mat manufacturing capabilities, a sizable fleet of trucks and equipment, and a portable, patented closed-loop mat washing system.

Environmental Access Solutions accounted for approximately 8% of the Corporation's consolidated revenues in fiscal 2023. Rentals generate higher margins than other lines of business within Environmental Access Solutions. Rental activity is influenced by several factors, such as the supply of mats in the marketplace, the availability and pricing of timber used in mat production, and weather conditions, including precipitation levels and temperature. In addition to rentals, the sale of mats and the overall sales mix in a given period can also have a significant impact on margins. These mat sale transactions are generally higher dollar value and lower margin transactions when compared to rental revenue.

Environmental Access Solutions includes the operations of Northern Mat and Bridge LP.

Multi-Storey Window Solutions includes the design, manufacture and installation of the exteriors of residential and mixed-use high rises which integrate residential, retail, and office spaces. Our subsidiaries manufacture an advanced unitized window wall system, curtain wall, and railing solutions. This provides solutions for the entire façade, including the windows, operable elements and opaque areas that surround the exterior envelope of a building. Our vertically integrated offering within the Multi-Storey Window Solutions includes installation services in both Canada and in the United States. In the United States, we have the capability to install both our internally manufactured window solutions and those manufactured by others.

Multi-Storey Window Solutions accounted for approximately 19% of the Corporation's consolidated revenues in fiscal 2023. The most significant items impacting margins within this line of business are the cost of raw materials and product mix. Since our subsidiaries both manufacture and install exteriors of high-rise buildings, the margins realized in a particular period can vary based on the type of work performed. Installation, particularly on jobs completed with non-Quest/BVGlazing product, generate lower margins than for supply and install projects.

Multi-Storey Window Solutions includes the operations of BVGlazing Systems Inc. and Quest Window Systems Inc.

Precision Manufacturing & Engineering provides engineering and precision manufacturing services throughout North America in a wide variety of industries. These services include: wireless and wireline construction and maintenance services; the manufacture of precision parts and components for a variety of industries; the manufacture of portable hydronic climate control equipment; the manufacture of specialized stainless steel tanks, vessels, and processing equipment; electrical and control systems integration focused on the agricultural material handling segment; and the manufacture of specialized heavy-duty pressure washing and steam systems, commercial water recycling systems, and custom tanks.

Precision Manufacturing & Engineering accounted for approximately 15% of the Corporation's consolidated revenues in fiscal 2023. Margins in this line of business are typically stable. While there may be margin pressure in times of rapid escalation of prices of raw materials, generally our subsidiaries have the ability to pass on these costs to customers over time due to the specialty nature of the products that are being provided.

Precision Manufacturing & Engineering includes the operations of Ben Machine Products Company Incorporated, DryAir Manufacturing Corp., Hansen Industries Ltd., LV Control Mfg. Ltd., Overlanders Manufacturing LP, Stainless Fabrication, Inc., Water Blast Manufacturing LP, and WesTower Communications Ltd.

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	2023	per share basic	per share diluted	2022	per share basic	per share diluted
For the year ended December 31						
Revenue	$ 2,498,415			$ 2,059,373		
Adjusted EBITDA[(1)]	555,525			456,442		
Net Earnings	122,307	$ 2.72	$ 2.65	109,669	$ 2.72	$ 2.64
Adjusted Net Earnings[(1)]	144,051	3.20	3.07	132,915	3.29	3.13
Free Cash Flow[(1)]	377,118	8.39	7.38	332,025	8.23	7.16
Free Cash Flow less Maintenance Capital Expenditures[(1)]	201,827	4.49	4.13	176,104	4.36	3.99
Dividends declared	114,588	2.54		97,473	2.41	
Trailing Twelve months as at December 31						
Adjusted Net Earnings payout ratio[(1)]		80%			73%	
Free Cash Flow less Maintenance Capital Expenditures payout ratio[(1)]		57%			55%	
FINANCIAL POSITION	**December 31, 2023**			December 31, 2022		
Working capital	$ 540,720			$ 465,481		
Capital assets	1,571,067			1,284,409		
Total assets	4,079,807			3,548,836		
Long-term debt	1,422,642			1,214,764		
Equity	1,245,473			1,019,054		
SHARE INFORMATION	**December 31, 2023**			December 31, 2022		
Common shares outstanding	47,136,625			42,479,063		
	December 31, 2023			December 31, 2022		
Weighted average shares outstanding during the period - basic	44,970,513			40,348,003		

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

SIGNIFICANT EVENTS

Normal Course Issuer Bid ("NCIB")

On March 10, 2023, the Corporation renewed its NCIB for common shares and certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on March 15, 2023, and ending on March 14, 2024. The Corporation can purchase a maximum of 3,958,307 shares and daily purchases will be limited to 25,561 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital.

The Corporation can purchase a maximum of $8,038 principal amount of 7 year 5.35% convertible unsecured subordinated debentures of EIC (June 2018), $8,625 principal amount of 7 year 5.75% convertible unsecured subordinated debentures of EIC (March 2019), $14,375 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC (July 2021), and $11,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC (December 2021), with daily purchases of principal amount, other than block purchase exceptions, limited to $33, $33, $25, and $24, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

Acquisition of Hansen Industries Ltd.

On April 1, 2023, the Corporation completed the acquisition of Hansen for $44 million, including purchase price consideration of $4 million in EIC common shares, subject to customary post-closing adjustments. Hansen, located in Richmond, B.C., provides custom fabrication of precision metal components and assemblies using automated equipment within its two key divisions: sheet metal, its largest division, and machining. Hansen also has a high-volume metal stamping shop offering a full-service solution provider to its customers.

Acquisition of BVGlazing Systems Ltd.

On March 16, 2023, the Corporation announced that it had entered into an agreement to acquire BVGlazing for a purchase price of $96 million, including EIC share consideration of $23 million, subject to customary post-closing adjustments, following receipt of regulatory approval under the Competition Act (Canada). On May 1, 2023, the Corporation completed the acquisition of BVGlazing after receiving the necessary approvals to close.

BVGlazing, located in Southern Ontario, designs, engineers, manufactures, and supplies window, door, and railing systems for mid-rise and high-rise building projects in Canada and the US. BVGlazing manufactures unitized and stick curtain wall systems and railing systems, in addition to window wall glazing systems similar to those produced by EIC's existing subsidiary Quest. BVGlazing's added capability to provide curtain wall and railing products together with Quest's integrated installation capability will allow our collective window operations to offer complete solutions to their customers, an increasingly important attribute as developers turn to mixed-use projects that integrate residential, office and retail spaces to make more efficient use of their properties.

Credit Facility Upsize and Extension

On May 9, 2023, the Corporation amended its credit facility. The enhanced credit facility increased to approximately $2 billion and its term extended to May 9, 2027. The increased size of the facility provides the Corporation capacity to continue to execute on its core strategy of pursuing accretive growth through investment in its operating subsidiaries and through acquisition.

PAL Airlines to Provide Regional Service in Eastern Canada on behalf of Air Canada

On May 30, 2023, the Corporation announced the completion of a Letter of Intent between PAL Airlines and Air Canada as a preliminary step towards the finalization of a commercial agreement between the two airlines for the provision of regional air services in Eastern Canada. PAL Airlines and Air Canada subsequently executed this contract, and PAL Airlines commenced service under the agreement on July 1, 2023 and PAL Airlines is currently operating four aircraft under this agreement. The finalized agreement allows for PAL Airlines to operate up to six Dash-8 Q400 aircraft on behalf of Air Canada, serving regional markets in Eastern Canada.

Fixed Wing Medevac Contract for the Province of British Columbia

On June 5, 2023, Carson Air was awarded a long-term contract by the Province of British Columbia to provide fixed wing medevac coverage for the entire Province of British Columbia for ten years plus renewal options. This contract requires Carson Air to purchase new King Air aircraft which will result in EIC being one of the largest King Air operators in the world. These new King Air aircraft have been ordered from the OEM. One aircraft was delivered late in 2023 and modifications to install the medical interior are currently underway. We expect the remaining aircraft to be delivered over the coming quarters. The contract is currently operated through the use of existing aircraft and a brief bridge extension by a previous air carrier under the previously fragmented contract.

Bought Deal Financing of Common Shares

On June 14, 2023, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 3,306,250 shares of the Corporation at $52.25 per share, for gross proceeds of approximately $173 million. The net proceeds of the offering will be used to fund the Corporation's growth initiatives, including partially funding the investments associated with the recent announcements of the agreement with Air Canada and long-term medevac contracts.

Deployment of Force Multiplier Aircraft on 18 Month Contract

On June 19, 2023, PAL Aerospace announced the deployment of its Force Multiplier Program to deliver airborne ISR support for the United Kingdom Home Office's Small Boats Operation Command. Equipped with advanced imaging and radar systems, the PAL Aerospace Dash 8 aircraft is tasked with surveillance of maritime activity in support of the United Kingdom's ongoing fight against illegal migration and small boat crossings of the English Channel. The aircraft has been deployed for an initial period of eighteen months.

Province of Manitoba Fixed Wing Critical Care Medevac Contract Award

On July 17, 2023, the Corporation announced it was the successful bidder to provide critical care fixed wing medevac coverage for the Province of Manitoba. The tendered 10-year contract, plus renewal options, requires a fleet of five planes which will be a combination of jet and turbo prop aircraft. The five aircraft have been acquired and are expected to be phased into service with the first aircraft going into service in the first quarter of 2024.

Successful Season of the Atik Mason Indigenous Pilot Pathway

On September 19, 2023, the Corporation announced the completion of a successful second year of the Atik Mason Indigenous Pilot Pathway program and the expansion of this program to Rankin Inlet in 2024. This fully funded program provides the opportunity for Indigenous community members to learn to fly and build careers as professional pilots. With the support of Manitoba Keewatinowi Okimakank Inc., the Pathway saw six students from the first year return to further their training and 12 new Indigenous students commence their journey. Five of the graduating students have accepted opportunities to join our organization either as pilots in our operating airlines or flight instructors at MFC Training in 2024.

Acquisition of DryAir Manufacturing Corporation

On October 5, 2023, the Corporation completed the acquisition of DryAir for $60 million, including purchase price consideration of $15 million in EIC common shares, subject to customary post closing adjustments. DryAir, located in St. Brieux, Saskatchewan, provides portable hydronic heating systems that offer affordable and reliable climate control solutions to a variety of industries throughout North America.

Dividend Increase

On November 9, 2023, the Corporation increased its monthly dividend by 5% or $0.12 per annum to $2.64 per share. The increase was effective beginning with the November dividend, which was paid to shareholders in December 2023.

2. ANNUAL RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the year ended December 31, 2023, and the comparative 2022 year.

	Year Ended December 31, 2023			
	Aerospace & Aviation	Manufacturing	Head Office (2)	Consolidated
Revenue	$ 1,498,216	$ 1,000,199	$ -	$ 2,498,415
Expenses (1)	1,083,745	819,628	39,517	1,942,890
Adjusted EBITDA	414,471	180,571	(39,517)	555,525
Depreciation of capital assets				208,492
Amortization of intangible assets				20,244
Finance costs – interest				112,316
Depreciation of right of use assets				37,091
Interest expense on right of use lease liabilities				7,471
Acquisition costs				7,769
Other				(951)
Earnings before income taxes				163,093
Current income tax expense				26,016
Deferred income tax expense				14,770
Net Earnings				$ 122,307
Net Earnings per share (basic)				$ 2.72
Adjusted Net Earnings				$ 144,051
Adjusted Net Earnings per share (basic)				$ 3.20

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

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

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

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

On a consolidated basis, the Corporation generated revenue of $2.5 billion, an increase of $439 million, or 21% over the prior year. The increase was driven by both of the Corporation's segments, with the Aerospace & Aviation segment increasing by $161 million over the prior year and the Manufacturing segment increasing by $278 million over the prior year.

Adjusted EBITDA of $556 million was generated by the Corporation during the year, an increase of $99 million or 22% over the prior year. The increase was attributable to both segments, as the Aerospace & Aviation segment increased by $78 million over the prior year and the Manufacturing segment increased by $23 million over the prior year. Head Office costs increased by $2 million over the prior year as the Corporation invested additional resources in cyber security and increased headcount. The Corporation did not receive any government assistance during the period, compared to $11 million received in the prior year. Excluding the impact of subsidies in the prior year, Adjusted EBITDA increased 25% over the prior year.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $161 million or 12% to $1.5 billion.

Revenue within Essential Air Services increased 20% over the prior year. The prior year, notably the first and second quarters, was significantly impacted by the emergence of the Omicron variant, reducing travel in and out of Northern communities. In the current year, demand for passenger travel has increased to normal volumes resulting in the increase in revenue over the prior year. Investments made to increase our capacity over the last number of years have translated into higher revenues than experienced pre-pandemic. In addition, expanded routes on the East Coast, including the beginning of routes flown on behalf of Air Canada, have increased revenue. Increased charter activity, along with strong rotary wing and medevac operations, positively contributed to the revenue generated in the year. The increase was partially offset by government funding of $11 million that was received in the prior year and included in revenue as no such support was received in the current year.

Revenue within Aircraft Sales & Leasing decreased 11% from the prior year. Revenue from parts sales and leasing produced solid improvements over the prior year, which were offset by decreased sales in the more variable whole aircraft and engines revenues. In the prior year, the demand for aircraft and engines was well above historical norms resulting in higher revenue than the current period. The sale of aircraft and engines are generally high dollar value and lower margin transactions when compared to leasing or parts revenue and can therefore have an outsized impact on revenue in a given period compared to other revenue streams. Leasing revenue has continued to increase, showing steady improvements as more assets continue to be deployed. Leasing revenue during the period was $53 million (2022 - $34 million) and sales and service revenue, which is the total revenue from all other streams in this business line other than leasing revenue, was $250 million (2022 - $307 million).

Revenue within Aerospace increased 20% over the prior year. The increase in revenue is driven by the previously awarded Netherlands Coast Guard Contract that began in the fourth quarter of 2022 along with the United Kingdom Home-Office contract that was awarded in May 2023.

Adjusted EBITDA generated by the Aerospace & Aviation segment increased $78 million or 23% to $414 million.

Adjusted EBITDA within Essential Air Services increased 31% over the prior year. The increase in passenger volumes and more specifically passenger yields contributed significantly to the increase in Adjusted EBITDA over the prior year as did improved margins on rotary-wing services. Investments made previously in our fleets of fixed wing and rotary wing aircraft are now producing returns that were expected when the capital was deployed.

Adjusted EBITDA within Aircraft Sales & Leasing increased by 5% over the prior year. The primary reason for the increase is higher lease revenue. Margins within this revenue stream are higher than other revenue streams as the capital cost associated with leasing is represented through depreciation, having an outsized impact on Adjusted EBITDA compared to revenue. The Adjusted EBITDA contributed through increased lease revenue more than offset a decline in Adjusted EBITDA contributed through lower margin, higher revenue large asset sales.

Adjusted EBITDA within Aerospace increased 24% over the prior year. The increase is attributable to increased flying for new contracts that have been awarded to the Corporation and higher margin at the Corporation's training business. These new contracts changed the product mix in Aerospace to include more ISR operations on owned aircraft than in the prior year. The percentage increase in Adjusted EBITDA outpaced the percentage increase in revenue due to the higher capital intensity nature of ISR flying revenue as the capital cost is recognized as an expense through depreciation.

Manufacturing Segment

Revenue generated by the Manufacturing segment increased by $278 million or 39% to $1.0 billion.

Revenue generated within Environmental Access Solutions increased by 20% over the prior year. Northern Mat was acquired May 10, 2022, resulting in only partial comparatives in the prior year. Forest fires and dry weather conditions tempered the demand for access solutions during the current year, and an industry wide increase in mat supply reduced mat fleet utilization, resulting in softer market conditions than experienced in the prior period. The negative impact of weather was partially offset by sales of rental mats during the year.

Revenue generated within Multi-Storey Window Solutions increased 95% over the prior year. The Corporation acquired BVGlazing on May 1, 2023, for which there is no comparative in the prior period, contributing to the increase in revenue. In addition, the business has started to manufacture and install projects where prices reflect rates negotiated after the start of the pandemic that reflect the higher inflationary pressure created by supply chain issues, higher labour costs, and increased interest costs.

Revenue generated within Precision Manufacturing & Engineering increased 11% over the prior period. The increase is primarily driven by the acquisition of Hansen on April 1, 2023 and the acquisition of DryAir on October 5, 2023, with no comparative in the prior year for either acquisition. In addition, increased demand in the defence industry and for metal fabrication have contributed to increased revenue over the prior year.

Adjusted EBITDA generated by the Manufacturing segment increased by $23 million or 15% to $181 million.

Adjusted EBITDA within Environmental Access Solutions declined by 8% from the prior year. The 2022 year had the perfect alignment of price, demand, supply and weather that drove results higher than our expectations, particularly with respect to rental mat and bridge utilization, which also drove rental pricing. In the current period, in contrast, forest fires, a dry summer in 2023, and an industry wide increase in mat supply provided headwinds, resulting in reduced revenue. In the current period, mat and bridge rentals, which generates higher margins than other revenue streams, made up a smaller portion of revenue than in the prior period. This change in sales mix resulted in revenues increasing at a faster pace than Adjusted EBITDA. This decline was expected as the run rate in the prior period was not sustainable and is consistent with messaging provided at the time. Results in 2023 continued to exceed the economics upon which the deal was priced.

Adjusted EBITDA within Multi-Storey Window Solutions increased 110% over the prior period due to the acquisition of BVGlazing on May 1, 2023 and improved performance of our pre-existing subsidiaries. Improved scheduling, increased throughput in our facilities, and increased pricing on some projects benefitted Adjusted EBITDA, which more than offset increased inflationary costs across the operations.

Adjusted EBITDA within the Precision Manufacturing & Engineering increased 26% over the prior period due to increased contributions from the pre-existing subsidiaries and the acquisitions of Hansen on April 1, 2023 and DryAir on October 5, 2023. Sales mix across the business line was skewed towards higher margin products, and investments in prior periods benefitted the business line, both increasing Adjusted EBITDA compared to the prior period.

NET EARNINGS

Year Ended December 31,		**2023**		2022
Net Earnings	**$**	**122,307**	$	109,669
Net Earnings per share	**$**	**2.72**	$	2.72

Net Earnings was $122 million, an increase of $13 million or 12% over the prior year. The Corporation generated higher Adjusted EBITDA compared to the prior year as discussed above, which contributed to the increase in Net Earnings over the prior year. This increase was mostly offset by two main items. First, interest costs increased over the prior year by $39 million due to the increased benchmark borrowing rates as well as the increase in long-term debt to fund the acquisition and organic growth activity of the Corporation. If not for the interest rate swaps the Corporation entered into during 2023, that resulted in the fixed rate of interest being well below the floating rate of interest, the increase in interest costs would have been higher. Second, depreciation on capital assets increased by $40 million over the prior year due to the acquisition activity and investment in Growth Capital Expenditures over the past 12 months.

Income tax expense decreased by $1 million over the prior year. The Corporation's effective tax rate decreased from 28% to 25% in the year. The effective tax rate in the current year is lower than the prior year, primarily due to higher earnings generated in lower tax jurisdictions in 2023 when compared to 2022.

Net Earnings per share went unchanged over the prior year, remaining at $2.72. The weighted average number of shares increased by 11%, which offset the increase to Net Earnings generated in the period. During 2023, the Corporation completed its largest common share offering in its history to fund capital expenditures required for recent contract wins. These contracts require upfront capital investment with returns to follow in future periods. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

Year Ended December 31,		2023		2022
Net Earnings	**$**	**122,307**	$	109,669
Acquisition costs (net of tax of $904 and $709)		**6,865**		6,138
Amortization of intangible assets (net of tax of $5,365 and $5,642)		**14,879**		15,255
Interest accretion on acquisition contingent consideration (net of tax of nil and nil)		**-**		235
Accelerated interest accretion on redeemed debentures (net of tax of nil and $599)		**-**		1,618
Adjusted Net Earnings	**$**	**144,051**	$	132,915
per share – Basic	**$**	**3.20**	$	3.29
per share – Diluted	**$**	**3.07**	$	3.13

Adjusted Net Earnings generated by the Corporation during the year was $144 million, an increase of $11 million or 8% over the prior year. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $15 million in intangible asset amortization, and $7 million in acquisition costs both net of tax.

Adjusted Net Earnings per share decreased by 3% over the prior year to $3.20. The weighted average number of shares increased by 11%, which reduced Adjusted Net Earnings per share. During 2023, the Corporation completed its largest common share offering in its history to fund capital expenditures required for recent contract wins. These contracts require upfront capital investment with returns to follow in future periods. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Year Ended December 31,		2023		2022
Cash flows from operations	**$**	**353,226**	$	335,119
Change in non-cash working capital		**52,555**		21,217
Acquisition costs (net of tax of $904 and $709)		**6,865**		6,138
Principal payments on right of use lease liabilities		**(35,528)**		(30,449)
	$	**377,118**	$	332,025
per share – Basic	**$**	**8.39**	$	8.23
per share – Diluted	**$**	**7.38**	$	7.16

The Free Cash Flow generated by the Corporation during the year was $377 million, an increase of $45 million, or 14% over the prior year. The main reason for this increase is the $99 million increase in Adjusted EBITDA, which was partially offset by increased interest costs and principal payments on right of use lease liabilities. Free Cash Flow is discussed further in *Section 13 – Non-IFRS Financial Measures and Glossary*.

Because of the increase in Free Cash Flow described above, Free Cash Flow per share increased by 2% to $8.39. The increase in Free Cash Flow was partially offset by the 11% increase in the weighted average shares outstanding compared to the prior year. During 2023, the Corporation completed its largest common share offering in its history to fund capital expenditures required for recent contract wins. These contracts require upfront capital investment with returns to follow in future periods. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

3. FOURTH QUARTER RESULTS

The following section analyzes the financial results of the Corporation for the three months ended December 31, 2023, and the comparative three-month period in 2022.

	Three Months Ended December 31, 2023			
	Aerospace & Aviation	Manufacturing	Head Office (2)	Consolidated
Revenue	$ 385,233	$ 271,443	$ -	$ 656,676
Expenses (1)	276,326	226,031	10,698	513,055
Adjusted EBITDA	108,907	45,412	(10,698)	143,621
Depreciation of capital assets				56,846
Amortization of intangible assets				4,377
Finance costs – interest				29,177
Depreciation of right of use assets				9,824
Interest expense on right of use lease liabilities				2,065
Acquisition costs				2,170
Earnings before income taxes				39,162
Current income tax expense				2,215
Deferred income tax expense				7,920
Net Earnings				$ 29,027
Net Earnings per share (basic)				$ 0.62
Adjusted Net Earnings				$ 33,768
Adjusted Net Earnings per share (basic)				$ 0.72

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

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

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

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

Revenue generated by the Corporation during the fourth quarter was $657 million, an increase of $113 million or 21% over the prior period. The Aerospace & Aviation segment revenue increased by $45 million and the Manufacturing segment revenue increased by $68 million.

Adjusted EBITDA generated by the Corporation during the fourth quarter was $144 million, an increase of $20 million or 16% over the prior period. The increase was attributable to the Aerospace & Aviation segment, which increased by $21 million over the prior period. The Manufacturing segment decreased by $2 million from the prior period and head office costs were flat to the prior period.

Aerospace & Aviation Segment

In the Aerospace & Aviation segment, revenue increased by $45 million or 13% to $385 million.

Revenue within Essential Air Services increased 17% over the prior period. The reasons for the increase compared to the prior period are largely consistent with the drivers for the annual increase discussed above, including improved operating performance and the contributions from our expanded route network in eastern Canada.

Revenue within Aircraft Sales & Leasing increased by 3% over the prior period. An increase in lease revenue more than offset a decline in sales and service revenue. As discussed above, sales and service revenue levels in the prior period were not expected to be maintained in 2023, as 2022 was a particularly busy period for this revenue stream. The increased utilization in the current year has lessened the impact on revenue caused by the decrease in sales and service revenue. Leasing revenue during the period was $15 million (2022 - $8 million) and sales and service revenue, which is the total revenue from all other streams in this business line other than leasing revenue, was $57 million (2022 - $62 million)

Revenue within Aerospace increased 13% over the prior period. The increase in revenue is consistent with the annual discussion above and was driven by recent contract awards to the Corporation.

Adjusted EBITDA generated by the Aerospace & Aviation segment increased by $21 million or 24% to $109 million.

Adjusted EBITDA within Essential Air Services increased by 29% over the prior period. The primary reasons for the increase compared to the prior period are largely consistent with the drivers for the year to date increase discussed above, including improved operating performance and contributions from our expanded route network in eastern Canada.

Adjusted EBITDA within Aircraft Sales & Leasing increased 37% over the prior period. The increase is directly attributable to increased lease revenue discussed above as Adjusted EBITDA margins on this revenue stream are higher than other revenue streams. Adjusted EBITDA contribution from sales and service revenue was consistent with the prior period despite the decline in revenue due to higher margins on asset sales that were completed during the quarter.

Adjusted EBITDA within Aerospace increased by 3% over the prior period. The increase in revenue discussed above resulted in increased Adjusted EBITDA during the period. Adjusted EBITDA margin during the quarter declined due to increased costs during the period for which contract adjustments will occur in future periods.

Manufacturing Segment

Revenue generated by the Manufacturing segment increased by $68 million or 34% to $271 million.

Revenue generated within Environmental Access Solutions declined by 6% from the prior period. In the prior period, there were several long, linear projects that had a significant number of rental mats and bridges on site during the fourth quarter, which is not typical for that time of year. This resulted in rental revenue in the prior period exceeding the current period. Strong growth in sales of rental mats and bridges during the period partially offset the impact of lower rental revenue. Consistent with the annual discussion, the 2022 fourth quarter, as part of an exceptional full year in 2022, was an anomaly and current period contributions are more in line with historical results.

Revenue generated within Multi-Storey Window Solutions increased 98% over the prior period. The Corporation acquired BVGlazing on May 1, 2023, for which there is no comparative in the prior period, contributing to the increase in revenue. In addition, the business has started to manufacture and install projects where prices reflect rates negotiated after the start of the pandemic and that reflect the higher inflationary pressure created by supply chain issues, higher labour costs, and increased interest costs.

Revenue generated within Precision Manufacturing & Engineering increased 16% over the prior period. The increase is primarily driven by the acquisitions of Hansen on April 1, 2023 and DryAir on October 5, 2023, with no comparative in the prior period.

Adjusted EBITDA generated by the Manufacturing segment decreased by $2 million or 3% to $45 million.

Adjusted EBITDA within Environmental Access Solutions decreased 38% over the prior period. The reason for the decrease is consistent with the revenue discussion as a decline in rental revenue was partially offset by contributions from additional mat and bridge sales. Because the Adjusted EBITDA margin on rental revenue is high, a decline in rental revenue has an outsized impact on Adjusted EBITDA since the costs associated with this revenue stream are represented through depreciation.

Adjusted EBITDA within Multi-Storey Window Solutions increased 219% over the prior period due to the acquisition of BVGlazing on May 1, 2023 and improved performance of our pre-existing subsidiaries. Improved scheduling, increased throughput in our facilities, and increased pricing on some projects benefitted Adjusted EBITDA, which more than offset increased inflationary costs across the operations.

Adjusted EBITDA within the Precision Manufacturing & Engineering increased 22% over the prior period due to the acquisitions of Hansen on April 1, 2023 and DryAir on October 5, 2023.

NET EARNINGS

Three Months Ended December 31		2023		2022
Net Earnings	**$**	**29,027**	$	26,990
Net Earnings per share	**$**	**0.62**	$	0.64

Net Earnings for the three months ended December 31, 2023, was $29 million, an increase of $2 million or 7% over the prior period. As discussed above, the $20 million increase in Adjusted EBITDA during the period increased Net Earnings. The increase in Adjusted EBITDA was partially offset by several items. Interest costs increased by $7 million over the prior period as a result of increased benchmark borrowing rates as well as the increase in long-term debt to fund the acquisition and organic growth activity of the Corporation. Depreciation on capital assets increased by $10 million over the prior period due to the acquisitions completed in 2023 as well as increased depreciation associated with Growth Capital Expenditures invested in by the Corporation in 2023.

Income taxes remained unchanged from the prior period. The effective rate of tax is lower than in the prior period primarily due to higher earnings generated in lower tax jurisdictions during the period compared to the prior period.

Net Earnings per share decreased by 3% over the prior period to $0.62. The increase in Net Earnings was partially offset by the 11% increase in the weighted average shares outstanding compared to the prior period. During 2023, the Corporation completed its largest common share offering in its history to fund capital expenditures required for recent contract wins. These contracts require upfront capital investment with returns to follow in future periods. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

Three Months Ended December 31		2023		2022
Net Earnings	**$**	**29,027**	$	26,990
Acquisition costs (net of tax $646 and $271)		**1,524**		359
Amortization of intangible assets (net of tax $1,160 and $1,651)		**3,217**		4,465
Interest accretion on acquisition contingent consideration (net of tax of nil and nil)		**-**		235
Adjusted Net Earnings	**$**	**33,768**	$	32,049
per share – Basic	**$**	**0.72**	$	0.76
per share – Diluted	**$**	**0.70**	$	0.73

Adjusted Net Earnings increased by $2 million or 5% over the prior period. Adjusted Net Earnings includes the add-back of acquisition-related costs, which are comprised of $3 million in intangible asset amortization and $2 million in acquisition costs, both net of tax.

Adjusted Net Earnings per share decreased by 5% over the prior period to $0.72. The increase in Adjusted Net Earnings was offset by the 11% increase in the weighted average shares outstanding compared to the prior period. During 2023, the Corporation completed its largest common share offering in its history to fund capital expenditures required for recent contract wins. These contracts require upfront capital investment with returns to follow in future periods. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Three Months Ended December 31		2023		2022
Cash flows from operations	**$**	**169,757**	$	169,792
Change in non-cash working capital items		**(59,945)**		(79,192)
Acquisition costs (net of tax of $646 and $271)		**1,524**		359
Principal payments on right of use lease liabilities		**(9,071)**		(8,426)
	$	**102,265**	$	82,533
per share – Basic	**$**	**2.17**	$	1.95
per share – Fully Diluted	**$**	**1.92**	$	1.71

The Free Cash Flow generated by the Corporation for the fourth quarter of 2023 increased by $20 million or 24% to $102 million compared to $83 million in the prior period. The increase in Adjusted EBITDA of $20 million is the primary reason for the increase.

Because of the increase in Free Cash Flow discussed above, Free Cash Flow per share increased by 11% over the prior period to $2.17. The increase in Free Cash Flow was partially offset by the 11% increase in the weighted average shares outstanding compared to the prior period. During 2023, the Corporation completed its largest common share offering in its history to fund capital expenditures required for recent contract wins. These contracts require upfront capital investment with returns to follow in future periods. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

4. INVESTING ACTIVITIES

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

ACQUISITIONS

Hansen Industries Ltd.

On April 1, 2023, the Corporation acquired the shares of Hansen, located in Richmond B.C., specializing in custom fabrication of precision metal components and assemblies using automated equipment within its two key divisions: sheet metal, its largest division, and machining. Hansen also has a high-volume metal stamping shop offering a full-service solution to its customers.
The components of the consideration paid to acquire Hansen are outlined in the table below.

Consideration given:		
Cash	**$**	**39,469**
Issuance of 85,102 shares of the Corporation at $52.29 per share		**4,450**
Final working capital settlement, including amount paid on close and final payment		**(57)**
Total purchase consideration	**$**	**43,862**

BVGlazing Systems Ltd.

On May 1, 2023, the Corporation acquired the shares of BVGlazing. BVGlazing designs, engineers, manufactures, and supplies window, door, and railing systems for mid-rise and high-rise building projects in Canada and the US. BVGlazing manufactures unitized and stick curtain wall systems and railing systems, in addition to window wall glazing systems similar to those produced by EIC's existing subsidiary, Quest. The acquisition is strategic to EIC to allow the collective window operations to offer complete solutions to their customers.

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

Consideration given:		
Cash	**$**	**73,024**
Issuance of 431,598 shares of the Corporation at $53.29 per share		**23,000**
Estimated working capital settlement		**11,136**
Total purchase consideration	**$**	**107,160**

DryAir Manufacturing Corporation

On October 5, 2023, the Corporation acquired the shares of DryAir. DryAir, located in St. Brieux Saskatchewan, provides portable hydronic heating systems that offer affordable and reliable climate control solutions to a variety of industries throughout North America.

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

Consideration given:		
Cash	**$**	**44,800**
Issuance of 336,255 shares of the Corporation at $44.61 per share		**15,000**
Estimated working capital settlement		**6,304**
Total purchase consideration	**$**	**66,104**

CAPITAL EXPENDITURES

	Year Ended December 31, 2023			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 148,705**	**$ 26,063**	**$ 523**	**$ 175,291**
Growth Capital Expenditures	**279,388**	**23,656**	**-**	**303,044**
	$ 428,093	**$ 49,719**	**$ 523**	**$ 478,335**

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

Maintenance Capital Expenditures for the year ended December 31, 2023, increased by $19 million or 12% over the prior year. The increase in the Aerospace & Aviation segment was $16 million and the increase in the Manufacturing segment was $3 million over the prior year. Investment to increase capacity in the Aerospace & Aviation segment and acquisition activity in the Manufacturing segment drove the increases. Maintenance Capital Expenditures for the Corporation's Essential Air Services have historically been weighted more towards the first half of the year as heavy checks, overhauls, and engine maintenance events are scheduled at a time when demand is lowest. As the size of our fleet has increased, maintenance schedules have become more equally distributed through the entire year than we would have experienced historically. With a larger fleet, we are more easily able to share aircraft across our organization if maintenance events fall during an operationally busier time of year. Maintenance Capital Expenditures for the Manufacturing segment can vary from period to period due to the capital required to maintain production equipment, with the exception of Maintenance Capital Expenditures for the Environmental Access Solutions rental portfolio, which is calculated using depreciation as a proxy. Further discussion of future Maintenance Capital Expenditures is included in *Section 6 – Outlook*.

Aerospace & Aviation Segment

Maintenance Capital Expenditures for Essential Air Services for the year ended December 31, 2023 were $110 million, an increase of 15% over the prior year. Parts inflation and increased labour rates have resulted in increased Maintenance Capital Expenditures over the prior year. In addition, as the Corporation has invested to meet increased demand over the last number of years, our fleet size has increased, necessitating additional Maintenance Capital Expenditures. Overall, the current Maintenance Capital Expenditures are in line with expectations. Growth Capital Expenditures for the year ended December 31, 2023 within Essential Air Services were $207 million. The investment includes the purchase of additional aircraft to expand the fleet including payments for new aircraft for recently announced medevac contracts. Additionally, investments were made for the newly announced Air Canada contract and the construction of a new hangar to support our passenger, charter and cargo growth. Finally, payments were made for the purchase of a King Air simulator.

Maintenance Capital Expenditures for Aerospace for the year ended December 31, 2023 were $14 million, an increase of 16% over the prior period attributed to an increased number of heavy checks and overhauls to support increased levels of flying and higher overhaul costs experienced by the business due to inflationary pressures. Growth Capital Expenditures for the year ended December 31, 2023 were $20 million which relates primarily to the preparation of assets for the upgrade of the surveillance aircraft for the renewed and expanded Curaçao contract.

Maintenance Capital Expenditures for Aircraft Sales & Leasing for the year ended December 31, 2023 were $24 million, a decrease of 4% over the prior period. During the year, Regional One made investments to prepare certain aircraft and engines within its lease portfolio as it continues to deploy additional assets from its fleet as demand recovers. Growth Capital Expenditures for the year ended December 31, 2023 were $52 million. Several assets were purchased during the period that have either been placed on lease or will be placed on lease in the coming quarters.

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

Regional One Lease Portfolio	**December 31, 2023**		December 31, 2022	
	Aircraft	**Engines**	Aircraft	Engines
Lease portfolio	**51 (1)**	**125**	60 (1)	94

Note 1) The aircraft total above includes 8 airframes (December 31, 2022 – 10 airframes) that do not have engines and will be leased out in conjunction with engines owned by Aero Engines LLC, the joint venture between the Corporation and SkyWest.

The lease portfolio for Aircraft Sales & Leasing is comprised of several different types of aircraft and engines. The predominant platforms are the Bombardier CRJ aircraft, Embraer ERJ aircraft and the Dash – 8 Q400 aircraft. The predominant engine platforms are the General Electric CF 34 engine series along with the Pratt & Whitney engines. Earnings on the leasing of aircraft and engines are not derived solely from a financing spread as in the traditional leasing business but rather cash flows are generated from acquiring assets, leasing them out, and once the available green time on the assets is consumed and the aircraft have been retired from the active fleet, the assets are sold or parted out to generate further cash flows. It is important to note that not all the aircraft and engines in the portfolio will be on lease at any given time.

During 2023, the Corporation continued to invest in engines in its lease portfolio as a response to customer demand. This continued a trend that started post pandemic as we saw growth in our portfolio over the preceding two years as well. With limited availability at MRO facilities across the globe, customers have, in some cases, been unable to secure slots in these facilities when required. In addition, due to the imbalance between supply and demand for these slots and the inflationary environment over the last two years, many customers have found that leasing engines, even for a short period of time, is most economical for their situation.

The fleet of aircraft and engines to be leased has been underutilized since the onset of the pandemic and as a result, the available green time on those aircraft is not being consumed at the same rate as in prior periods. While the impacts of the pandemic have lessened, the lease fleet remains underutilized due to a worldwide flight crew shortage, most notably in experienced pilots. The acute shortage of pilots has resulted from a significantly lower number of pilots graduating from flight school due to the impacts the pandemic had on the ability to complete flight training coupled with higher than average pilot retirements during the pandemic. Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. As the fleet remains underutilized, the historical approach continues to not be appropriate. The actual costs of maintaining the fleet were significantly lower than the depreciation expense recorded during the year. Starting in the second quarter of 2020, the actual expenditures on assets already owned have been used as the costs of maintaining the fleet until such time the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. Prior to the onset of the pandemic, Growth Capital Expenditures represented the difference between net capital assets acquired (assets purchased less assets sold or transferred to inventory) and the amount of Maintenance Capital Expenditures, calculated using depreciation as a proxy.

The Corporation continues to record Maintenance Capital Expenditures as cash outflows associated with maintaining the fleet and Growth Capital Expenditures as all purchases of assets, net of disposals and transfers to inventory. Because the timing between the removal of assets from the lease portfolio and the replacement of those assets can vary from quarter to quarter, it is possible that negative Growth Capital Expenditures may arise in a particular quarter. However, it is not expected that negative Growth Capital Expenditures would consistently occur over a longer period as it is the Corporation's intention to continue to maintain or grow the lease portfolio.

Manufacturing Segment

Maintenance Capital Expenditures in the Precision Manufacturing & Engineering and Multi-Storey Window Solutions business lines primarily relate to the replacement of production equipment, or components of that equipment, and can vary significantly from year to year. Certain manufacturing assets have long useful lives and, therefore, can last for many years before requiring replacement or significant repair. Maintenance Capital Expenditures for Environmental Access Solutions primarily relate to the depreciation on mats and bridges, as well as maintenance on or replacement of equipment which, similar to Precision Manufacturing & Engineering and Multi-Storey Window Solutions, can vary based on what assets require repair or replacement.

For the year ended December 31, 2023, Maintenance Capital Expenditures for Environmental Access Solutions was $21 million, an increase of 20% over the prior year. Maintenance Capital Expenditures increased over the prior year as there were no comparative amounts in the first quarter of 2022 or for the first half of the second quarter of 2022. For the year ended December 31, 2023, Growth Capital Expenditures were $19 million reflecting the net investment to expand Northern Mat's rental fleet and rolling stock during the year.

For the year ended December 31, 2023, Multi-Storey Window Solutions had Maintenance Capital Expenditures of $1 million, which is consistent with the prior year. Growth Capital Expenditures for the year ended December 31, 2023 were $1 million which reflects investments in new equipment to expand our capabilities to meet market demand.

For the year ended December 31, 2023, Precision Manufacturing & Engineering had Maintenance Capital Expenditures of $4 million, which is consistent with the prior year. Growth Capital Expenditures for the year ended December 31, 2023 were $4 million attributed to investments in new equipment to enhance our ability to meet increasing customer demand and create efficiencies.

INVESTMENT IN WORKING CAPITAL

During the year ended December 31, 2023, the Corporation invested $53 million into working capital to support several growth initiatives and increased revenues, as discussed further below. Almost all this investment is explained by the timing of a payable in the prior period, as discussed below.

In the prior year, a material account receivable was collected in the fourth quarter of 2022 where a corresponding $80 million payment to a supplier was not due until January 2023. This resulted in an outflow from working capital during 2023. For the year ended December 31, 2023, a similar transaction occurred where a receivable of $30 million was collected in advance and was settled in early January 2024. The net impact of these two transactions was an outflow from working capital of $50 million in 2023.

Outside of this timing impact on investment in working capital, the Corporation invested nominal working capital during a period when it experienced significant organic growth. In a time of record high interest rates, a specific focus on working capital paid off during 2023. This allowed the Corporation to avoid deploying additional capital to invest in working capital.

During the year, the Corporation continued to invest in the Aircraft Parts & Leasing business making several purchases for assets that will be parted out and sold in future quarters. This includes aircraft from the leasing pool that have been identified for part out in subsequent quarters. This increase in inventory will support future parts sales.

The Corporation made investments in working capital, notably in accounts receivable and inventory, to support its increasing revenues. These investments were more than offset through diligent management of working capital in other areas, which will be a continued focus for the Corporation as it embarks on its next stage of growth.

Further details of the investment in working capital are included in Note 24 and the Statement of Cash Flows in the Corporation's Consolidated Financial Statements.

5. DIVIDENDS AND PAYOUT RATIOS

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

Dividends

Month	Record date	Per Share	2023 Dividends Amount	Record date	Per Share	2022 Dividends Amount
January	January 31, 2023	$ 0.21	$ 8,927	January 31, 2022	$ 0.19	$ 7,366
February	February 28, 2023	0.21	8,933	February 28, 2022	0.19	7,372
March	March 31, 2023	0.21	8,945	March 31, 2022	0.19	7,382
April	April 28, 2023	0.21	8,968	April 29, 2022	0.19	7,387
May	May 31, 2023	0.21	9,067	May 31, 2022	0.20	7,965
June	June 30, 2023	0.21	9,774	June 30, 2022	0.20	7,982
July	July 31, 2023	0.21	9,781	July 29, 2022	0.20	7,990
August	August 31, 2023	0.21	9,789	August 31, 2022	0.21	8,395
September	September 29, 2023	0.21	9,799	September 29, 2022	0.21	8,898
October	October 31, 2023	0.21	9,878	October 31, 2022	0.21	8,904
November	November 30, 2023	0.22	10,357	November 30, 2022	0.21	8,911
December	December 29, 2023	0.22	10,370	December 30, 2022	0.21	8,921
Total		**$ 2.54**	**$ 114,588**		$ 2.41	$ 97,473

Dividends declared for the twelve months ended December 31, 2023, increased over the prior year. The increase was driven by three factors. First, the issuance of shares as part of the acquisitions in the second quarter of 2022 as well as the acquisitions of Hansen and BVGlazing in the second quarter of 2023 and DryAir in the fourth quarter of 2023. Second, the completion of the equity offering both in the third quarter of 2022 and second quarter of 2023 increased the number of shares outstanding. Finally, the Corporation increased its dividend once in the year ended December 31, 2023 and twice in the prior year. Further information on shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

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

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

The Corporation analyzes its payout ratios on a trailing twelve-month basis when assessing its ability to pay and increase dividends. The use of a longer period reduces the impact of seasonality on the analysis. Across a large portion of our operations there is seasonality that exists. The first quarter of the fiscal year is always the most seasonally challenging for the Corporation. Winter roads into northern communities lessen the demand for the Corporation's air services. Therefore, a single quarter can be impacted by seasonal variations that do not impact the Corporation's ability to pay dividends over a longer period. Environmental Access Solutions is also subject to seasonal variability, where the second and third quarters have the highest demand, the fourth quarter is slower, and the first quarter is the slowest.

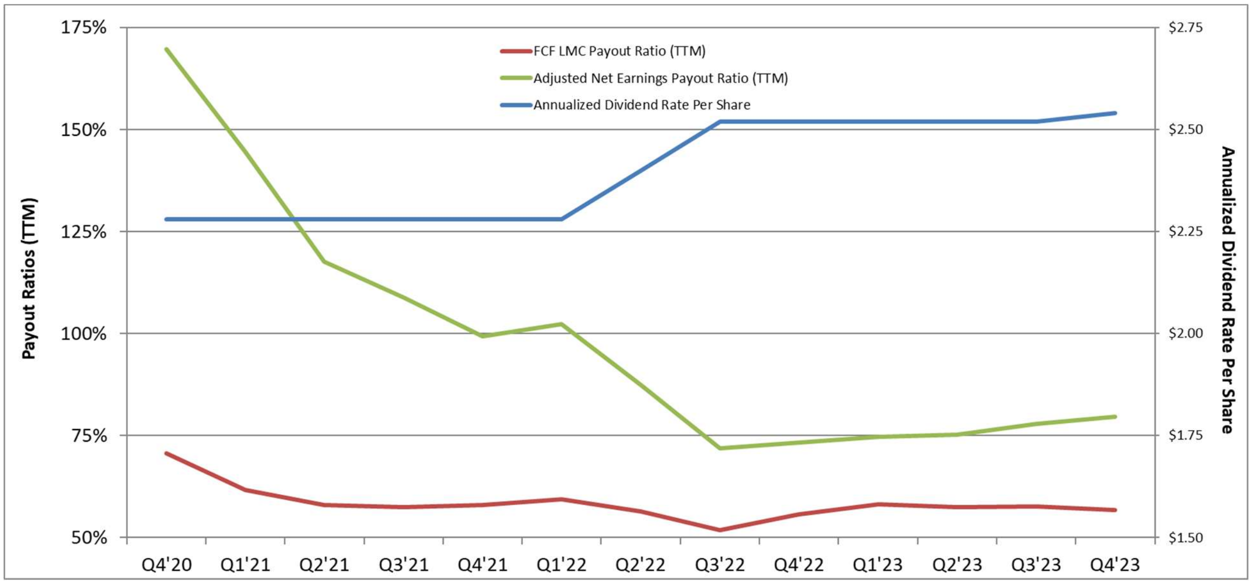
Payout Ratios *(Section 13 – Non-IFRS Measures and Glossary)*

Basic per Share Payout Ratios for the Corporation	**2023**		2022	
Periods Ended December 31	**Three Months**	**Trailing Twelve Months**	Three Months	Trailing Twelve Months
Adjusted Net Earnings	**90%**	**80%**	83%	73%
Free Cash Flow less Maintenance Capital Expenditures	**61%**	**57%**	66%	55%

The trailing twelve month Adjusted Net Earnings payout ratio was 80% at December 31, 2023 compared to 73% at December 31, 2022 primarily due to increased interest costs reducing net earnings from the prior year. The trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio was 57% at December 31, 2023 compared to 55% in the prior year and was also impacted by interest rate increases. Interest costs increased by $39 million over the comparable trailing twelve month period, an increase of 52%. See *Section 4 – Investing Activities* for more information on Maintenance Capital Expenditures.

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

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



6. OUTLOOK

2023 was a success by all accounts as evidenced by our record financial metrics and the significant contract wins which will set the stage for further growth in 2024. We have a 20-year track record on executing on our strategic priorities and that will continue into the foreseeable future.

We confirm our guidance for 2024 with an Adjusted EBITDA range of $600 million to $635 million, which is an increase between 8% and 14% from our 2023 results. Our business model is based on a diversified and resilient cash flow generated by our various subsidiaries. That being said, we are exposed to certain amounts of seasonality in our segments. For purposes of the outlook we will provide a high level reminder on the seasonality and its drivers along with qualitative discussions regarding our segment expectations for 2024 and thereafter.

Seasonality

Our first quarter is our seasonably slowest quarter. While the majority of our operations experience this seasonality, it is primarily due to our Essential Air Services and Environmental Access Solutions business lines. The Essential Air Services business line is impacted as winter roads are available to transport people and goods from the remote northern communities that our airlines service. The fixed cost nature of scheduled flying coupled with potential reduced traffic results in reduced revenues with a corresponding reduction in Adjusted EBITDA during the first quarter. Our Environmental Access Solutions business line also experiences seasonality as the frozen terrain experienced in the first quarter does not require the same degree of mat coverage that would be required during the spring, summer and fall periods. Furthermore, seasonality associated with the first quarter for Environmental Access Solutions is anticipated to be more pronounced as historical results for 2023 included mat rentals for long-linear projects in Western Canada during the winter months which was an anomaly. Regarding the remaining quarters, we generally experience the highest level of activity in our Manufacturing and Aerospace & Aviation segments during the third quarter. An increased level of activity, coupled with fixed cost structures in our Aerospace & Aviation segment results in the highest level of profitability during the third quarter. Our second quarter would be characterized as the second highest level of revenue and profitability followed closely by the fourth quarter which would be an average level of revenue and profitability. The seasonality discussion above is based on general predictable patterns. Unusual weather patterns or other events can impact individual subsidiaries; however, our geographic dispersity mitigates such risk.

Outlook by Segment

Our Manufacturing Segment is expected to grow primarily due to the acquisitions of Hansen, BVGlazing and DryAir which were executed in 2023. Revenues and Adjusted EBITDA will increase for the full year complement of such acquired businesses as they each had met or exceeded the acquisition metrics they were priced on. Our Environmental Access Solutions business line is expected to moderate from the unique alignment of price, demand and supply that existed in fiscal 2022 and into early 2023. While the first quarter of 2024 is expected to return to normal seasonality and be lower than 2023, the remainder of 2024 is expected to be consistent in total with what was generated in the last nine months of 2023.The annualized results from the latter part of the second quarter and throughout the remainder of 2023 are expected to be representative of 2024 results and are consistent with acquisition metrics upon which the deal was priced. Notwithstanding persistently high interest rates and economic uncertainty, we expect continued solid performance from our Precision Manufacturing & Engineering business line bolstered by the addition of Hansen and DryAir for a full year. Our Multi-Storey Window Solutions business line is expected to improve due to the acquisition of BVGlazing coupled with increased volumes that was experienced by the business unit in the latter part of 2023. We expect the margins of this business line to improve due to the stabilization of input costs, improved scheduling, increased throughput at facilities and increased pricing of certain projects. Our backlog continues to be consistent with previous periods. The businesses continue to experience strong bidding opportunities in their marketplaces, however macroeconomic uncertainty has slowed the conversion of inquiries to bookings.

On a longer-term basis, the outlook for our Manufacturing segment continues to be very strong. Our Environmental Access Solutions business line sees opportunities for further geographic expansion into underserved regions. Furthermore, the green economy will require greater protection of environmentally sensitive areas and improvements to the electrical grid and opportunities in the resource sector will require greater utilization of matting and bridge solutions. The long-term macroeconomic trends associated with the shortage in affordable housing and rentals provides significant upside to our Multi-Storey Windows Solutions business line. Lastly, our Precision Manufacturing & Engineering business line is poised for growth should companies reshore manufacturing to North America as geopolitical events and supply chain disruptions have resulted in countries and companies reassessing their supply chains.

Our Aerospace & Aviation segment is expected to grow due to the contractual announcements in 2023 and execution on those contracts during 2024. Our Essential Air Services business line will reflect the contributions from the commercial agreement with Air Canada and the medevac contracts with British Columbia and Manitoba. Service had commenced under the Air Canada agreement on July 1, 2023 with limited flights and aircraft. The operations ramped up in November 2023 with the expected complement of aircraft and routes being flown during the fourth quarter. The British Columbia medevac contract started in November 2023 with services being provided by existing aircraft. The new KingAir aircraft will start coming online throughout 2024 and 2025 and the expected returns on the contract will not be fully realized until the existing aircraft are redeployed. In February 2024, the Manitoba medevac contract started with the modification and deployment of turbo prop aircraft. The medevac jet aircraft will be modified and inducted into the fleet in the latter part of 2024. The Aerospace business line is expected to improve as the 18-month ISR contract with the United Kingdom's Home Office started in the second quarter of 2023 and will be effective for the majority of 2024. The United Kingdom Home Office issued an RFP for a new contract that would begin after the expiry of the interim contract and we have submitted our bid thereon. Lastly, Aircraft Sales & Leasing business continues to improve. Parts, aircraft and engine sales are expected to grow due to our investment in various aircraft and engine platforms over the past number of years. Leasing income is expected to increase as the year progresses and reach pre-COVID run rates by the end of the year.

On a long-term basis, the outlook for our Aerospace & Aviation segment continues to be bullish. The services we provide to the Northern communities are essential services. We have invested significantly in our fleets over the past number of years and the results of those investments are impacting the financial results. Further tailwinds exist, as Canada's resources economy continues to develop which will necessitate further transportation to remote areas. There continues to be opportunities to expand the geographical footprint of our world class medevac capabilities to other regions. Tight labour markets are expected to continue to impact the Essential Air Services business line, whether it be pilots, flight crew, AME or medical personnel. The Aerospace business line is also poised for further growth. Geopolitical events, border security and immigration have become focus areas for governments around the world for which Aerospace can provide solutions. Lastly, our Aircraft Sales & Leasing business line is continuing to expand and return to pre-pandemic levels. With the well-publicized production issues with new aircraft and the related risks and uncertainties, we have noted an uptick in demand for parts, aircraft and engines for prior generation aircraft. Furthermore, air operators are continuing to look for spare engines and repaired parts to capitalize on the current and growing demand around the world. These factors are expected to provide tailwinds to Aircraft Sales & Leasing.

Head Office is not a separate operating segment, but rather represents expenses incurred at the Head Office in support of the various segments. Expenses are anticipated to increase due to continued investment in people through additional head count to support the operating segments, increases in expenditures related to Indigenous Reconciliation associated with an additional class of the Atik Mason Pilot Pathway students in Nunavut, and additional costs related to investments in IT and cybersecurity. These cost increases are expected to be commensurate with revenues and profitability increases of the underlying segments.

Capital Expenditures

Maintenance Capital Expenditures are undertaken to maintain the earning power of the business. Approximately 85% of our Maintenance Capital Expenditures are related to the Aerospace & Aviation segment and these are driven by required, scheduled service based on flight hours. With an the expanded fleet size, contract wins and cost escalations related to historical inflationary pressures and labour shortages, we anticipate increases in our Maintenance Capital Expenditures in our Essential Air Services and Aerospace business lines consistent with increases in Adjusted EBITDA. Furthermore, due to the anticipated growth in the Aircraft Sales & Leasing business line we anticipate maintenance capital expenditure increases to be roughly commensurate with the increase in Adjusted EBITDA. Maintenance Capital Expenditures in our Manufacturing segment are expected to increase due to the acquisitions of Hansen, BVGlazing and DryAir.

Growth Capital Expenditures for 2024 will be primarily driven by the contract wins in 2023 within the Aerospace & Aviation segment. The Growth Capital Expenditures pertain to the acquisition of the new KingAir aircraft and related interior modifications, along with infrastructure investments for bases, which are required for the British Columbia medevac contract. Furthermore, additional investments will be required for interior modifications and infrastructure upgrades for the Manitoba medevac contract. As previously announced, we have become one of the world's largest KingAir operators and accordingly, we are acquiring and installing a full motion King Air simulator in 2024 and into 2025. Lastly, we will be incurring the planned expenditures related to the Gary Filmon Indigenous Terminal on the grounds of the Winnipeg Airport which are expected to continue throughout 2024 with an anticipated opening in early 2025. Within the Aerospace business line, Growth Capital Expenditures will be required for the expanded scope of the ISR contract in Curacao. Finally, as the Aircraft Parts & Leasing business line is an opportunistic acquiror, Growth Capital Expenditures may be undertaken if opportunities are identified, and returns are commensurate with management's expectations. These opportunistic purchases are held to the same level of diligence and discipline as an acquisition and will only be executed if appropriate financial metrics and risk mitigation exist. Growth Capital Expenditures in our Manufacturing segment are expected to be relatively consistent with the prior year. Our Environmental Access Solutions business line constantly monitors the market and may right size its rental bridge and mat fleet and accordingly may incur either positive or negative Growth Capital Expenditures.

7. LIQUIDITY AND CAPITAL RESOURCES

The Corporation's working capital position, Free Cash Flow, and capital resources remain strong. The Corporation completed several capital transactions in 2023, strengthening its balance sheet as the Corporation prepares for future growth. During 2023, the Corporation completed an upsize and extension of its credit facility and a bought deal common share offering, which was upsized from the initial announcement and the underwriters exercised the overallotment option on top of the upsize. These transactions increased the Corporation's access to capital to make acquisitions, its ability to invest in its operating subsidiaries, and provides the ability to weather economic downturns. In addition, the structured timing of debt maturities provides additional financial flexibility while giving the Corporation the capital to invest for future growth. The Corporation does not have any debt maturities until June 30, 2025.

At December 31, 2023, the Corporation's key financial covenant for its credit facility is its senior leverage ratio, and its facility allows for a maximum of 4.0x. The Corporation's current leverage ratio is 2.47x. This is in line with historical norms as the Corporation's subsidiaries deliver results based on previous investments. Consistent with EIC's historical balance sheet management, the Corporation has been proactive in managing its liquidity such that should an opportunity present itself, EIC has the capability and financial resources to execute.

At December 31, 2023, the Corporation has liquidity of approximately $1 billion through cash on hand and its credit facility (including the credit facility accordion feature), which when combined with strong Free Cash Flow, maintains the Corporation's very strong liquidity position.

As at December 31, 2023, the Corporation had a cash position of $104 million (December 31, 2022 - $140 million) and a net working capital position of $547 million (December 31, 2022 - $465 million) which represents a current ratio of 1.89 to 1 (December 31, 2022 – 1.80 to 1). The current ratio is calculated by dividing current assets by current liabilities, as presented on the Statement of Financial Position.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

		December 31 2023		December 31 2022
Total senior debt outstanding (principal value)	**$**	**1,427,035**	$	1,218,326
Convertible debentures outstanding (par value)		**424,502**		425,500
Common shares		**1,252,890**		1,019,772
Total capital	**$**	**3,104,427**	$	2,663,598

Credit Facility

The size of the Corporation's credit facility as at December 31, 2023, is approximately $2 billion, with $1.675 billion allocated to the Corporation's Canadian head office and US $260 million allocated to EIIF Management USA, Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of December 31, 2023, the Corporation had drawn $540 million and US $671 million (December 31, 2022 - $201 million and US $751 million).

On May 9, 2023, the Corporation amended its credit facility. The enhanced credit facility increased to approximately $2 billion from approximately $1.75 billion and extended its terms to May 9, 2027. The increased size of the facility provides the Corporation with capacity to continue to execute on its core strategy of pursuing accretive growth through investment in its operating subsidiaries and through acquisition.

The Corporation's long-term debt, net of cash, increased by $244 million since December 31, 2022. The increase is attributable to the acquisitions of Hansen, BVGlazing, and DryAir, investments in Growth Capital Expenditures, and investment in working capital. These investments were partially offset by the proceeds from the Corporation's bought deal equity offering, as described further below.

During the period, the Corporation used derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same term unless both parties agree to extend the swap for an additional month. By entering into the swap, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the US dollar borrowings as it will be exchanged for the same Canadian equivalent in one month. At December 31, 2023, US $338 million (December 31, 2022 – US $427 million) of the Corporation's US denominated borrowings are hedged with these swaps.

During the first quarter of 2023, the Corporation continued the use of interest rate swaps with certain members of its syndicate whereby the Corporation entered into a new interest rate swap that fixed $350 million of its credit facility variable rate debt for a period of three years at a rate that is lower than the floating rate. In addition, during the second quarter of 2023, the Corporation entered a new interest rate swap that fixed US$140 million of its credit facility variable rate debt for a period of three years at a rate that is lower than the floating rate. The effect of these transactions combined with other swap transactions already in place results in approximately $725 million of the Corporation's credit facility debt being subject to a fixed rate with varying maturity dates.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at December 31, 2023, and changes in the amounts of convertible debentures outstanding during the year ended December 31, 2023:

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

Par value	Balance, beginning of year	Issued	Converted	Redeemed / Matured	Balance, end of year
Unsecured Debentures – June 2018	80,500	-	(798)	-	79,702
Unsecured Debentures – March 2019	86,250	-	(182)	-	86,068
Unsecured Debentures – July 2021	143,750	-	(18)	-	143,732
Unsecured Debentures – December 2021	115,000	-	-	-	115,000
Total	$ 425,500	$ -	$ (998)	$ -	$ 424,502

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the year ended December 31, 2023:

	Date issued	Number of shares
Shares outstanding, beginning of year		42,479,063
Issued upon conversion of convertible debentures	various	20,338
Issued under dividend reinvestment plan (DRIP)	various	396,099
Issued under employee share purchase plan	various	63,458
Issued under deferred share plan	various	16,423
Issued under Indigenous community partnership agreements	November 9, 2023	2,039
Issued to Hansen Industries vendors on closing	April 1, 2023	85,102
Issued to BVGlazing Systems vendors on closing	May 1, 2023	431,598
Issued to DryAir vendor on closing	October 5, 2023	336,255
Prospectus offering, including over-allotment	June 14, 2023	3,306,250
Shares outstanding, end of year		47,136,625

On June 14, 2023, the Corporation closed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in 3,306,250 shares of the Corporation at $52.25 per share, for gross proceeds of approximately $173 million.

The Corporation issued 396,099 shares under its dividend reinvestment plan during the period and received $19 million for those shares in accordance with the dividend reinvestment plan.

The Corporation issued 63,458 shares under its Employee Share Purchase Plan during the period and received $3 million for those shares in accordance with the Employee Share Purchase Plan.

The Corporation issued shares to vendors of Hansen, BVGlazing, and DryAir as part of the consideration paid on completion of the acquisitions. In total, 852,955 shares were issued, representing purchase price consideration of $42 million.

The weighted average shares outstanding during the three and twelve months ended December 31, 2023, increased by 11% and 11%, respectively, compared to the prior period. The increase is primarily attributable to shares issued in connection with the Corporation's equity offerings in the third quarter of 2022 and the second quarter of 2023, the Corporation's dividend reinvestment plan, and shares issued as part of the acquisitions of BVGlazing and Hansen in the second quarter of 2023, DryAir in the fourth quarter of 2023, and Northern Mat in the second quarter of 2022.

Normal Course Issuer Bid

On March 10, 2023, the Corporation renewed its NCIB for common shares and certain series of convertible debentures. Under the renewed NCIB for common shares, purchases can be made during the period commencing on March 15, 2023, and ending on March 14, 2024. The Corporation can purchase a maximum of 3,958,307 shares and daily purchases will be limited to 25,561 shares, other than block purchase exemptions. The Corporation renewed its NCIB because it believes that from time to time, the market price of the common shares may not fully reflect the value of the common shares. The Corporation believes that in such circumstances, the purchase of common shares represents an accretive use of capital.

The Corporation can purchase a maximum of $8,038 principal amount of 7 year 5.35% convertible unsecured subordinated debentures of EIC, $8,625 principal amount of 7 year 5.75% convertible unsecured subordinated debentures of EIC, $14,375 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC; and $11,500 principal amount of 7 year 5.25% convertible unsecured subordinated debentures of EIC, with daily purchases of principal amount, other than block purchase exceptions, limited to$33, $33, $25, and $24, respectively. The Corporation sought the NCIB for debentures to permit repurchase and cancellation of these securities during times of market instability where management believes the market price does not reflect the value of the debentures.

During the year ended December 31, 2023, the Corporation did not make any purchases under either NCIB and therefore still has the full amounts detailed above available for repurchase. The Corporation intends to seek approval for the renewal of both the common shares and convertible debentures normal course issuers bids in the first quarter of 2024.

Schedule of Financial Commitments

The following are the financial commitments of the Corporation and its subsidiaries at December 31, 2023:

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	$ 1,427,035	$ -	$ 1,427,035	$ -
Convertible debentures (par value)	424,502	-	309,502	115,000
Lease payments excluded from right of use lease liability	21,067	6,528	8,886	5,653
Right of Use lease liability payments (undiscounted value)	207,257	43,743	114,674	48,840
	$ 2,079,861	$ 50,271	$ 1,860,097	$ 169,493

8. RELATED PARTY TRANSACTIONS

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

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. These leases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2023 for related party leases was $6.1 million (2022 – $5.3 million) and the lease term maturities range from 2024 to 2031.

Certain of the Corporation's airline subsidiaries purchase jet fuel from an entity controlled by a related party who was a vendor of a business the Corporation acquired. This vendor is considered a related party because of their continued involvement in the management of the subsidiary. The purchases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. Total costs incurred in 2023 for these purchases was $2 million (2022 – $2 million).

Key Management Compensation

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

Compensation expensed for key management during the 2023 year, and the comparative 2022 year is detailed in the table below. Share based compensation vests over a period of up to three years and is expensed over that period. Awards under the Restricted Share Plan are expensed over the three year vesting period and the expense recognized in respect to the recipient, ignoring the impact of the Corporation's Restricted Share Plan derivative hedge, is impacted by the change in share price of the restricted shares issued.

Year Ended December 31,		**2023**		2022
Salaries and short-term benefits	**$**	**7,267**	$	7,515
Share-based compensation expense		**4,598**		5,984
	$	**11,865**	$	13,499

Co-investments with CRJ Capital Corp.

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

During 2023, CRJ Capital Corp. invested US $1.5 million (2022 - US $1.4 million). CRJ Capital Corp.'s total investment generated cash flow returns paid or payable of US $3.2 million (2022 - US $0.3 million). As a result of the sale of certain assets, depreciation recorded on its leasing assets, and the return of initial investment to CRJ Capital Corp., the remaining assets attributable to CRJ Capital Corp. at December 31, 2023, was US $8.2 million (December 31, 2022 - US $8.7 million). At December 31, 2023, US $1.3 million (December 31, 2022 - US $0.1 million) is recorded as accounts payable due to CRJ Capital Corp.

9. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Accounting Estimates

Business Combinations

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

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

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the year, the estimated liability for additional purchase consideration associated with Northern Mat was reduced to reflect the final payment to the vendors. This resulted in a recovery of $1.0 million (2022 – nil) and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

Revenue and income from fixed price construction contracts are recognized over time using the methodology that most accurately reflects the transfer of goods to the customer. The Corporation has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance factors, contract profit can differ significantly from earlier estimates. Management believes, based on its experience that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labour, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions, changes in underlying raw material cost estimates, and the accuracy of the original bid estimate. Accordingly, management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material costs and subcontracting costs, as applicable.

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

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

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

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

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans, and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation or amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2023, would result in an increase of approximately $10.3 million (2022 - $11.0 million) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

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

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

Intangible Assets

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

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

The Corporation has concluded that there are no impairments of its indefinite lived intangible assets as a result of this assessment as at December 31, 2023.

Goodwill

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

The Corporation used its forecasted Adjusted EBITDA based on its approved budget and used its best estimate of market participant Adjusted EBITDA multiples (Level 3 within the fair value hierarchy). The Adjusted EBITDA multiple used for the Aerospace & Aviation segment was 8.0x (2022 – 8.0x) and was 7.5x (2022 – 7.5x) for the Manufacturing segment. The Corporation will, at times, perform various scenario and sensitivity analysis when calculating the recoverable amounts of CGUs which may include alternative models and assumptions.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2023.

Deferred Income Taxes

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

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

The Corporation may purchase certain aircraft and aircraft components in the normal course of the operations. 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 over several periods, in which case they would be classified as capital assets and depreciated over their useful lives commencing when the asset is available for use and capable of operating in a manner intended by management. The Corporation reviews its tangible assets on a regular basis to assess whether reclassifications are required between capital assets and inventory.

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

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

10. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for years ended December 31, 2023, and 2022 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2023 consolidated financial statements.

11. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design and operating effectiveness of the Corporation's internal controls over financial reporting as at December 31, 2023, and has concluded that the internal controls over financial reporting are effective. This assessment was full in scope and considered material changes to the Corporation's internal controls during the 2023 year that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were effective as at December 31, 2023.

12. RISK FACTORS

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

RISK GOVERNANCE

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

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

KEY RISKS

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

External	• Economic and Geopolitical Conditions • Competition • Government Funding for Indigenous Health Care • Access to Capital • Market Trends and Innovation • General Uninsured Loss • Climate • Acts of Terrorism, Armed Conflict, Labour or Social Unrest • Pandemic • Level and Timing of Defence Spending • Government-Funded Defence and Security Programs • Environmental, Social and Governance
Operational	• Significant Contracts and Customers • Operational Performance and Growth • Laws, Regulations, and Standards • Acquisition Risk • Concentration and Diversification Risk • Maintenance Costs • Access to Parts and Relationships with Key Suppliers • Casualty Losses • Environmental Liability Risks • Dependence on Information Systems and Technology • International Operations Risks • Fluctuations in Sales Prices of Aviation Related Assets • Fluctuations in Purchase Prices of Aviation Related Assets • Warranty Risk • Performance Guarantees • Global Offset Risk • Intellectual Property Risk
Financial	• Availability of Future Financing • Income Tax Matters • Commodity Risk • Foreign Exchange • Interest Rates • Credit Facility and the Trust Indentures • Dividends • Unpredictability and Volatility of Securities Pricing • Dilution Risk • Credit Risk
Human Capital	• Reliance on Key Personnel • Employees and Labour Relations • Conflicts of Interest

EXTERNAL RISKS:

Economic and Geopolitical Conditions

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

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 in Essential Air 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 Essential Air Services 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 Essential Air Services 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.

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

Aircraft Sales & Leasing is exposed to economic factors that adversely impact the global commercial aviation industry generally. The global commercial aviation industry is historically cyclical and has been negatively affected in the past by geopolitical events, high oil prices, lack of capital, and weak economic conditions. As a result of these economic conditions, Aircraft Sales & Leasing has had customers that have ceased operations or filed for bankruptcy, or otherwise reorganized in the past. In addition, any reduction in the global operating fleet of aircraft will result in reduced demand for parts and maintenance activities for the type of aircraft involved. Further, tight credit conditions may negatively impact the amount of liquidity available to customers to buy parts, services, engines, and aircraft. A deteriorating airline environment may also result in airline bankruptcies, and an inability to fully collect outstanding accounts receivables. It may also diminish the ability to deploy aircraft that are part of a lease pool. Reduced demand from customers caused by weak economic conditions, including tight credit conditions and customer bankruptcies, may adversely impact Aircraft Sales & Leasing's business, results of operations, and financial condition.

With the ongoing geopolitical instability around the world, the cost of Hull and War insurance on the Corporation's aircraft has increased significantly and a number of insurers have exited this market altogether. Depending on the size of losses incurred by insurers, this type of insurance may become more costly or could prove difficult to obtain in the future. Furthermore, insurance contracts may exclude certain jurisdictions and countries. Geopolitical events could result in an increase in the number of excluded jurisdictions and countries. This could have an adverse effect on the Corporation's business, results from operations, and financial condition.

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

In an effort to reduce inflation, central banks around the world have implemented restrictive monetary policy, most notably by continuing to increase borrowing rates throughout 2023. It is possible that this restrictive monetary policy will cause countries in which we operate to enter into recession in the coming years. In the event of a recession, demand for certain of the Corporation's goods and services could be materially negatively impacted. This could have an adverse effect on the Corporation's business, results from operations, and financial condition.

Negative changes in the economy will impact each of the Corporation's manufacturing business lines differently as the Manufacturing segment is diversified and geographically dispersed. For instance, a downturn in the oil and gas industry will have a greater impact on some regions, like Alberta and North Dakota, whose economies are driven by oil and gas more than others. A shift in government spending towards larger projects in the energy, forestry, environmental or oil and gas initiatives, could impact the Environmental Access Solutions' pipeline of future work or larger project renewals. With uncertainties in the US political environment, a US economy downturn impacts the operations of our US entities operating in our Multi-Storey Window Solutions and Precision Manufacturing & Engineering business lines more than our other operations as their products and services are provided to a wide variety of US customers. Certain entities within Precision Manufacturing & Engineering may be further impacted by the large customer capital expenditure programs that are often on different cycles than the general economy or may be dependent upon governmental decisions on defence and security spending. The Manufacturing segment has historically experienced some time lag between the economy weakening and the reduced demand for its products as the Manufacturing segment generally has a reasonable order backlog, as well, some of the Manufacturing segment's projects are longer in nature, which gives it a buffer to prepare for a reduction in demand.

Competition

New competition or increased competition could have an adverse effect on the Corporation's business, results from operations, and financial condition.

Essential Air Services currently focues on niche markets in Manitoba, Ontario, Nunavut, Newfoundland and Labrador, Quebec, Nova Scotia, New Brunswick, and British Columbia and experiences different levels of competition depending on the geography and the nature of service provided. The objective of this business line is to provide the best service through efficient management of operations, maintaining an owned fleet of appropriately sized aircraft, maintaining significant ground infrastructure, and fostering strong relationships with customers and communities. Essential Air Services 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 business line's scheduled operations, as competition would put pressure on load factors resulting in declining margins due to the nature of fixed costs in these operating entities. This impact would be more pronounced in the short-term until the affected Subsidiary made the appropriate operational changes to respond to the competition.

The design and build business within Aerospace is largely driven by the customization of aircraft and the integration of various component systems. The market for such products and services is highly competitive and Aerospace faces competition from a number of sources, both domestic and international, including original equipment manufacturers ("OEM"). These competitive pressures could adversely affect Aerospace's business, results from operations, and financial condition.

The markets for the products and services of Aircraft Sales & Leasing are highly competitive. This business line faces competition from a number of sources, both domestic and international. 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 these competitors may have substantially greater financial and other resources than Aircraft Sales & Leasing has, and others may price their products and services below the business line's selling prices. These competitive pressures could adversely affect Aircraft Sales & Leasing's business, results from operations, and financial condition.

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

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

Government Funding for Indigenous Health Care

Many of the communities that Essential Air Services provide services to have very limited medical resources, and as a result, trips to medical facilities outside of their communities are required to seek adequate medical care. Certain Subsidiaries within this business line invoice the federal government of Canada for the cost of the ticket for the trips. Medevac flights are utilized when a patient requires urgent care at a larger medical facility and cannot wait for a scheduled flight or is in such a condition that would make travel on a regular flight impossible. If any or all of the government agencies that are serviced by Essential Air Services decide to reduce or eliminate funding for medical-related transportation services, this would have a significant negative impact on the applicable Subsidiary, which could have an adverse effect on the Corporation's business, results from operations, and financial condition.

Access to Capital

One of the objectives of the Corporation is to continue to acquire additional companies or interests therein to expand and diversify the Corporation's investments. The ability to execute this objective is dependent on the Corporation's ability to raise funds in the capital markets. If the capital markets' desire for income producing investments, such as the common shares and debentures issued by the Corporation, were to significantly decrease, the Corporation would have difficulty in executing its acquisition objectives or funding organic growth initiatives.

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

General Uninsured Loss

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

Climate

The Corporation's results of operations could be impacted by fluctuations from weather and natural disasters. Severe weather conditions and natural disaster conditions can significantly disrupt service by impeding the movement of goods or disruptions with landing and take-offs, which could have an adverse effect on the Corporation's business, results of operations, and financial condition. This disruption could also impact Essential Air Services' ability to maintain its flight training schedules, leading to fewer flights being flown. In addition, increases in frequency, severity, or duration of severe weather events, including changes in the global climate, could result in increases in fuel consumption to avoid such weather, turbulence-related injuries, delays, and cancellations, any of which would increase the potential for loss of revenue and higher costs. Certain of the Corporation's Essential Air Services' operations 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 these operators. Similarly, Environmental Access Solutions can also be affected by shifting climate variables such as length of the winter season or precipitation levels, which can impact the potential need for the use of its services and rental of mats and bridges.

The effects of climate change could create further operational and financial implications indirectly through supply chain disruptions that could impact the availability and/or cost of materials. This could further impact our decision to maintain existing facilities or expand into new geographies where physical climate risks are becoming more volatile. Any of these factors can result in increased pricing for our products/services, the resources needed to obtain and/or manufacture/service, or their related insurance costs.

As climate change initiatives and regulations continue to evolve at varying degrees, the continued lack of consistent legislation could create economic and regulatory uncertainty. This uncertainty could affect the methods in which we manufacture, our ability to operate at current services levels or schedules, or associated costs. Furthermore, as we operate in multiple jurisdictions, our ability to ensure compliance could create unexpected exposure or additional costs, particularly if different regulations are adopted.

Acts of Terrorism, Armed Conflict, Labour or Social Unrest

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. Furthermore, acts of terrorism or similar events could impact the supply chain for both operating segments or the protection and accessibility of physical assets. This could have an adverse effect on the Corporation's business, results from operations, and financial condition.

Pandemic

The occurrence or reoccurrence of contagious diseases or pandemic events, such as COVID-19, could have a significant impact on passenger demand for air travel, cause shortages of employees to staff at the Corporation's facilities, interrupt supplies from third parties upon which the Corporation relies for its inputs, and ultimately, its ability to continue full operations. The extent to which such events may impact our business going forward is dependent on many factors. The Corporation is unable to predict what actions governments will take, or customer sentiment will be going forward, which may intensify this impact or other correlated risks described herein. This uncertainty influences for example; discretionary spending, government restrictions, customer demand, supply chain, safety, and vaccination effectiveness and coverage. The Corporation can never predict the likelihood of a pandemic event occurring nor the impact it could have on operations. A pandemic 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 in Aerospace, and to a lesser extent, Precision Manufacturing & Engineering, comes from sales to aerospace and defence customers, including sales to governments, directly and indirectly, from various countries. If defence spending on their products and services decreases, these business lines will experience the effects of program restructures, reductions, and cancellations which could have an adverse effect on the Corporation's business, results from operations, and financial condition.

Government-Funded Defence and Security Programs

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

Environmental, Social and Governance

Stakeholders and public markets are increasingly requiring that public companies be recognized as corporately responsible in adhering to various environmental, social and governance ("ESG") criteria. Such factors include having awareness of the Corporation's impact on the environment, its social involvement with its stakeholders, and the methods by which the Corporation governs its business. While the Corporation has always considered these factors in the fabric of its business, for instance by considering fuel efficiency factors for its aircraft, being actively involved in the communities it services, in the human rights standards practiced, or in its approach to overall corporate governance, it is possible that the perceptions of such initiatives may not fully meet the definition of what stakeholders define the Corporation's ESG responsibilities to be or in the extent of its efforts. The inclusion (or lack thereof) of such factors in the Corporation's practices and strategy could have an impact on the Corporation's business, results from operations, and financial condition, and its reputation.

This is further emphasized by ongoing advancements and implementation of global strategies and disclosure requirements supporting various ESG related matters that continue to evolve at a rapid pace. On June 26, 2023, the International Sustainability Standards Board (ISSB) published IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and IFRS S2 'Climate-related Disclosures.' IFRS S1 sets out overall requirements with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reports in making decisions relating to providing resources to the entity. IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. While both IFRS S1 and S2 have not been adopted by Canadian standard setters as of today's date, if adoption of these standards were to occur as presented by the ISSB, it may have an immediate impact to current processes and strategies that could impact the Corporation's business and results from operations, and financial condition. We continue to monitor the activities of regulators, while continuing to engage in consultations and participate in programs to focus on such matters.

OPERATIONAL RISKS:

Significant Contracts and Customers

The Corporation and its Subsidiaries are currently parties to a number of significant contracts with key customers, including governments. Within the Aerospace & Aviation segment, these significant contracts are for a variety of services but primarily relate to charter work, cargo, medevac, medical related passenger travel, aircraft modifications, airborne maritime surveillance operations, the maintenance of certain specialized surveillance and other purpose built aircraft, and advanced pilot and sensor operator training solutions for the US Department of Defense. Within the Manufacturing segment, these significant contracts are for the production or installation of certain products and maintenance related services. Overall, the Corporation's significant contracts are spread over a number of different Subsidiaries, thereby reducing the Corporation's overall reliance on a single contract or customer. The loss of significant contracts or customers could have an adverse effect on the Corporation's business, results from operations, and financial condition.

Operational Performance and Growth

The Corporation's principal source of funds is cash generated from its Subsidiaries and other investments. It is expected that funds from these sources will provide it with sufficient liquidity and capital resources to meet its current and future financial obligations at existing performance levels. If additional capital and operating expenditures depend on increased cash flow or additional financing in the future, the lack of those funds could limit or delay the future growth of the Subsidiaries and their cash flow. Furthermore, the underperformance of a material Subsidiary and/or under achievement of expected efficiencies between subsidiaries could have an adverse effect on the Corporation's business, results from operations, and financial condition 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 ("CTA"), the Federal Aviation Administration, and other government entities may implement new laws or regulatory schemes, or render decisions, rulings, or policy changes that could have an adverse effect on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations, increasing airport and/or user fees, or reducing the demand for air travel.

The Corporation's air carrier subsidiaries have been subject to Pilot Fatigue and Flight Duty Time Regulations implemented over the last five years. Transport Canada continues to update regulatory guidance material for this subject, which may require operators to make changes to their schedules or impact the number of required pilots. This impact is recognized as industry wide, and EIC and its aviation companies continue to implement and enhance a multidimensional strategy to address aviation industry pilot recruitment and retention challenges inclusive of this additional regulatory impact. Flight schedules, operating schedules, and fatigue risk management systems continue to be examined and adjusted to mitigate the impacts of these new regulations.

In 2019, Transport Canada enacted the Air Passenger Protection Regulations ("APPR"). At the time, these requirements did not have a material impact on our operations as the compensation we provided was relatively consistent with what was required under those regulations. The Budget Implementation Act, 2023 was passed by Parliament mid-2023, which modifies the CTA to strengthen the Canadian air passenger protection regime. In response, the CTA initiated a consultation on proposed changes to the APPR. The consultation presented a number of potential changes that if implemented, may have an adverse effect on the Corporation's business, results from operations and financial condition.

In August 2021, the Pay Equity Act came into force, impacting the Corporation's Federally Regulated organizations, such as within the Essential Air Services business line. The Act required plans to be developed within three years for employers to examine and adjust any gender wage gaps within their organizations for work of equal value. Failure to comply could result in an adverse effect on the Corporation's business, results from operations, and financial condition.

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

With respect to Aerospace and Aviation, 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 effect on the Corporation's business, results from operations, and financial condition.

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

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

Certain of the Subsidiaries process, transmit and store credit card data and are therefore subject to compliance with certain requirements established by credit card companies. Non-compliance with these requirements, whether through system breaches or limitations, may result in substantial fines and/or temporary or permanent exclusion from one or more credit card acceptance programs. The inability to process one or more credit card brands could have an adverse 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 business, results from operations, and financial condition.

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

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

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

On May 3, 2023, the Canadian Parliament passed Bill S-211 or *Fighting Against Forced Labour and Child Labour in Supply Chains Act*, to protect vulnerable populations from human rights abuses and exploitation. The bill will impose strict reporting requirements on Canadian businesses with first reports required to be filed on or before May 31, 2024. Bill S-211 may have an impact on the way the Corporation contracts within its supply chains and therefore may affect aspects of production, sales, or importing of goods produced outside of Canada into the country. If violations of this law were to occur, they could subject the Corporation and/or its Subsidiaries to fines, reduced access to future contracts, as well as increased compliance costs, any of which could have an adverse effect on the Corporation's business, 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 interests, the Corporation will face risks commonly encountered with growth through acquisitions. These risks include, but are not limited to, incurring higher capital expenditures and operating expenses than expected, entering new unfamiliar markets, incurring undiscovered liabilities at acquired businesses, disrupting ongoing business, diverting management resources, failing to maintain uniform standards, controls and policies, impairing relationships with employees, suppliers, and customers as a result of changes of ownership, increasing expenses for accounting and computer systems and incorrectly valuing acquired entities.

The Corporation may not adequately anticipate all the demands that its growth will impose on its personnel, procedures, and structures, including its financial and reporting control systems, data processing systems, and management structure. Moreover, the Corporation's failure to retain qualified management personnel at any acquired business may increase the risk associated with integrating the businesses. If the Corporation cannot adequately anticipate and respond to these demands, it may fail to realize the expected operating performance and its resources will be focused on incorporating new operations into its structure rather than on areas that may be more profitable.

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

Concentration and Diversification Risk

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

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

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

Maintenance Costs

Essential Air Services and Aerospace rely on aircraft that are tailored to operate in extreme and remote environments. Many such aircraft types are no longer in production, so by nature, this business line is working with aging aircraft and have specific aging aircraft protocols to ensure the safety and longevity of the aircraft. Comprehensive, in-house maintenance teams continually assess the airframe, engines, and components of each aircraft in the fleet. The ongoing maintenance costs, as well as the fleet renewal costs, may be significantly higher than anticipated, adversely impacting the Corporation's business, results from operations, and financial condition.

Access to Parts and Relationships with Key Suppliers

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

Casualty Losses

The Corporation has operations and physical locations throughout the world and accordingly is exposed to loss from inclement weather or natural disasters, equipment defects, malfunctions and failures, vehicular or aviation accidents, loss of life, suspension of operations and business interruption. The Subsidiaries are also subject to the inherent business risk of liability claims and adverse publicity if any of their services is alleged to have resulted in adverse effects to a user, including an aircraft accident in the case of the entities within the Aerospace & Aviation segment. There can be no assurance that the Corporation's insurance coverage will be sufficient or remain available at reasonable costs to cover one or more large claims. Additionally, any incident or disaster involving one of the segments could significantly harm the Corporation's reputation for safety. In either event, the Corporation's business, results from operations, and financial condition could be adversely affected.

Environmental Liability Risks

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

Future environmental regulatory developments in North America and abroad concerning environmental issues, such as climate change, could adversely affect the operations of the Subsidiaries, and increase operating costs and, through their impact on customers, reduce demand for the products and services of the Subsidiaries. Actions may be taken in the future by federal, provincial, state, or local governments, the International Civil Aviation Organization, or by signatory countries through a new global climate change treaty to regulate the emission of greenhouse gases by the aviation industry. The precise nature of any such requirements and their applicability to the aviation

Subsidiaries of the Corporation and their customers are difficult to predict, but the impact to the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits.

Dependence on Information Systems and Technology

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

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

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

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

Furthermore, certain of these information technology solutions are maintained by third-party vendors that the Corporation is dependent on for maintaining their own security and control measures. If these third parties were to become incapable of maintaining efficient and/or secured technological solutions in line with the Corporation's expectations, this could increase the Corporation's exposure to additional cybersecurity threats, business disruptions or costs, adversely affecting the Corporation's business, results from operations, and financial condition.

International Operations Risks

Certain of the Subsidiaries conduct business with countries other than Canada and the United States, some of which are politically unstable or subject to military or civil conflicts. Consequently, they are subject to a variety of risks that are specific to international operations, including the following:

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

While the Subsidiaries 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 they operate will continue to be stable enough to allow it to operate profitably or at all.

Fluctuations in Sales Prices of Aviation Related Assets

Aircraft Sales & Leasing 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 the business line when determining the recoverability of inventories, aircraft, and engines, could result in impairment charges in future periods.

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

Fluctuations in Purchase Prices of Aviation Related Assets

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

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

Warranty Risk

Certain Subsidiaries are exposed to warranty risk. Defects may be found in products before and/or after they are delivered to the customer. Additionally, 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 suppliers. In particular, Aerospace manufactures highly complex and sophisticated surveillance aircraft and software solutions, incorporating various technologies and components. These aircraft are subject to detailed specifications, which are listed in contracts with customers, as well as stringent certification or approval requirements. Multi-Storey Window Solutions manufactures and installs windows for high rise apartment and condominium projects and provides a warranty of ten years on the integrity of the windows. Failure of the windows due to a fault in the manufacturing or installation processes could negatively impact reputation and could result in significant additional cost to remedy the issue identified under a valid warranty claim.

Performance Guarantees

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

Global Offset Risk

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

Intellectual Property Risk

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

Where applicable, the Corporation takes reasonable steps (e.g. available copyright protection and, as applicable, patent protection) to protect and enforce its intellectual property rights. There is no assurance that such measures will be enforceable or adequate. The cost of enforcing rights, or the inability to protect against infringement or unauthorized copying or use, can be substantial and, in certain cases, may prove to be uneconomic. Despite the Corporation's efforts, the steps taken to protect intellectual property may not be adequate to prevent or deter infringement or other misappropriation of intellectual property. The Corporation may not be able to detect unauthorized use of its intellectual property, or take appropriate steps to enforce its intellectual property rights.

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 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. Tax filing positions are subject to review and adjustment by taxation authorities who may challenge the Corporation's interpretation of the applicable tax legislation and regulations. If any challenge to the Corporation's tax filing positions were to succeed, it could result in a reassessment of taxes or otherwise have a material adverse effect on the Corporation's tax obligations.

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

Commodity Risk

Certain Subsidiaries are vulnerable to price fluctuations in select commodities required to conduct business. Some of the products manufactured by the Subsidiaries require specialized raw materials such as lumber, aluminum and steel. The market prices and availability for such commodities have and may continue to fluctuate widely depending on many factors including general economic and market conditions, geopolitical events, competition, freight and transportation costs and prevailing exchange rates. 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 within the contractual terms or timelines. Revenue and relationships with customers could be negatively affected as a result.

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

The operations of certain Manufacturing segment entities in Alberta have historically been impacted by prevailing oil prices. As oil prices fluctuate, demand for certain products manufactured within Precision Manufacturing & Engineering increases and decreases accordingly.

Essential Air Services is further impacted by mineral commodity pricing as the service requirements of several major customers are impacted by mineral commodity pricing levels.

Foreign Exchange

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

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

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

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

Interest Rates

As at December 31, 2023, the credit facility has a variable interest rate on the Canadian and US portions of the amount outstanding under the facility. The terms of the credit facility allow for the Corporation to choose the base interest rate between prime, bankers' acceptances, or Secured Overnight Financing Rate (SOFR). The Corporation manages the base rate used on the outstanding facility and seeks financing terms in individual arrangements that are most advantageous. The Corporation considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps on a portion of its debt to manage this risk. The Corporation's outstanding debentures have fixed interest rates that are not affected by changes in rates until the maturity of the debentures when they may need to be refinanced if the holders have not converted the debentures into equity.

Credit Facility and the Trust Indentures

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

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

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

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

Dividends

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

Unpredictability and Volatility of Securities Pricing

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

Dilution Risk

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

Credit Risk

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

HUMAN CAPITAL RISKS:

Reliance on Key Personnel

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

Employees and Labour Relations

The success of the Subsidiaries is dependent in large part upon their ability to attract and retain skilled management and employees. Recruiting and maintaining personnel in the industries in which the Subsidiaries are involved is highly competitive and it cannot be guaranteed that these entities will be able to attract and retain the qualified personnel needed for their businesses. In particular, skilled labour within Precision Manufacturing & Engineering such as for tower maintenance and erection and for certain metal fabricators, or the engineers and software developers in Aerospace's operations, are all specialized such that it can be difficult to find qualified personnel and retain them given the competitive environments in which these businesses operate. The previously enacted Transport Canada regulations concerning Pilot Fatigue and Flight Duty Times will have a continued impact on the number of pilots, nurses, and maintenance personnel required for Essential Air Services. The airline industry is currently experiencing a material shortage of experienced pilots and aircraft maintenance engineers. If this shortage continues, it could impact the ability of Essential Air Services to attract and retain these employees, who are key to our airlines' ability to operate. A failure to attract or retain qualified personnel could have an adverse effect on the Corporation's business, results from operations, and financial condition.

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

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

Conflicts of Interest

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

13. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Historically, the Corporation has used depreciation as a proxy for Maintenance Capital Expenditures at Regional One because the assets are being depleted as they are being flown by lessees and therefore depreciation reflects the required ongoing investment to maintain Free Cash Flow at current levels. Starting in the second quarter of 2020, the actual expenditures on assets already owned have been used as the costs of maintaining the fleet until such time the impact of COVID-19 wanes and the fleet utilization again warrants the use of depreciation as a proxy for Maintenance Capital Expenditures. While the impact of the pandemic has lessened, the lease fleet remains underutilized due to a worldwide shortage of flight crews, most notably pilots. The acute shortage of pilots has resulted from a significantly lower number of pilots graduating from flight school due to the impacts the pandemic had on the ability to complete flight training coupled with higher than average pilot retirements during the pandemic. All purchases of new assets, net of disposals and transfers to inventory, will be reflected as Growth Capital Expenditures during this time.

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

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

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

14. SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table provides selected annual information for the Corporation for the years ended 2021 through to 2023.

		2023		2022		2021
Revenues	$	2,498,415	$	2,059,373	$	1,413,146
Expenses [1]		1,942,890		1,602,931		1,083,266
Adjusted EBITDA	$	555,525	$	456,442	$	329,880
Total non-operating expense		433,218		346,773		261,292
Net Earnings	$	122,307	$	109,669	$	68,588
Net Earnings per share						
Basic	$	2.72	$	2.72	$	1.84
Diluted		2.65		2.64		1.80
Adjusted Net Earnings	$	144,051	$	132,915	$	86,012
Basic		3.20		3.29		2.31
Diluted		3.07		3.13		2.26
Dividends declared	$	114,588	$	97,473	$	85,387
Per share		2.54		2.41		2.28
Free Cash Flow	$	377,118	$	332,025	$	243,317
Per share basic		8.39		8.23		6.53
Per share fully diluted		7.38		7.16		5.78
Free Cash Flow less Maintenance Capital Expenditures	$	201,827	$	176,104	$	147,154
Per share basic		4.49		4.36		3.95
Per share fully diluted		4.13		3.99		3.68
Financial Position						
Working capital	$	540,720	$	465,481	$	225,108
Total assets		4,079,807		3,548,836		2,588,667
Total long-term liabilities [2]		2,003,312		1,771,557		1,188,544
Total liabilities		2,834,334		2,529,782		1,788,392
Share Information						
Common shares outstanding as at December 31,		47,136,625		42,479,063		38,740,389
Weighted average common shares outstanding during the year - basic		44,970,513		40,348,003		37,265,034

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

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

The following summary reflects quarterly results of the Corporation:

	2023				2022				2021
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1	Q4
Revenue	**$ 656,676**	**$ 687,673**	**$ 627,222**	**$ 526,884**	$ 543,360	$ 586,770	$ 529,017	$ 400,226	$ 390,327
Adjusted EBITDA	**143,621**	**167,751**	**147,036**	**97,117**	124,052	150,379	115,055	66,956	89,421
Net Earnings	**29,027**	**49,523**	**36,896**	**6,861**	26,990	48,936	29,990	3,753	23,056
Basic	**0.62**	**1.06**	**0.85**	**0.16**	0.64	1.20	0.76	0.10	0.61
Diluted	**0.61**	**0.99**	**0.80**	**0.16**	0.62	1.09	0.73	0.09	0.59
Adjusted Net Earnings	**33,768**	**55,263**	**43,480**	**11,540**	32,049	54,530	38,501	7,835	28,027
Basic	**0.72**	**1.19**	**1.00**	**0.27**	0.76	1.34	0.98	0.20	0.74
Diluted	**0.70**	**1.09**	**0.93**	**0.27**	0.73	1.20	0.90	0.20	0.71
Free Cash Flow ("FCF")	**102,265**	**117,143**	**98,002**	**59,708**	82,533	112,832	89,251	47,409	71,592
Basic	**2.17**	**2.51**	**2.25**	**1.40**	1.95	2.77	2.26	1.22	1.88
Diluted	**1.92**	**2.20**	**1.96**	**1.26**	1.71	2.38	1.95	1.10	1.62
FCF less Maintenance Capital Expenditures	**49,971**	**74,341**	**58,592**	**18,923**	40,243	69,009	47,356	19,496	42,906
Basic	**1.06**	**1.60**	**1.34**	**0.44**	0.95	1.70	1.20	0.50	1.13
Diluted	**0.99**	**1.43**	**1.21**	**0.44**	0.88	1.49	1.09	0.49	1.02
Maintenance Capital Expenditures	**52,294**	**42,802**	**39,410**	**40,785**	42,290	43,823	41,895	27,913	28,686
Growth Capital Expenditures	**101,566**	**81,115**	**85,952**	**34,411**	48,885	27,055	41,308	8,168	34,497

ADDITIONAL INFORMATION

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

Independent auditor's report

To the Shareholders of Exchange Income Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Exchange Income Corporation and its subsidiaries (together, the Corporation) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

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

PricewaterhouseCoopers LLP
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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Cost of sales recognition – Aviation parts for resale inventories *Refer to note 3 – Material accounting policies, note 5 – Critical accounting estimates and judgments and note 7 – Inventories to the consolidated financial statements.* The Corporation's aviation parts for resale inventories carrying value was $223.0 million as at December 31, 2023. A portion of the $153.9 million of inventories expensed and recorded within aerospace and aviation expenses, excluding depreciation and amortization, related to the Corporation's aviation parts for resale cost of sales for the year ended December 31, 2023. In the normal course of the Corporation's business, it may acquire entire aircraft or components of an aircraft for breakdown into saleable parts. The cost of sales recognized is determined using the average cost to sales percentage method at expected selling prices. Management applied significant judgment in estimating the average cost to sales percentage, which included the determination of the expected selling price. We considered this a key audit matter due to the significant judgment applied by management when developing the average cost to sales percentage estimate. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating evidence relating to the determination of the expected selling price. The audit effort involved the use of professionals with specialized skill and knowledge.	Our approach to addressing the matter included the following procedures, among others: • Tested how management estimated the average cost to sales percentage based on expected selling prices for aviation parts for resale inventories, which included the following: – Evaluated the appropriateness of the average cost to sales percentage method at expected selling prices. – Tested the completeness and accuracy of the data used in the average cost to sales percentage method at expected selling prices. – Evaluated the reasonableness of the significant assumption made by management related to expected selling price for aviation parts for resale inventories on a sample basis by considering the historical profit margin recognized on the parts sales. – Developed an independent expectation for the expected selling price of the aviation parts for resale inventories on a sample basis with the assistance of professionals with specialized skill and knowledge in the field of valuation and compared the independent expectation to management's assumption to evaluate the reasonableness of management's assumption.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – Estimated costs to complete long-term construction contracts at AWI, WesTower and WIS for uncompleted contracts as at year-end *Refer to note 3 – Material accounting policies, note 5 – Critical accounting estimates and judgments and note 17 – Construction contracts to the consolidated financial statements.* The Corporation recognized revenue of $634.3 million from long-term construction contracts for the year ended December 31, 2023 related to revenue recognized over time, including revenue from long-term construction contracts at Advanced Window Specialists, Inc. (AWI), Provincial Aerospace Ltd., Stainless Fabrication Inc., Quest Window Systems Inc., WesTower Communications Ltd. (WesTower) and Window Installation Specialists, Inc. (WIS). For AWI, WesTower and WIS, revenue is recognized over time using an input-based measure, such as the ratio of actual costs incurred to date over estimated total costs, and makes up a significant portion of total revenue of $634.3 million from long-term construction contracts. Management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material costs and subcontracting costs, as applicable. We considered this a key audit matter due to the significant judgment applied by management in determining the estimated costs to complete long-term construction contracts. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the significant assumptions used by management.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the estimated costs to complete the long-term construction contracts at AWI, WesTower and WIS for a sample of uncompleted contracts as at year-end, which included the following: – Evaluated the appropriateness of management's input-based method and tested the mathematical accuracy of the ratio of actual costs incurred to date over estimated total costs at completion. – Tested the underlying data used by management in the input-based method. – Evaluated the reasonableness of significant assumptions used by management with respect to estimated labour costs, material costs and subcontracting costs by: o testing the estimated costs to complete by comparing the costs initially budgeted for the completed phases of the contracts to the actual costs incurred for those phases; and o inquiring with management, including project managers, regarding the status of contracts and the estimates of costs to complete. • For a sample of uncompleted long-term construction contracts at the beginning of the year, performed look back procedures and compared the originally estimated costs to actual costs incurred on similar completed contracts.

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
February 22, 2024

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(audited, in thousands of Canadian dollars)

As at	December 31 2023	December 31 2022
ASSETS		
CURRENT		
Cash and cash equivalents	$ 103,559	$ 139,896
Accounts receivable	543,611	434,956
Amounts due from customers on construction contracts (Note 17)	40,207	33,212
Inventories (Note 7)	408,379	335,060
Prepaid expenses and deposits	63,602	102,808
	1,159,358	1,045,932
OTHER ASSETS (Note 8)	133,725	134,461
CAPITAL ASSETS (Note 9)	1,571,067	1,284,409
RIGHT OF USE ASSETS (Note 10)	170,099	157,319
INTANGIBLE ASSETS (Note 11)	332,362	300,374
GOODWILL (Note 11)	713,196	626,341
	$ 4,079,807	$ 3,548,836
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ 461,917	$ 451,906
Income taxes payable	7,274	6,888
Deferred revenue	71,281	60,467
Amounts due to customers on construction contracts (Note 17)	41,300	30,111
Current portion of right of use lease liability (Note 10)	36,866	31,079
	618,638	580,451
DEFERRED REVENUE	-	534
OTHER LONG-TERM LIABILITIES	33,607	23,635
LONG-TERM DEBT (Note 12)	1,422,642	1,214,764
CONVERTIBLE DEBENTURES (Note 13)	403,775	399,443
LONG-TERM RIGHT OF USE LEASE LIABILITY (Note 10)	143,288	133,181
DEFERRED INCOME TAX LIABILITY (Note 26)	212,384	177,774
	2,834,334	2,529,782
EQUITY		
SHARE CAPITAL (Note 14)	1,252,890	1,019,772
CONVERTIBLE DEBENTURES - Equity Component (Note 13)	13,979	14,017
CONTRIBUTED SURPLUS	16,635	16,635
DEFERRED SHARE PLAN	16,756	15,791
RETAINED EARNINGS		
Cumulative Earnings	800,188	677,881
Cumulative Dividends (Note 15)	(874,380)	(759,792)
Cumulative impact of share cancellation under the NCIB	(26,122)	(26,122)
	1,199,946	958,182
ACCUMULATED OTHER COMPREHENSIVE INCOME	45,527	60,872
	1,245,473	1,019,054
	$ 4,079,807	$ 3,548,836

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF INCOME

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

For the years ended December 31		2023		2022
REVENUE				
Aerospace & Aviation	$	1,498,216	$	1,337,440
Manufacturing		1,000,199		721,933
		2,498,415		2,059,373
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		919,630		854,487
Manufacturing expenses - excluding depreciation and amortization		718,469		493,833
General and administrative		304,791		254,611
		1,942,890		1,602,931
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		555,525		456,442
Depreciation of capital assets (Note 9)		208,492		168,156
Amortization of intangible assets (Note 11)		20,244		20,897
Finance costs - interest		112,316		73,665
Depreciation of right of use assets (Note 10)		37,091		30,655
Interest expense on right of use lease liabilities		7,471		4,753
Acquisition costs		7,769		6,847
Other (Note 5)		(951)		-
EARNINGS BEFORE INCOME TAXES		163,093		151,469
INCOME TAX EXPENSE				
Current		26,016		21,872
Deferred		14,770		19,928
		40,786		41,800
NET EARNINGS	$	122,307	$	109,669
NET EARNINGS PER SHARE (Note 18)				
Basic	$	2.72	$	2.72
Diluted	$	2.65	$	2.64

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

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(audited, in thousands of Canadian dollars)

Attributable to common shareholders For the years ended December 31		2023		2022
NET EARNINGS	$	122,307	$	109,669
OTHER COMPREHENSIVE INCOME				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense of nil and nil, respectively.		(17,300)		44,912
Net gain (loss) on hedge of net investment in foreign operations, net of tax expense of nil and nil, respectively.		4,511		(12,975)
Net gain (loss) on hedge of restricted share plan, net of tax expense (recovery) of ($875) and $644, respectively.		(2,431)		1,741
Net gain (loss) on interest rate swap, net of tax expense (recovery) of ($78) and $2,283, respectively.		(125)		6,174
		(15,345)		39,852
COMPREHENSIVE INCOME	$	106,962	$	149,521

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

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(audited, in thousands of Canadian dollars)

					Retained Earnings				
	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Cumulative Earnings	Cumulative Dividends	Cumulative impact of share repurchases under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2022	$ 852,821	$ 17,607	$ 13,046	$ 16,010	$ 568,212	$ (662,319)	$ (26,122)	$ 21,020	$ 800,275
Shares issued to acquisition vendors	36,943	-	-	-	-	-	-	-	36,943
Prospectus offering	110,976	-	-	-	-	-	-	-	110,976
Convertible debentures									
Converted into shares	7	(1)	-	-	-	-	-	-	6
Matured/Redeemed	-	(3,589)	3,589	-	-	-	-	-	-
Shares issued under dividend reinvestment plan (Note 14)	15,120	-	-	-	-	-	-	-	15,120
Shares issued under Indigenous community partnership agreements (Note 14)	50	-	-	-	-	-	-	-	50
Deferred share plan vesting (Note 20)	-	-	-	1,117	-	-	-	-	1,117
Deferred share plan issuance (Note 14)	1,336	-	-	(1,336)	-	-	-	-	-
Shares issued under ESPP (Note 14)	2,519	-	-	-	-	-	-	-	2,519
Comprehensive income	-	-	-	-	109,669	-	-	39,852	149,521
Dividends declared (Note 15)	-	-	-	-	-	(97,473)	-	-	(97,473)
Balance, December 31, 2022	**$ 1,019,772**	**$ 14,017**	**$ 16,635**	**$ 15,791**	**$ 677,881**	**$ (759,792)**	**$ (26,122)**	**$ 60,872**	**$ 1,019,054**
Balance, January 1, 2023	$ 1,019,772	$ 14,017	$ 16,635	$ 15,791	$ 677,881	$ (759,792)	$ (26,122)	$ 60,872	**$ 1,019,054**
Shares issued to acquisition vendors (Note 6)	42,363	-	-	-	-	-	-	-	**42,363**
Prospectus offering	167,067	-	-	-	-	-	-	-	**167,067**
Convertible debentures (Note 13)									
Converted into shares	1,000	(38)	-	-	-	-	-	-	**962**
Shares issued under dividend reinvestment plan (Note 14)	19,017	-	-	-	-	-	-	-	**19,017**
Shares issued under Indigenous community (Note 14) partnership agreements	50	-	-	-	-	-	-	-	**50**
Deferred share plan vesting (Note 20)	-	-	-	1,503	-	-	-	-	**1,503**
Deferred share plan issuance (Note 14)	538	-	-	(538)	-	-	-	-	**-**
Shares issued under ESPP (Note 14)	3,083	-	-	-	-	-	-	-	**3,083**
Comprehensive income	-	-	-	-	122,307	-	-	(15,345)	**106,962**
Dividends declared (Note 15)	-	-	-	-	-	(114,588)	-	-	**(114,588)**
Balance, December 31, 2023	**$ 1,252,890**	**$ 13,979**	**$ 16,635**	**$ 16,756**	**$ 800,188**	**$ (874,380)**	**$ (26,122)**	**$ 45,527**	**$ 1,245,473**

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

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(audited, in thousands of Canadian Dollars)

For the years ended December 31		**2023**		2022
OPERATING ACTIVITIES				
Net earnings for the year	**$**	**122,307**	$	109,669
Items not affecting cash:				
Depreciation of capital assets (Note 9)		**208,492**		168,156
Amortization of intangible assets (Note 11)		**20,244**		20,897
Depreciation of right of use assets (Note 10)		**37,091**		30,655
Accretion of interest		**6,998**		9,068
Gain on disposal of capital assets		**(4,673)**		(3,154)
Deferred income tax expense		**14,770**		19,928
Deferred share program share-based vesting (Note 20)		**1,503**		1,117
Other		**(951)**		-
		405,781		356,336
Changes in non-cash current and long-term working capital (Note 24)		**(52,555)**		(21,217)
		353,226		335,119
FINANCING ACTIVITIES				
Proceeds from long-term debt, net of issuance costs (Note 12)		**489,404**		647,512
Repayment of long-term debt (Note 12)		**(263,965)**		(165,390)
Long-term debt discount		**(1,082)**		(354)
Payment of matured debentures (Note 13)		**-**		(99,992)
Principal payments on right of use lease liabilities (Note 10)		**(35,528)**		(30,449)
Issuance of shares, net of issuance costs		**187,113**		127,114
Cash dividends (Note 15)		**(114,588)**		(97,473)
		261,354		380,968
INVESTING ACTIVITIES				
Purchase of capital assets		**(503,270)**		(359,634)
Proceeds from disposal of capital assets		**27,504**		85,010
Purchase of intangible assets		**(2,569)**		(6,945)
Proceeds from disposal of intangible assets		**-**		232
Investment in other assets		**(5,776)**		(53,024)
Cash outflow for acquisitions, net of cash acquired (Note 6)		**(155,837)**		(314,775)
Payment of contingent acquisition consideration and prior period working capital settlements (Note 23)		**(10,805)**		(6,315)
		(650,753)		(655,451)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS		**(36,173)**		60,636
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**139,896**		75,408
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(164)**		3,852
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**103,559**	$	139,896
Supplementary cash flow information				
Interest paid	**$**	**106,718**	$	58,956
Income taxes paid	**$**	**20,155**	$	20,858

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

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

1. ORGANIZATION

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

As at December 31, 2023, the principal operating subsidiaries of the Corporation are Calm Air International LP, Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Custom Helicopters Ltd., Regional One Inc., EIC Aircraft Leasing Limited, Provincial Aerospace Ltd., CANLink Aviation Inc. ("MFC Training"), Carson Air Ltd., Quest Window Systems Inc., WesTower Communications Ltd., Ben Machine Products Company Incorporated, LV Control Mfg. Ltd., Water Blast Manufacturing LP, Overlanders Manufacturing LP, Northern Mat & Bridge LP ("Northern Mat"), Hansen Industries Ltd. ("Hansen"), BVGlazing Systems Ltd. ("BVGlazing"), and DryAir Manufacturing Corporation ("DryAir"). Regional One, Inc., Quest USA Inc., Stainless Fabrication Inc., and Crew Training International, Inc., are wholly owned subsidiaries of EIIF Management USA Inc. Through the Corporation's subsidiaries, products and services are provided in two business segments: Aerospace & Aviation and Manufacturing.

The Corporation's results are impacted by seasonality factors. The Aerospace & Aviation segment has historically had the strongest revenues in the second and third quarters when demand tends to be highest, relatively modest in the fourth quarter and the lowest in the first quarter as communities serviced by certain of the airlines are less isolated with the use of winter roads for transportation during the winter. Northern Mat's business is also subject to seasonal variability, where the second and third quarters have the highest demand, the fourth quarter is slower and the first quarter is the slowest.

2. BASIS OF PREPARATION

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

The consolidated financial statements were approved by the Board of Directors of the Corporation for issue on February 22, 2024.

3. MATERIAL ACCOUNTING POLICIES

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

a) *Basis of Measurement*

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

b) *Principles of Consolidation*

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All inter-company transactions have been eliminated for the purpose of these consolidated financial statements.

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

c) *Revenue Recognition*

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

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

Aerospace & Aviation Segment

i. Aftermarket parts sales

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

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

ii. Aircraft and engine sales

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

iii. Aircraft and engine lease revenue

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

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

iv. Surveillance and aircraft modification services

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

v. Software development and sales of software licenses

Revenue from software development is recognized over time based on the completion of contractual performance obligations. The stage of completion is determined based on the costs incurred to date in comparison to the expected total costs.

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

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

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

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

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

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

viii. Training Services

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

Manufacturing Segment

i. Sale of equipment and manufactured goods

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

ii. Manufactured window sales

Revenue from the manufacture and installation of window systems is recognized over time based on input or output measures, whichever most accurately reflects the transfer of goods to the customer and for which reasonable estimates can be made. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. Revenue recognized over time based on input measures is determined using the ratio of actual costs incurred to date over estimated costs. The timing of billings to the customer and customer payments can result in either an asset ("Amounts due from customers on construction contracts") or a liability ("Amounts due to customers on construction contracts").

iii. Tower construction services

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

iv. Stainless tank sales

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

v. Sales and Rentals of Mats and Bridges

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

d) *Expenses*

Aerospace & Aviation expenses – excluding depreciation and amortization

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

Manufacturing expenses – excluding depreciation and amortization

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

e) *Foreign Currency Translation*

<u>Functional and presentation currency</u>

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

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

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

<u>Transactions and balances</u>

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

f) *Cash and Cash Equivalents*

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

g) *Financial Instruments*

<u>Recognition</u>

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

<u>Classification</u>

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

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

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

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

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

Measurement

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

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

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

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

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

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

Impairment

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

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

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

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

Hedge Accounting and Derivatives

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

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

Hedges of a net investment in a foreign operation

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

Financial Liabilities

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

Derivative financial instruments

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

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

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

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

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

h) Inventory

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

The Corporation classifies its inventory into the following categories:

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

i) Capital Assets

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

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

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

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

Buildings	20 – 50 years
Aircraft frames and rotables	2 – 30 years
Aircraft engines	2 – 20 years
Aircraft propellers	4 – 7 years
Aircraft landing gear	7 – 15 years
Equipment	5 – 10 years
Rental Mats	5 years
Rental Bridges	50 years
Other	2 – 15 years
Leasehold improvements over the term of the lease	

The aviation related capital assets of Regional One have useful lives that range between 1 – 7 years and depending on the condition and expected useful lives of the assets in leasing arrangements.

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

j) Intangible Assets

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

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

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

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

k) Goodwill

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

l) Impairment of Long-Lived Assets

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

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

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

m) Current and Deferred Income Taxes

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

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

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

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

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

In May 2023, the IASB issued International Tax Reform — Pillar Two Model Rules, which amended IAS 12, Income Taxes, to introduce a temporary exception to the requirements to recognize and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes, and targeted disclosure requirements for affected entities. The relief is effective immediately upon issuance of the amendments and should be applied retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, while the targeted disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2023. The Corporation applied the temporary exception during the 2023 year, retrospectively.

The adoption of this amendment, the proposed Pillar Two legislation in Canada and the enactment of the Pillar Two legislation in certain jurisdictions in which the Corporation operates are not expected to have a significant impact on the consolidated financial statements of the Corporation.

n) *Employee Benefits*

Share-Based Compensation – Deferred Share Plan

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

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

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

Share-Based Compensation – Restricted Share Plan

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

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

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

Share-Based Compensation – Employee Share Purchase Plan

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

o) *Provisions*

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

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

p) *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.

q) *Leases and Right of Use Assets*

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

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

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

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

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

r) *Share Capital*

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

s) *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.

t) *Earnings per Share*

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

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

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Accounting Estimates

Business Combinations

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

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

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions are reassessed each period end subsequent to the related acquisition. The carrying value of the liability is based on an estimate of both the amount of the potential payment and probability that the earn out will be paid. During the year, the estimated liability for additional purchase consideration associated with Northern Mat was reduced to reflect the final payment to the vendors. This resulted in a recovery of $951 (2022 – $nil) and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

Revenue and income from fixed price construction contracts are recognized over time using the methodology that most accurately reflects the transfer of goods to the customer. The Corporation has a process whereby progress on jobs is reviewed by management on a regular basis and estimated costs to complete are updated. However, due to unforeseen changes in the nature or cost of the work to be completed or performance factors, contract profit can differ significantly from earlier estimates. Management believes, based on its experience that its current systems of management and accounting controls allow the Corporation to produce materially reliable estimates of total contract revenue and cost during any accounting period. However, many factors can and do change during a contract performance period, which can result in a change to contract profitability from one financial reporting period to another. Some of the factors that can change the estimate of total contract revenue and cost include differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labour, the performance of major material suppliers to deliver on time, the performance of major subcontractors, unusual weather conditions, changes in underlying raw material cost estimates, and the accuracy of the original bid estimate. Accordingly, management applies significant judgment to estimate the costs to complete these long-term construction contracts, including the use of significant assumptions with respect to estimated labour costs, material costs and subcontracting costs, as applicable.

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

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

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

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

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans, and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation or amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2023, would result in an increase of approximately $10,341 (2022 - $11,031) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

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

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

Intangible Assets

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

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

The Corporation has concluded that there are no impairments of its indefinite lived intangible assets as a result of this assessment as at December 31, 2023.

Goodwill

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

The Corporation used its forecasted Adjusted EBITDA based on its approved budget and used its best estimate of market participant Adjusted EBITDA multiples (Level 3 within the fair value hierarchy). The Adjusted EBITDA multiple used for the Aerospace & Aviation segment was 8.0x (2022 – 8.0x) and was 7.5x (2022 – 7.5x) for the Manufacturing segment. The Corporation will, at times, perform various scenario and sensitivity analysis when calculating the recoverable amounts of CGUs which may include alternative models and assumptions.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2023.

Deferred Income Taxes

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

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

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

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

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

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

6. ACQUISITIONS

Hansen Industries Ltd.

On April 1, 2023, the Corporation acquired the shares of Hansen. Hansen, located in Richmond, B.C, provides custom fabrication of precision metal components and assemblies using automated equipment.

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

Consideration given:	
Cash	$ 39,469
Issuance of 85,102 shares of the Corporation at $52.29 per share	4,450
Final working capital settlement, including amount paid on close and final payment	(57)
Total purchase consideration	**$ 43,862**

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

Fair value of assets acquired:	
Cash	$ 391
Accounts receivable	5,499
Inventory	2,541
Prepaid expenses and deposits	73
Income taxes receivable	65
Capital assets	3,169
Right of use assets	5,530
Intangible assets	15,800
	33,068
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	3,487
Right of use lease liabilities	5,530
Deferred income tax liability	4,909
Fair value of identifiable net assets acquired	19,142
Goodwill	24,720
Total purchase consideration	**$ 43,862**

Of the $15,800 acquired intangible assets, $11,400 was assigned to customer relationships and $4,400 was assigned to brand name. The customer relationship intangible asset is subject to amortization while the brand name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, and the profitability of the acquired business.

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

BVGlazing Systems Ltd.

On May 1, 2023, the Corporation acquired the shares of BVGlazing. BVGlazing, headquartered in Concord, Ontario, designs, engineers, manufactures, and supplies window, door, and railing systems for mid-rise and high-rise building projects in Canada and the US. BVGlazing manufactures unitized and stick curtain wall systems, railing systems, and window wall glazing systems.

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

Consideration given:		
Cash	$	73,024
Issuance of 431,598 shares of the Corporation at $53.29 per share		23,000
Estimated working capital settlement		11,136
Total purchase consideration	$	107,160

The purchase price allocation will be finalized in 2024 when the final settlement of working capital and other post-closing adjustments occur.

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

Fair value of assets acquired:		
Accounts receivable	$	89,364
Amounts due from customers on construction contracts		7,929
Inventory		8,587
Prepaid expenses and deposits		1,085
Income taxes receivable		6,259
Capital assets		15,806
Right of use assets		20,852
Intangible assets		18,200
		168,082
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		62,110
Right of use lease liabilities		20,852
Deferred income tax liability		14,146
Fair value of identifiable net assets acquired		70,974
Goodwill		36,186
Total purchase consideration	$	107,160

Of the $18,200 acquired intangible assets, $14,100 was assigned to brand name, and $4,100 was assigned to customer relationships. The customer relationship intangible asset is subject to amortization while the brand name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies, and the profitability of the acquired business.

DryAir Manufacturing Corporation

On October 5, 2023, the Corporation acquired the shares of DryAir Manufacturing Corporation. DryAir, located in St. Brieux Saskatchewan, provides portable hydronic heating systems that offer affordable and reliable climate control solutions to a variety of industries throughout North America.

The components of the consideration paid to acquire DryAir are outlined in the table below,

Consideration given:		
Cash	$	44,800
Issuance of 336,255 shares of the Corporation at $44.61 per share		15,000
Estimated working capital settlement		6,304
Total purchase consideration	$	66,104

The purchase price allocation will be finalized in 2024 when the final settlement of working capital and other post-closing adjustments occur.

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

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

Fair value of assets acquired:		
Cash	**$**	**1,065**
Accounts receivable		**13,398**
Inventory		**14,996**
Prepaid expenses and deposits		**218**
Other assets		**24**
Capital assets		**2,466**
Intangible assets		**16,700**
		48,867
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		**6,422**
Income taxes payable		**1,458**
Deferred income tax liability		**4,475**
Fair value of identifiable net assets acquired		**36,512**
Goodwill		**29,592**
Total purchase consideration	**$**	**66,104**

Of the $16,700 acquired intangible assets, $10,700 was assigned to customer relationships and $6,000 was assigned to brand name. The customer relationship intangible asset is subject to amortization while the brand name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies, and the profitability of the acquired business.

7. INVENTORIES

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

		December 31 2023		December 31 2022
Parts and other consumables	**$**	**71,257**	$	59,127
Aviation parts for resale		**222,981**		163,869
Raw materials		**49,448**		48,983
Work in process		**17,109**		12,646
Finished goods		**47,584**		50,435
Total inventory	**$**	**408,379**	$	335,060

During 2023, inventory from the Aerospace & Aviation segment with a value of $153,876 (2022 – $135,198) was recorded as an expense within the Aerospace & Aviation expenses – excluding depreciation and amortization, and inventory from the Manufacturing segment with a value of $194,018 (2022 – $143,034) was recorded as an expense within Manufacturing expenses – excluding depreciation and amortization.

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

8. OTHER ASSETS

The other assets of the Corporation consist of the following:

		December 31 2023		December 31 2022
Long-term prepaid expenses and security deposits	**$**	**4,273**	$	3,553
Long-term receivables		**894**		10,133
Equity method investments		**114,528**		102,163
Other investments - Fair value through OCI (Note 23)		**6,718**		6,917
Derivative financial instruments - Fair value through profit and loss (Note 23)		**7,312**		11,695
Total other assets	**$**	**133,725**	$	134,461

The Corporation is invested in a number of equity accounted investments in non-trading entities at December 31, 2023. The Corporation's ownership percentages in the entities are 25%, 33%, 49% , 49%, 50% and 50%, and the carrying values at December 31, 2023 are $13,817 (2022 – $13,293), $11,203 (2022 – $11,195), $7,192 (2022 - $4,423), $25,109 (2022 - $20,781), $37,464 (2022 – $33,615), and $19,743 (2022 – $18,856), respectively. The reporting period end for the equity accounted investments is December 31. These entities have total assets of $337,077 (2022 – $314,274) and total liabilities of $99,788 (2022 – $97,136) at December 31, 2023. The entities had revenues of $358,994 (2022 – $245,871) and net income of $26,252 (2022 – $13,962) for the year ended December 31, 2023. These investments, for which fair market value is not available, have been included within the equity method investments line above.

The Corporation is invested in non-trading entities that are accounted for at fair value through OCI. At December 31, 2023, the carrying value of these entities is $6,718 (2022 - $6,917).

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

9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

		Cost		Accumulated Depreciation		December 31, 2023 Net Book Value
Land	$	10,323	$	-	$	10,323
Buildings		167,380		49,252		118,128
Aircraft frames		671,536		186,563		484,973
Aircraft engines		365,290		155,323		209,967
Aircraft propellers and rotors		78,988		32,403		46,585
Aircraft landing gear		66,385		20,119		46,266
Aircraft rotable parts		152,403		64,987		87,416
Equipment		323,122		198,690		124,432
Other		40,692		26,814		13,878
Leasehold improvements		36,005		23,804		12,201
		1,912,124		757,955		1,154,169
Assets for lease to third parties		636,934		220,036		416,898
Total	$	2,549,058	$	977,991	$	1,571,067

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

						Year Ended December 31, 2023	
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 9,499	$ 845	$	$	$	$ (21)	$ 10,323
Buildings	113,631	1,279	7,017	-	(3,746)	(53)	118,128
Aircraft frames	360,429	-	156,607	(159)	(31,903)	(1)	484,973
Aircraft engines	159,651	-	86,832	(1,615)	(34,901)	-	209,967
Aircraft propellers and rotors	36,980	-	19,347	(372)	(9,370)	-	46,585
Aircraft landing gear	33,552	-	17,179	-	(4,465)	-	46,266
Aircraft rotable parts	71,169	-	37,772	(203)	(21,334)	12	87,416
Equipment	85,129	15,573	50,061	(1,806)	(24,282)	(243)	124,432
Other	9,719	2,270	4,556	(150)	(2,463)	(54)	13,878
Leasehold improvements	9,940	1,474	3,105	-	(2,239)	(79)	12,201
	889,699	21,441	382,476	(4,305)	(134,703)	(439)	1,154,169
Assets for lease to third parties	394,710		122,762	(18,526)	(73,789)	(8,259)	416,898
Total	$ 1,284,409	$ 21,441	$ 505,238	$ (22,831)	$ (208,492)	$ (8,698)	$ 1,571,067

During the year, the Corporation had transfers of $1,968 from right of use assets to capital assets, which had no cash impact.

During the year, the Corporation had net transfers of $12,430 from capital assets to inventory (December 31, 2022 - $5,527 from capital assets to inventory). The Corporation transfers capital assets out of the lease portfolio into inventory for part out and resale when it is determined beneficial to do so as part of the normal life cycle of older aircraft. In addition, the Corporation may also transfer assets from inventory to capital assets to increase the future economic benefit of its operating aircraft (Note 5). The net of these transfers is included within the Additions/Transfers column.

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

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

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

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

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

10. LEASES

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

Net Book Value	January 1, 2023 Opening	Acquisitions (Note 6)	Additions	Disposals/ Transfers	Depreciation	Exchange Differences	December 31, 2023 Ending
Land	$ 27,665	$ -	$ 654	$ (37)	$ (1,541)	$ -	$ 26,741
Building	77,933	26,352	16,758	(222)	(22,664)	(469)	97,688
Aircraft	38,331	-	2,633	-	(8,939)	-	32,025
Equipment	6,474	-	2,006	(1,968)	(1,117)	(2)	5,393
Other	6,916	30	4,383	(247)	(2,830)	-	8,252
Total	$ 157,319	$ 26,382	$ 26,434	$ (2,474)	$ (37,091)	$ (471)	$ 170,099

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

During the year the Corporation transferred $1,968 from right of use assets to capital assets, which had no cash impact and is reflected in the Disposals column.

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

Right of Use Lease Liability	2023	2022
Opening balance, January 1	**$ 164,260**	$ 90,000
Additions to right of use lease liabilities, including through acquisitions	**52,818**	103,977
Disposals of right of use assets and derecognition of lease liabilities	**(838)**	(823)
Principal payments on right of use lease liabilities	**(35,528)**	(30,449)
Exchange differences	**(558)**	1,555
Closing balance, December 31	**$ 180,154**	$ 164,260
Current portion	**$ 36,866**	$ 31,079

During the year, the Corporation expensed $10,154 (December 31, 2022 - $8,512) in leases that did not meet the thresholds for recognition under IFRS 16. These leases were either low value, less than twelve months or contained variable payments that fell outside of the scope of the standard.

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

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

Undiscounted Right of Use Lease Liability Payments	**December 31, 2023**	December 31, 2022
Less than 1 year	**$ 43,743**	$ 37,101
Between 1 year and 5 years	**114,674**	103,356
More than 5 years	**48,840**	51,107
	$ 207,257	$ 191,564

11. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2023 and 2022:

			December 31, 2023
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 151,985	$ -	$ 151,985
Finite Life Assets			
Customer contracts and relationships	235,989	85,340	150,649
Certifications	10,630	819	9,811
Information technology systems	33,543	17,066	16,477
Other	9,354	5,914	3,440
Total	$ 441,501	$ 109,139	$ 332,362

							Year Ended December 31, 2023
Net Book Value	Opening	Acquisition	Additions/ Transfers	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 128,207	$ 24,500	$ -	$ -	$ -	$ (722)	$ 151,985
Finite Life Assets							
Customer contracts and relationships	142,336	26,200	-	-	(17,573)	(314)	150,649
Certifications	9,820	-	18	-	(27)	-	9,811
Information technology systems	17,060	-	1,632	-	(2,214)	(1)	16,477
Other	2,951	-	919	-	(430)	-	3,440
Total	$ 300,374	$ 50,700	$ 2,569	$ -	$ (20,244)	$ (1,037)	$ 332,362

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

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

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

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

Goodwill	**2023**	2022
Balance, beginning of year	**$ 626,341**	$ 486,875
Goodwill from business acquisitions	**90,498**	146,942
Measurement period adjustment - settlement of working capital and other (Note 23)	**-**	(18,603)
Translation of goodwill of foreign operations	**(3,643)**	11,127
Balance, end of year	**$ 713,196**	$ 626,341

As a result of the foreign currency translation policy for the consolidation of US dollar functional currency subsidiaries as described in Note 3, the goodwill recorded in these subsidiaries of US $114,573 is valued at the period-end exchange rate. As a result, the goodwill fluctuates as the Canadian dollar reporting currency changes in comparison to the US dollar.

During the prior year, the Corporation finalized the purchase price allocation of CTI, which was acquired in 2021, resulting in the allocation of a portion of the goodwill recorded to intangible assets. Accordingly, $17,833 was reflected as a measurement period adjustment in the table above in the prior year.

The Corporation completed its annual impairment testing for goodwill and indefinite life intangible assets as at December 31, 2023 (Note 5). As at December 31, 2023, there was no impairment of goodwill or indefinite life intangible assets based on management's assessment.

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

12. LONG-TERM DEBT

The following summarizes the Corporation's long-term debt as at December 31, 2023, and December 31, 2022:

	December 31 2023	December 31 2022
Revolving term facility:		
Canadian dollar amounts drawn	$ 540,000	$ 201,000
United States dollar amounts drawn (US$670,675 and US$751,127 respectively)	887,035	1,017,326
Total credit facility debt outstanding, principal value	1,427,035	1,218,326
less: unamortized transaction costs	(2,794)	(3,045)
less: unamortized discount on outstanding Banker's Acceptances	(1,599)	(517)
Long-term debt	$ 1,422,642	$ 1,214,764

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, 2023.

Interest expense recorded by the Corporation during the year ended December 31, 2023, for long-term debt was $84,216 (2022 – $42,746).

Credit Facility

The following is the continuity of long-term debt for the year ended December 31, 2023:

					Year Ended December 31, 2023
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	$ 201,000	$ 720,200	$ (381,200)	$ -	$ 540,000
United States dollar amounts	1,017,326	483,839	(595,920)	(18,210)	887,035
	$ 1,218,326				$ 1,427,035

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

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

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

13. CONVERTIBLE DEBENTURES

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

Summary of the debt component of the convertible debentures:

	2023 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2023 Balance, End of Year
Unsecured Debentures - 2018	$ 78,215	$ -	$ 864	$ (778)	$ -	$ 78,301
Unsecured Debentures - 2019	84,384	-	531	(178)	-	84,737
Unsecured Debentures - July 2021	138,699	-	783	(17)	-	139,465
Unsecured Debentures - December 2021	110,683	-	609	-	-	111,292
						413,795
less: unamortized transaction costs						(10,020)
Convertible Debentures - Debt Component, end of year						$ 403,775

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

During the year ended December 31, 2023, convertible debentures totaling a par value of $998 were converted by the holders at various times into 20,338 shares of the Corporation (2022 – $8 and 155 shares). Interest expense recorded during the 2023 year for the convertible debentures was $28,100 (2022 – $30,684).

During the years ended December 31, 2023 and December 31, 2022, the Corporation did not make any purchases of the principal amounts of its convertible debentures under its NCIB.

June 2018 Unsecured Convertible Debenture Offering

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

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

The June 2018 convertible unsecured debentures have $79,702 (2022 – $80,500) of principal outstanding as at December 31, 2023, and mature in June 2025.

March 2019 Unsecured Convertible Debenture Offering

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

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

The March 2019 convertible unsecured debentures have $86,068 (2022 – $86,250) of principal outstanding as at December 31, 2023, and mature in March 2026.

July 2021 Unsecured Convertible Debenture Offering

Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business day on the day prior to the maturity date at a conversion price of $52.70.

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

The July 2021 convertible unsecured debentures have $143,732 (2022 – $143,750) of principal outstanding as at December 31, 2023, and mature in July 2028.

December 2021 Unsecured Convertible Debenture Offering

Each debenture is convertible, at the debentureholder's option, into shares of the Corporation at any time prior to the close of business on the day prior to the maturity date at a conversion price of $60.00.

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

The December 2021 convertible unsecured debentures have $115,000 (2022 – $115,000) of principal outstanding as at December 2023, and mature in January 2029.

Convertible Debentures Equity Component

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

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

Summary of the equity component of the convertible debentures:

		December 31 2023		December 31 2022
Unsecured Debentures - 2018		3,835		3,866
Unsecured Debentures - 2019		2,491		2,497
Unsecured Debentures - July 2021		4,240		4,241
Unsecured Debentures - December 2021		3,413		3,413
Convertible Debentures - Equity Component, end of year	$	13,979	$	14,017

All convertible debentures outstanding at December 31, 2023, represent direct unsecured debt obligations of the Corporation.

14. SHARE CAPITAL

Changes in the shares issued and outstanding during the year ended December 31, 2023, are as follows:

	Number of Shares		2023 Amount
Share capital, beginning of year	42,479,063	$	1,019,772
Issued upon conversion of convertible debentures	20,338		1,000
Issued under dividend reinvestment plan	396,099		19,017
Issued under employee share purchase plan	63,458		3,083
Issued under deferred share plan	16,423		538
Issued under Indigenous community partnership agreements	2,039		50
Shares issued to Hansen Industries Ltd. vendors on closing (Note 6)	85,102		4,436
Shares issued to BVGlazing Systems Inc. vendors on closing (Note 6)	431,598		22,952
Shares issued to DryAir Manufacturing Corporation on closing (Note 6)	336,255		14,975
Prospectus offering, including over-allotment	3,306,250		167,067
Share capital, end of year	47,136,625	$	1,252,890

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

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

On March 10, 2023, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 3,958,307 Common Shares, representing 10% of the issued and outstanding shares at February 28, 2023. Purchases of shares pursuant to the renewed NCIB can be made through the facilities of the TSX during the period commencing on March 15, 2023 and ending on March 14, 2024. The maximum number of shares that can be purchased by the Corporation daily is limited to 25,561 shares, other than block purchase exemptions.

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

During the years ended December 31, 2023 and December 31, 2022, the Corporation did not make any purchases of shares under its NCIB and therefore has the full 3,958,307 shares available for repurchase.

On April 1, 2023, the Corporation issued 85,102 shares as purchase consideration for the acquisition of Hansen (Note 6). On May 1, 2023, the Corporation issued 431,598 shares as purchase consideration for the acquisition of BVGlazing (Note 6).

On June 14, 2023, the Corporation completed a bought deal financing of common shares, which, inclusive of the over-allotment exercised by the underwriters, resulted in the issuance of 3,306,250 shares of the Corporation at $52.25 per share, for gross proceeds of approximately $172,752.

On October 5, 2023, the Corporation issued 336,255 shares as purchase consideration for the acquisition of DryAir (Note 6).

15. DIVIDENDS DECLARED

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

Cumulative dividends during the 2023 year and the comparative 2022 year are as follows:

Year Ended December 31	2023	2022
Cumulative dividends, beginning of year	**$ 759,792**	$ 662,319
Dividends during the year	**114,588**	97,473
Cumulative dividends, end of year	**$ 874,380**	$ 759,792

The amounts and record dates of the dividends during the year ended December 31, 2023, and the comparative 2022 year are as follows:

Month	Record date	Per Share	2023 Dividends Amount	Record date	Per Share	2022 Dividends Amount
January	January 31, 2023	**$ 0.21**	**$ 8,927**	January 31, 2022	$ 0.19	$ 7,366
February	February 28, 2023	**0.21**	**8,933**	February 28, 2022	0.19	7,372
March	March 31, 2023	**0.21**	**8,945**	March 31, 2022	0.19	7,382
April	April 28, 2023	**0.21**	**8,968**	April 29, 2022	0.19	7,387
May	May 31, 2023	**0.21**	**9,067**	May 31, 2022	0.20	7,965
June	June 30, 2023	**0.21**	**9,774**	June 30, 2022	0.20	7,982
July	July 31, 2023	**0.21**	**9,781**	July 29, 2022	0.20	7,990
August	August 31, 2023	**0.21**	**9,789**	August 31, 2022	0.21	8,395
September	September 29, 2023	**0.21**	**9,799**	September 29, 2022	0.21	8,898
October	October 31, 2023	**0.21**	**9,878**	October 31, 2022	0.21	8,904
November	November 30, 2023	**0.22**	**10,357**	November 30, 2022	0.21	8,911
December	December 29, 2023	**0.22**	**10,370**	December 30, 2022	0.21	8,921
Total		**$ 2.54**	**$ 114,588**		$ 2.41	$ 97,473

After December 31, 2023, and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.22 per share for January and February 2024.

16. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

The Corporation's operating business segments include strategic business units that offer different products and services. The Corporation has two operating business segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment provides essential airline services to communities across Canada and also sells aircraft, engines, and aftermarket parts to regional airline operators around the world. In addition, the segment designs, modifies, maintains, and operates custom sensor-equipped aircraft. The Corporation's two flight schools provide pilot training services. Finally, our businesses deliver training solutions for governments across an array of aviation platforms and has in-depth experience in training pilots and sensor operators on both manned and unmanned aircraft. The Manufacturing segment consists of niche and specialty manufacturers in markets throughout Canada and the United States including precision metal manufacturing and engineering services, and the design, manufacture and installation of the exteriors of residential and mixed use high rises. In addition, the segment has in-house environmental access mat manufacturing capabilities and rents and sells these solutions to customers.

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

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

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

				Year Ended December 31, 2023
	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
Revenue	$ 1,498,216	$ 1,000,199	$ -	$ 2,498,415
Expenses	1,083,745	819,628	39,517	1,942,890
Adjusted EBITDA	414,471	180,571	(39,517)	555,525
Depreciation of capital assets				208,492
Amortization of intangible assets				20,244
Finance costs - interest				112,316
Depreciation of right of use assets				37,091
Interest expense on right of use lease liabilities				7,471
Acquisition costs				7,769
Other (Note 5)				(951)
Earnings before income taxes				163,093
Current income tax expense				26,016
Deferred income tax expense				14,770
Net Earnings				$ 122,307

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

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

For the year ended December 31, 2023	Aerospace & Aviation	Manufacturing	Head Office (1)	Consolidated
Total assets	$ 2,476,405	$ 1,428,011	$ 175,391	$ 4,079,807
Net capital asset additions	425,991	49,261	514	475,766
Indefinite lived intangible assets	66,668	85,317	-	151,985
Goodwill	284,289	428,907	-	713,196

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

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

Revenues

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

Revenue Streams	December 31 2023	December 31 2022
Aerospace & Aviation Segment		
Sale and lease of goods - point in time	$ 342,478	$ 366,456
Sale of services - point in time	949,361	812,061
Sale of services - over time	206,377	158,923
Manufacturing Segment		
Sale and lease of goods - point in time	275,341	225,238
Sale of services - point in time	97,789	73,932
Sale of goods and services - over time	627,069	422,763
Total revenue	$ 2,498,415	$ 2,059,373

The following is the geographic breakdown of revenues for the year ended December 31, 2023, and the 2022 comparative year, based on the location of the customer, and long-term assets as at the balance sheet dates:

Year Ended December 31	2023	2022
Canada	$ 1,587,052	$ 1,259,811
United States	614,551	576,980
Europe	83,525	54,114
Other	213,287	168,468
Total revenue for the year	$ 2,498,415	$ 2,059,373

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

	As at December 31, 2023				
	Other Assets	**Capital Assets**	**Right of Use Assets**	**Intangible Assets**	**Goodwill**
Canada	**$ 49,057**	**$ 1,168,567**	**$ 144,673**	**$ 289,489**	**$ 561,661**
United States	**80,081**	**192,515**	**19,745**	**42,873**	**151,535**
Europe	**-**	**208,474**	**5,681**	**-**	**-**
Other	**4,587**	**1,511**	**-**	**-**	**-**
	$ 133,725	**$ 1,571,067**	**$ 170,099**	**$ 332,362**	**$ 713,196**

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

Contract Assets	**December 31 2023**	December 31 2022
Accounts receivable, including long-term portion	**$ 544,505**	$ 445,089
Amounts due from customers on construction contracts	**40,207**	33,212
Total	**$ 584,712**	$ 478,301
Current	**583,818**	468,168
Non-current	**$ 894**	$ 10,133

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

Contract Liabilities	**December 31 2023**	December 31 2022
Customer loyalty programs - Airlines	**$ 1,730**	$ 1,449
Deferred revenue, excluding customer loyalty programs	**69,551**	59,552
Amounts due to customers on construction contracts	**41,300**	30,111
Total	**$ 112,581**	$ 91,112
Current	**112,581**	90,578
Non-current	**$ -**	$ 534

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

17. CONSTRUCTION CONTRACTS

Operations within the Manufacturing segment and the Aerospace & Aviation segment have long-term construction contracts where revenues are recognized over time. Under the terms of the contract, the Corporation has an enforceable right to payment for work performed. Revenue is recognized over time using an input or output based method based on which method provides a reasonable estimate of percentage completed. The input or output methods represent an appropriate measure of progress towards complete satisfaction of the performance obligation. During the year ended December 31, 2023, the Corporation recognized revenue on these types of long-term contracts totaling $634,317 (2022 – $427,138).

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

The following summarizes the costs and estimated earnings on uncompleted contracts as of December 31, 2023, and the 2022 comparative year:

As at December 31	2023	2022
Costs incurred on uncompleted contracts	$ 539,047	$ 323,650
Estimated earnings	145,268	77,475
	684,315	401,125
less: billings to date	(685,408)	(398,024)
Total	$ (1,093)	$ 3,101
Amounts due from customers on construction contracts	$ 40,207	$ 33,212
Amounts due to customers on construction contracts	(41,300)	(30,111)
Total	$ (1,093)	$ 3,101

18. EARNINGS PER SHARE

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

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

The computation for basic and diluted earnings per share for the year ended December 31, 2023, and the comparative for the 2022 year are as follows:

Year Ended December 31	2023	2022
Net earnings	$ 122,307	$ 109,669
Effect of dilutive securities		
Convertible debenture interest	15,382	15,167
Diluted Net Earnings	$ 137,689	$ 124,836
Basic weighted average number of shares	44,970,513	40,348,003
Effect of dilutive securities		
Deferred Shares	900,576	835,270
Convertible debentures	6,117,909	6,130,765
Diluted basis weighted average number of shares	51,988,998	47,314,038
Net Earnings per share:		
Basic	$ 2.72	$ 2.72
Diluted	$ 2.65	$ 2.64

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

19. EXPENSES BY NATURE

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

	2023	2022
Salaries, wages & benefits	**$ 721,406**	$ 581,160
Aircraft and component part sale	**189,225**	205,011
Aircraft operating expenses	**262,696**	256,206
Materials and installation costs	**433,602**	275,191
General and administrative	**135,668**	100,513
Building rent and maintenance	**37,430**	27,893
Communication and information technology	**26,711**	23,691
Advertising	**6,344**	5,673
Sub-contracting services	**112,356**	108,945
Other	**17,452**	18,648
	$ 1,942,890	$ 1,602,931

20. EMPLOYEE BENEFITS

Deferred Share Plan

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

	2023	2022
Deferred shares outstanding, beginning of year	**835,270**	822,640
Granted during the year	**36,795**	32,963
Granted through dividends declared during the year	**44,933**	44,553
Redeemed during the year	**(16,422)**	(55,119)
Forfeited during the year	**-**	(9,767)
Deferred shares outstanding, end of year	**900,576**	835,270
Vested portion of deferred shares outstanding, end of year	**887,899**	833,001

The fair value of the deferred shares granted during the 2023 year was $1,894 at the time of the grant (weighted average grant price of $51.48 per share) and was based on the market price of the Corporation's shares at that time (2022 – $1,422, weighted average grant price of $43.14 per share). During the 2023 year, the Corporation recorded a compensation expense of $1,503 (2022 – $1,117) for the Deferred Share Plan within head office expenses.

Restricted Share Plan

During the year ended December 31, 2023, the Corporation granted 242,707 (2022 – 153,270) restricted shares to certain personnel. The fair value of the restricted share units granted was $12,089 (2022 – $6,062) at the time of the grant and was based on the market price of the Corporation's shares at that time. During the year ended December 31, 2023, the Corporation recorded compensation expense of $8,157 (2022 – $5,821) for the Corporation's Restricted Share Plan within the general and administrative expenses of head office net of its restricted share plan hedge, with a corresponding liability recorded in Accounts Payable and Accrued Expenses.

Employee Share Purchase Plan

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

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

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

During 2023, employees acquired 63,458 shares (2022 – 56,505 shares) from Treasury at a weighted average price of $48.58 per share (2022 – $44.59 per share). The grant date fair value of the shares that will be awarded upon the vesting conditions of the plan being attained is estimated at $1,064 (2022 – $872) based on the share price and monthly dividend rate at that time.

The ESPP plan is adjusted for changes in the Corporation's share price at the period-end, any changes in the Corporation's dividend rate, and any estimated forfeitures. During 2023, the total expense recorded for the ESPP in head office expenses was $819 (2022 – $957). At December 31, 2023, the Corporation had $545 (2022 – $638) recorded within Accounts Payable and Accrued Expenses, representing the portion of additional shares that have vested at that date.

Pension Plan

The Corporation has pension-related costs associated with the defined contribution pension plans to which certain personnel are entitled. The Corporation's accounting policy is to expense contributions as earned during the period when the contributions become payable and are recorded within general and administrative expenses. During 2023, the Corporation recorded defined contribution pension plan costs of $7,858 (2022 – $5,781).

21. CONTINGENCIES AND COMMITMENTS

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

Commitments	**December 31, 2023**	December 31, 2022
Less than 1 year	**$ 6,528**	$ 3,475
Between 1 year and 5 years	**8,886**	4,123
More than 5 years	**5,653**	2,226
	$ 21,067	$ 9,824

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

The Corporation has letters of credit and surety bonds outstanding with varying maturities that are contingent on certain operational products and services being provided by the Corporation's subsidiaries. As of December 31, 2023, the total value of these letters of credit and surety bonds was $308,844 (2022 - $268,493).

22. RELATED PARTY TRANSACTIONS

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

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. These leases are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2023 for related party leases was $6,147 (2022 – $5,305) and the lease term maturities range from 2024 to 2031.

Certain of the Corporation's airline subsidiaries purchase jet fuel from an entity controlled by a related party who was a vendor of a business the Corporation acquired. This vendor is considered a related party because of their continued involvement in the management of the subsidiary. The purchases are recognized in the consolidated financial statements at the exchange amounts. Total costs incurred in 2023 for these purchases was $1,503 (2022 – $1,542).

Key Management Compensation

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

Compensation expensed for key management during the 2023 year, and the comparative 2022 year is detailed in the table below. Share based compensation vests over a period of up to three years and is expensed over that period. Awards under the Restricted Share Plan are expensed over the three year vesting period and the expense recognized in respect to the recipient, ignoring the impact of the Corporation's Restricted Share Plan derivative hedge, is impacted by the change in share price of the restricted shares issued.

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

Year Ended December 31,		2023		2022
Salaries and short-term benefits	**$**	**7,267**	$	7,515
Share-based compensation expense		**4,598**		5,984
	$	**11,865**	$	13,499

Co-investments with CRJ Capital Corp.

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

During 2023, CRJ Capital Corp. invested US $1,549 (2022 – US $1,380). CRJ Capital Corp.'s total investment generated cash flow returns paid or payable of US $3,217 (2022 – US $315). As a result of the sale of certain assets, depreciation recorded on its leasing assets, and the return of initial investment to CRJ Capital Corp., the remaining assets attributable to CRJ Capital Corp. at December 31, 2023, was US $8,212 (December 31, 2022 – US $8,666). At December 31, 2023, US $1,314 (December 31, 2022 – US $134 accounts payable to CRJ Capital Corp.) is recorded as accounts payable due to CRJ Capital Corp.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

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

Currency Risk

The Corporation has US $670,675 or $887,035 (2022 – US $751,127 or $1,017,326) outstanding on its credit facility. The outstanding funds in USD result in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $189,575 (2022 – US $161,627) is drawn by EIIF USA, an entity with US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation's investment in those subsidiaries with USD functional currencies are hedged partially by US $140,000 (2022 – US $142,700) of credit facility draws, which mitigates the foreign currency translation risk arising from the subsidiary`s net assets. The loan is designated as a net investment hedge and no ineffectiveness was recognized from the net investment hedge.

During the year, the Corporation continued the use of derivatives through several cross-currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in one month at the same terms unless both parties agree to extend the swap for an additional month. By borrowing in US dollars, the Corporation can take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar SOFR borrowings as they will be exchanged for the same Canadian equivalent in one month. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at December 31, 2023, was a financial liability of $12,326 (2022 – financial liability of $4,571). At December 31, 2023, the notional value of the swaps outstanding is US $337,800 (2022 – US $427,000). Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, $12,326 was reclassified from other comprehensive income in 2023 (2022 – $4,571). No hedge ineffectiveness was recorded during 2023 or 2022.

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, 2023, would have a $44 (2022 – $268) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $8,827 (2022 – $9,905).

Interest Rate Risk

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

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances, or the Secured Overnight Financing Rate ("SOFR"). At December 31, 2023:

- US $668,900 (2022 – US $748,500) was outstanding under US SOFR, and
- US $1,775 (2022 – US $2,627) was outstanding under US Prime, and
- $540,000 (2022 – $201,000) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2023, a 1% increase in interest rates for the Corporation would decrease pre-tax net earnings by approximately $5,581 ($4,097 after-tax) (2022 – $8,797 ($6,441 after-tax)).

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

At December 31, 2023, the Corporation had an interest rate swap outstanding that was entered into in a prior year with certain members of its lending syndicate on $190,000 of its Canadian credit facility, fixing the interest on this debt until May 15, 2024. During the 2023 year, the Corporation entered into an interest rate swap on $350,000 of debt, fixing the interest rate on this debt until April 17, 2026. In addition, the Corporation entered into an interest rate swap on US $140,000 of debt fixing the interest rate on this debt until April 27, 2026. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future payment of interest on Bankers' Acceptance or SOFR debt that would impact profit or loss and therefore qualifies as a cash flow hedge. The interest rate swaps are classified as a long-term financial asset of $7,312 (2022 – long-term financial asset of $7,514) is recorded as a separate line within other comprehensive income. No hedge ineffectiveness was recorded in 2023 or 2022.

Other Price Risk

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

To mitigate the income statement impact of a change in the Corporation's share price, the Corporation entered into a derivative instrument for each of the 2021, 2022 and 2023 Restricted Share Plan grants, which fixes the cost of the initial grant for the Corporation. Any changes in fair value will either be paid to the counterparty or be paid to the Corporation by the counterparty at the vesting date. This derivative fixes the cost to the Corporation and does not impact the variability of the award received by the participant. The derivative financial instrument hedges the exposure to variability in cash flow associated with the future settlement of restricted shares issued under the Restricted Share Plan that would impact profit or loss and therefore qualifies as a cash flow hedge. On a combined basis, the initial grant date fair value of the Restricted Share Plan for the 2021, 2022 and 2023 programs was $27,220. The fair value of the instruments are recorded in long-term financial liability of $445 (December 31, 2022 – long-term financial asset of $4,181) and are recorded as a separate line within other comprehensive income.

Hedging gains and losses are reclassified from other comprehensive income to the consolidated statement of income to the extent effective. Accordingly, a loss of $639 was reclassified to other comprehensive income in 2023 (2022 – gain of $2,267) which was in respect to previously recognized effective hedging instruments as they matured. No hedge ineffectiveness was recorded during 2023 or 2022.

Credit Risk

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

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

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

As at December 31, 2023, $77,262 (2022 – $73,503) of the receivables were outstanding for greater than 90 days before any consideration of allowance for doubtful accounts. Approximately $18,850 (2022 – $20,388) of this relates to the Manufacturing segment and $58,412 (2022 – $53,115) relates to the Aerospace & Aviation segment. The increase in receivables outstanding for greater than 90 days relates to the impact of acquisitions and the associated receivable profile. Excluding the impact of acquisitions, receivables outstanding for greater than 90 days declined from the prior year. 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.

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

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

Liquidity Risk

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

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

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Accounts payable and accrued expenses	$ 461,917	$ 461,917	$ -	$ -
Long-term debt (principal value)	1,427,035	-	1,427,035	-
Convertible debentures (par value)	424,502	-	309,502	115,000
Contractual interest (1)	360,550	109,064	248,467	3,019
Total	**$ 2,674,004**	**$ 570,981**	**$ 1,985,004**	**$ 118,019**

Note 1) The contractual interest reflects the assumption that amounts outstanding and floating interest rates at December 31, 2023, will remain at current levels until maturity.

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

Fair Value of Financial Instruments

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

		Fair Value		
Recurring fair value measurements	**Carrying Value December 31, 2023**	**Quoted prices in an active market Level 1**	**Significant other observable inputs Level 2**	**Significant unobservable inputs Level 3**
Financial Assets				
Other long-term assets - Interest Rate Swap - Financial asset at fair value through OCI (Note 8)	**7,312**	**-**	**7,312**	**-**
Other long-term assets - Fair value through OCI (Note 8)	**6,718**	**-**	**-**	**6,718**
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	**(10,384)**	**-**	**-**	**(10,384)**
Other long-term liabilities - Cross-currency basis swap - Financial liability at fair value through profit and loss	**(12,326)**	**-**	**(12,326)**	**-**
Other long term liabilities - Restricted Share Plan Derivative - Financial liability at fair value through profit and loss	**(445)**	**-**	**(445)**	**-**
Fair Value Disclosures				
Other assets - Amortized cost	**3,563**	**-**	**3,563**	**-**
Long-term debt - Amortized cost	**(1,422,642)**	**-**	**-**	**(1,427,035)**
Convertible debt - Amortized cost	**(403,775)**	**(411,151)**	**-**	**-**

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

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

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

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

Consideration Liability Summary For the years ended		**December 31** **2023**		December 31 2022
Opening balance	**$**	**4,700**	$	8,100
Accretion		**-**		235
Change in estimate		**(951)**		(1,947)
Acquisition of Northern Mat		**-**		6,189
Acquisition of APL		**-**		316
Acquisition of BVGlazing		**11,136**		
Acquisition of DryAir		**6,304**		
Settled during the period		**(10,805)**		(8,355)
Translation loss		**-**		162
Ending balance	**$**	**10,384**	$	4,700

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

Included in the $10,384 above is the estimated working capital settlements associated with the acquisitions of BVGlazing and DryAir. During the year ended December 31, 2023, the Corporation settled a portion of its estimated working capital consideration liability related to the acquisition of BVGlazing and settled the contingent consideration associated with the acquisition of Northern Mat.

<u>Financial Instrument Fair Value Disclosures</u>

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

As at December 31, 2023, management had determined that the fair value of its long-term debt approximates its carrying value. The fair value of long-term debt has been calculated by discounting the expected future cash flows using a discount rate of 5.75%. The discount rate is determined by using a risk-free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument, and other indicators of the Corporation's credit-worthiness.

As at December 31, 2023, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $411,151 (December 31, 2022 – $446,890) with a carrying value of $403,775 (December 31, 2022 – $399,443).

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

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

24. CHANGES IN WORKING CAPITAL

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

Year Ended December 31	2023	2022
Accounts receivable, including long-term portion	$ (4,320)	$ (67,868)
Amounts due from customers on construction contracts	650	(4,877)
Inventories	(52,936)	(43,697)
Prepaid expenses and deposits, including long-term portion	39,942	(56,687)
Accounts payable and accrued expenses, including long-term portion	(36,973)	154,224
Income taxes receivable/payable	5,329	(375)
Deferred revenue, including long-term portion	10,833	(213)
Amounts due to customers on construction contracts	(15,080)	(1,724)
Net change in working capital	$ (52,555)	$ (21,217)

25. CAPITAL MANAGEMENT

The Corporation manages its capital to utilize prudent levels of debt. The Corporation's goal is to maintain its level of senior debt within a range of 1.5 – 2.5 times funded senior debt to Operating profit before Depreciation, Amortization, Finance Costs and Other, normalized for the full year contribution of in-year acquisitions in accordance with the terms of its credit facility.

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 2023	December 31 2022
Total senior debt outstanding (principal value)	$ 1,427,035	$ 1,218,326
Convertible debentures outstanding (par value)	424,502	425,500
Common shares	1,252,890	1,019,772
Total capital	$ 3,104,427	$ 2,663,598

There are certain requirements of the Corporation's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs, and other ("Adjusted EBITDA") ratio. Management considers these requirements in the decisions made in managing the level and make-up of the Corporation's capital structure. The Corporation has been in compliance with all of the financial covenants during the 2023 year.

Changes in the capital of the Corporation during the year ended December 31, 2023, are mainly attributed to the following events that occurred during the year. The Corporation closed a bought deal financing of common shares resulting in the issuance of 3,306,250 shares at $52.25 per share. In addition, the Corporation issued shares and used its credit facility to fund the acquisitions of Hansen, BVGlazing and DryAir, and capital expenditures, in the current year. Finally, the Corporation issued shares under its Dividend Reinvestment Plan during the year.

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

26. INCOME TAX

Reconciliation of Effective Tax Rate

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

	2023	2022
Earnings before income taxes	**$ 163,093**	$ 151,469
Combined Canadian federal and provincial tax rates	**26.5%**	27.0%
Income tax expense at statutory rates	**43,220**	40,897
Increase (decrease) in taxes resulting from:		
Permanent differences	**4,244**	4,487
Realized capital gains	**(1,529)**	(682)
Impact of foreign jurisdiction differences	**(2,867)**	(2,355)
Amounts in respect of prior periods	**(2,593)**	(575)
Other	**311**	28
Provision for income taxes	**$ 40,786**	$ 41,800

Unrecognized Deferred Tax Liabilities

At December 31, 2023, no deferred tax liability for temporary differences related to investments in subsidiaries was recognized because the Corporation controls the timing and reversal of the differences and such differences will not reverse in the foreseeable future. The temporary differences associated with the Corporation’s foreign subsidiaries are approximately $165,687 (2022 - $145,109).

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

Movement in Deferred Tax Balances during the Year

The movement in the net deferred income tax balances during the 2023 year and the 2022 comparative year are as follows:

	December 31, 2022	Business Acquisitions	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	December 31, 2023
Deferred income tax assets						
Accruals - deductible when paid	$ 4,673	$ 779	$ 1,985	$ (93)	$ -	$ 7,344
Financing costs	1,113	41	(1,420)	-	2,102	1,836
ROU lease liabilities	44,208	7,019	(2,881)	(159)	-	48,187
Capital and non-capital loss carryforwards	24,821	144	10,239	(393)	-	34,811
Non-deductible reserves	4,188	(7,097)	5,619	(461)	-	2,249
Tax credits and other	1,077	(39)	193	(5)	-	1,226
Total deferred income tax asset	$ 80,080	$ 847	$ 13,735	$ (1,111)	$ 2,102	$ 95,653
Deferred income tax liability						
Capital assets	$ (139,865)	$ (3,783)	$ (30,244)	$ 392	$ -	$ (173,500)
ROU assets	(42,336)	(7,019)	3,710	139	-	(45,506)
Intangible assets	(63,738)	(13,576)	55	635	-	(76,624)
Convertible debentures	(3,650)	-	813	-	-	(2,837)
Amounts recognized in OCI	(3,158)	-	384	954	-	(1,820)
Investments	(5,107)	-	(2,909)	266	-	(7,750)
Total deferred income tax liability	(257,854)	(24,378)	(28,191)	2,386	-	(308,037)
Net	$ (177,774)	$ (23,531)	$ (14,456)	$ 1,275	$ 2,102	$ (212,384)

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

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

Income taxes credited (charged) through the Statement of Income includes investment tax credits of $314 (2022 - $301) that were classified as reductions of the related expenditures incurred.

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

	December 31 2023	December 31 2022
Deferred tax liabilities	**$ (212,384)**	$ (177,774)
	$ (212,384)	$ (177,774)