Exchange Income Corporation

Year End Report

For the year ended December 31, 2018

Chairman's Message

I am very pleased to tell you that 2018 was another strong year for EIC. The Company achieved record highs across virtually all financial performance metrics. Revenue, EBITDA and Adjusted Net Earnings per share all grew as a result of the strength of our businesses and their strong financial performance. As such, we also delivered our 13th dividend increase and, at the same time, our payout ratio improved.

As our CEO will go over the drivers of our performance in his message, I will focus my words on two bigger picture areas. The first area is about our diversified business model, which is the vehicle that enables us to deliver consistent growth and solid financial results. The second area is about short selling which has impacted the market price of our stock.

EIC's Diversified Business Model

I was recently at a dinner where EIC became a topic of conversation. One of the people at our table, knowing I was the Chairman of EIC's Board of Directors, asked:

> *"Why should I own EIC stock? I know you have a unique group of companies in aviation and manufacturing but if I want to own an airline or a manufacturing company I can invest in Air Canada or Ford and not need to understand all of the companies that you own."*

The immediate response from another at the table was:

> *"For the dividend of course! EIC has one of the best track records of dividend growth on the TSX."*

I paused for a second before responding to gather my words and then went on to explain that while we were very proud of our dividend track record, it is not the reason to own the shares. Our dividend track record is the result of a diversified business model that works, and has worked, for a decade and a half since our inception.

Simply put, we buy companies at an accretive price and then provide the existing management team with the necessary resources and empower them to grow. Our commitment to only buying companies that are profitable, with proven management teams and strong cash flows operating in niche markets with high barriers to entry, has served us very well.

It is our track record and our reputation for how we enable management teams to continue to operate and grow their businesses that allows us to buy companies where others may fail. We are not always the highest bidder when we are acquiring businesses, but the entire package that we offer the seller gives us access to exceptional companies at attractive prices. Of course, investors can buy the shares of individual public companies on the market, but you can't invest in companies like Quest or Moncton Flight College directly.

When we purchased Quest at the end of 2017 people asked why we wanted to buy a window company as it did not seem to be closely tied to our existing investments. The answer was simple, Quest had an exceptional product as well as a management team led by Marty and Jody Cash which was second to none. Marty accepted our offer even though he had other options from private equity and strategic industry partners because of how we treat our vendors and their management teams after the acquisition closes. Quest had an order book of over $200 million, which was approximately three years of revenue at the run rate at that time.

If we fast forward to 2018, the first full year under EIC ownership, Quest generated EBITDA of approximately $25 million, an increase of more than 50% over the amount the purchase price was based upon. In fact, the performance of Marty and Jody and their team was so exceptional that they had generated sufficient profitability after only the first nine months of the year to claim the full $15 million earn out included in the transaction.

The relationship Quest has with its existing customers as well as demand from new developers has enabled the company to grow its order book to over $350 million in only 15 months since we acquired the company. Our new Dallas based plant will open early this year, more than doubling our capacity and allowing Quest to continue to grow for years to come.

To be clear, it was not management at EIC head office that drove this growth, it was the team at Quest. EIC simply consistently applied our business model that resulted in Quest becoming part of the EIC family and provided the necessary resources and support. To my friend who thought he could buy companies like our subsidiaries directly, you may be able to buy a window company, but you can't buy Quest and you certainly can't buy anything like it at the price EIC paid.

Quest is not an anomaly within EIC. We have a diverse group of subsidiaries which provide a resilient cash flow stream that facilitates our dividend growth. Of course, not all of our subsidiaries have grown as fast as Quest, but they are all strong contributors to our Company's success.

A second example of how our business model has facilitated the acquisition of great companies is Moncton Flight College, our most recent material acquisition. It is well known that the aviation industry worldwide is experiencing a major pilot shortage, a problem that is expected to continue for the foreseeable future, and is expected to worsen in Canada when new regulations shortening pilot duty days are enacted.

Moncton Flight College is a world leader in flight training, and was an attractive, accretive acquisition from a financial point of view and it was also strategic to our aviation segment. By increasing capacity and establishing a program for pilot training and retention, we expect to be able to generate and maintain our own stream of internally trained pilots, without reducing the training done for third party customers. Again we competed with other private equity and airline industry players and we were the chosen acquirer. Mike Tilley and Jim English have built a remarkable business and have trusted EIC to assist them in taking it to new heights.

So why own EIC? We have a diversified business model that has allowed us to establish a 15 year track record of consistent and disciplined growth. The outcome is:

- Five year cumulative annual growth rates (CAGR) of 19% for revenue,
- CAGR of 28% for EBITDA and 37% for Adjusted Net Earnings per share.
- A dividend that we have increased 13 times in the last 15 years with a 15 year CAGR of 5.1% (the 5 year dividend CAGR is 5.3%).

We believe that a strategy that consistently generates strong financial results should, over time, be reflected in the market price for a company's shares. This leads me to the second area that I would like to spend a moment on, the short selling of stock, how it affects you and what you can do to protect the value of your investment.

Short Selling

I want to start by saying that short selling is a legitimate part of the stock market. It enhances liquidity and allows investors to take a position when they believe a stock is overvalued and profit if they are right. It also allows investors to take appropriate hedging positions.

Unfortunately, shorting has become much more than the legitimate strategy described above. In fact abusive short selling, such as short & distort, has a material impact on capital markets and significantly harms investors. We, and many other issuers and market participants, believe there is a need for regulatory action. This has been the subject of recent publications in the Globe & Mail and CBC Online News:

- "*It's time for legislators to crack down on abusive short-selling*" published on January 18, 2019 https://www.theglobeandmail.com/business/commentary/article-its-time-for-regulators-to-crack-down-on-abusive-short-selling/
- "*SEC, OSC examine short-seller's tactics"* published on January 29, 2019 HTTPS://WWW.THEGLOBEANDMAIL.COM/BUSINESS/ARTICLE-SEC-OSC-NARROWING-IN-ON-ABUSIVE-SHORT-SELLING-PRACTICES-AGAINST/ and
- "*Canada needs to toughen short selling rules to weed out abuse, market watchers say*" published on February 11, 2019 https://www.cbc.ca/news/business/short-selling-abuse-1.5009871)

The short & distort strategy has become an all too regular part of market activity where participants take a short position, and rather than wait to see if their investment thesis is correct, they take actions to drive down the value of a company's stock. Whether directly or through others, they disseminate information that is in some situations misleading and in others simply false.

These actions serve to frighten existing shareholders and, when combined with trading strategies that depress the stock, can create the impression that there is a problem where none exists. Our laws and regulations need to catch up to the current environment so that at a minimum, the rules are balanced for both long and short players in the market.

Making false statements to cause a stock price to rise is commonly called "a pump and dump" and is illegal. We need to make sure the same rules are applicable to those who short a stock. Rules require those who own a stock to disclose their position in a stock if they are speaking about it publicly. No such rules apply for those who short a stock. Our lawmakers need to make sure the rules are balanced for both long and short players in the market.

How You Can Protect Your Investment

In order for a person or institution to short a stock (that is sell it before they purchase it) they need to borrow the stock from a person who owns it. The borrower will have to pay interest to the lender of the stock. The interest rate varies dramatically depending on the demand for stock to be lent out and can vary from less than 1% up to 50% or even higher. Many shareholders are not aware that if the stock that they own is held in a margin account it can, in many cases, be legally lent out without their knowledge and that they are not the beneficiary of the interest paid on the stock loan.

If your stock is held in a margin account, and you have borrowed against it, the financial institution can lend it out without telling you and the financial institution will keep the interest on this loan. **This type of lending provides absolutely no benefit to the stock's**

owners, because they do not receive the interest, and in fact puts downward pressure on the stock price, which harms you, the investor. This is somewhat akin to the financial institution being able to rent out your house because they hold a mortgage on it, and then keeping the rent earned on your house. The good news is that there is something you can do about it.

One way to take action against abusive short selling in the short term is to take away access to the stock needed to borrow. If you move your stock out of a margin account, the financial institution will not be able to lend it out. If it has already lent it out, the financial institution will have to call the loan back. This will force the short seller to borrow the stock from somewhere else, likely at a higher price, or if they cannot borrow it elsewhere, buy the share in the market to repay the loan.

We can all do this in the short term by moving our stocks out of a margin account. In the long term, regulations are needed to limit the lending out of stock, so that it can only be done by or with the permission of the actual owner, and not by a third party who does not own the stock yet receives the financial return from lending out the stock.

The large short position in our stock and the market price that has prevailed over the course of 2018 has been of concern to the Company and our shareholders alike. We continue to believe in the strength of our diversified business model and its ability to generate financial results that will create value for our shareholders. I want to thank all of our stakeholders for all of their support over the last year. We are proud of what we have accomplished in 2018 and look forward to 2019 where we continue to execute on our strategy which has provided accretive profitable growth to our shareholders for 15 consecutive years.

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

CEO's Message

The successful execution of our strategy again delivered record financial performance in 2018, as we continued to grow and diversify our revenue base, increase our profitability, and strengthen our cash flow – easily covering shareholder dividends that we increased for the 13th time in the past 15 years. Importantly, even with our higher dividends – which have grown at a compounded annual rate of 5% over those 15 years – we materially reduced our payout ratio in 2018. In fact our annual payout ratio of 60% is the best in the history of EIC.

We have always believed that investments, whether in new acquisitions or growing our existing operations, must be made with a long term focus, and not simply for what the immediate return will be. This consistent focus helped drive the 2018 record results as we benefitted from investments made in previous periods. We delivered on our guidance with EBITDA up 12% and Adjusted Net Earnings per share up 14% over 2017. This past year marked the first time we provided the market with formal guidance on our expectations for financial performance. We expect our growth to continue in 2019, but I will save that part of the discussion for later in this message as I would like to first focus on what was accomplished in 2018. A brief summary of key operating metrics is below.

- Revenue increased by 19% to $1.2 billion
- EBITDA increased by 12% to $278 million
- Adjusted Net Earnings per share increased by 14% to $2.94 per share
- Dividends per share increased 4% to $2.175
- Adjusted Net Earnings payout ratio strengthened from 81% to 74%
- Free Cash Flow less Maintenance Capital Expenditures per share increased by 23% to $3.64
- Free Cash Flow less Maintenance Capital Expenditures payout ratio strengthened from 71% to 60%

Continuing our track record of accretive acquisitions, in February we acquired Moncton Flight College (MFC), Canada's largest pilot training institution. It was a rare opportunity that was both financially attractive and provided a significant strategic advantage to our existing aviation operations. The company trains pilots for both the domestic and international markets and has a committed backlog that is expected to generate significant growth in 2019 and beyond. The shortage of pilots has increased costs for airlines around the globe as the costs of recruiting and training have risen significantly. This shortage is expected to continue for the foreseeable future, and in fact is expected to worsen in Canada when new pilot duty day regulations are legislated by Transport Canada. The acquisition of MFC has facilitated an internal capability to train and maintain our own source of new pilots. In a world where pilot turnover is a part of the business, having our own source of pilots and a plan to keep them with EIC airlines is a major competitive advantage over other regional air airlines. While challenging weather limited their fourth quarter results, we expect MFC to be a growing contributor to EIC profits in 2019 and beyond while providing a strategic, competitive advantage for years to come.

One of the largest contributors to our growth in 2018 was Quest Windows, which we acquired in late 2017. When we bought Quest, we had high expectations for this manufacturer of high rise residential window solutions. It had an order book of over $200 million, which was a backlog of approximately three years at the 2017 production levels. We expected the company to perform well and reach the profitability targets required under the earn out provisions of the purchase agreement. To say we had high expectations would not be an overstatement and we were not disappointed as Quest performance exceeded our most optimistic modelling. The full earn out was reached by the end of the third quarter and year end EBITDA was up over 50%. Quest performance was not just the result of an exceptional year, but rather a step in its growth. In just over a year since we purchased the company, its order backlog has grown to over $350 million. In the second quarter, we announced a new 330,000 square foot production facility in Dallas at a capital cost of approximately $20 million which will begin test runs of product early in 2019. We expect the new plant to contribute to earnings in the second half of 2019.

The opportunity at Quest extends far beyond its current geographic coverage. Quest has been limited in the markets it services by its production constraints. Currently, most of the company's revenue is generated in only a few geographic marketplaces in Canada and the USA where it has developed a market presence and meaningful market share. The demand for product from our existing customers was such that we could not entertain expansion into other markets. The ramp up of the Dallas facility will facilitate expanding our reach across the USA.

Another exciting aspect of our story in the past year was the Force Multiplier aircraft which Provincial Aerospace has been working on since 2016. It made its world debut at the Dubai Airshow in November 2017 and the company received significant interest in the state-of-the-art surveillance aircraft available for use in countries around the world on short notice. 2018 was dedicated to completing certification process with Transport Canada who approved the aircraft in October of 2018. The process to design, build and certify the

Force Multiplier was a complex process due to the highly modified state and technical capabilities of the aircraft. Provincial is now in discussion with several countries for projects around the globe to provide the aircraft fully staffed and ready for use. We are excited as this project is now in operation and look forward to it contributing to our 2019 results.

EIC has always believed in giving back to the communities we serve as a core value. In 2017, we began a project where we brought at least 50 First Nations Children to Winnipeg to each Blue Bomber home game. The children were treated to a charter trip into the city, tickets to the game, souvenirs, and a chance to meet some of their favorite players after the game. For many of the children this was the first trip out of their isolated community and to see the event through their eyes really puts the challenges these young people face into perspective. In 2018 we not only maintained the program but expanded it by increasing the number of tickets we purchased, but also adding the communities that are serviced by Wasaya Airlines to the program. In the fall of this year we added the Winnipeg Jets to the program. While the cost and availability of tickets limits the number of children attending the games, the feedback has been every bit as positive as our football program. Reaching out and giving back to the communities we service is fundamental to us at EIC and we are proud to give these children an experience they will never forget.

EIC has always believed that giving back to the communities we serve is a core value and critical to the long-term sustainability and success of both the communities we serve and our business. An example of this commitment, Calm offers an innovative initiative to help maintain the natural beauty in the communities they service where they haul recyclables out of Nunavut communities to the south where they can be processed and repurposed. This reduces the waste in these communities and enables these products to stay out of landfills. The materials are transported free of charge.

As I said earlier in this message, 2018 marked the first time that EIC provided the market with formal guidance about our expectations for the fiscal year. We gave the market an ambitious prediction of growth and we subsequently delivered on that plan. This year we will not only provide a look forward into our expectations for 2019, but also provide some insight into our plans for the next three years.

Many readers will be aware that there is a significant change to accounting standards in 2019 (IFRS 16) as it relates to the presentation of operating leases on financial statements. These new standards can have a material impact on the balance sheet and income statement, particularly for companies which lease material assets. EIC, unlike most airlines, owns all but one aircraft that we operate, and as a result the impact of IFRS 16 is largely driven by leased real estate and is therefore limited. The guidance that we will provide will exclude these accounting changes so that they are directly comparable to preceding years. We will also provide insight into what to expect as a result the IFRS changes.

Following the strong double digit growth in EBITDA (12%), Adjusted Net Earnings per share (14%) and Free Cash Flow less Maintenance Capital Expenditures per share (23%) in 2018, we expect this strong performance to continue in 2019. EBITDA is expected to increase by between 10 and 15%, while both Adjusted Net Earnings per share and Free Cash Flow less Maintenance Capital Expenditures per share are expected to increase by 8 to 12%.

The adoption of IFRS 16 will generally result in all leases being placed on the balance sheet. This treatment will result in an increase of EBITDA, in addition to the guidance described above, by approximately $20 million. It will also result in a reduction in Net Earnings per share and Adjusted Net Earnings per share of approximately $0.05 from the guidance above. A more fulsome description of the impact of IFRS 16 on our financial statements is included in the accounting policies section within the MD&A. I want to emphasize that this accounting change has absolutely no impact on cash flow as the lease payments to our landlords are unchanged. The increase in EBITDA and the reduction in earnings have absolutely no impact on our ability to fund our operations and will not affect our Free Cash Flow less Maintenance Capital Expenditures payout ratio. Our bank covenants are unaffected by this change as the IFRS 16 accounting is excluded from our covenant calculations.

The growth projected for 2019 is in line with our actual results over the last five years where we have experienced double digit growth in each and every year. Unlike previous years, however, this growth will be driven by our existing operations and not new acquisitions, programs or major capital investment. Capital expenditures, including both maintenance and growth investments are expected to be at levels similar to 2018. Should an accretive acquisition or expansion opportunity be uncovered, they will provide returns in addition to this guidance. Any investment required to fund such expansion would also be in addition to the capital numbers described above.

We are pleased that in 2018 we have continued the strong performance that has been demonstrated since our inception and over the last five years in particular. Revenue, EBITDA, Adjusted Net Earnings per share and Free Cash Flow less Maintenance Capital Expenditures have experienced 5 year CAGRs of 19%, 28%, 37% and 24%. When we look into the future we intend to continue our track record of dividend growth where we have had a 15 year CAGR of 5%. Our business strategy and growth profile will enable us to further reduce our payout ratios within the next three years by approximately ten percentage points to 50% on a Free Cash Flow less Maintenance Capital Expenditures basis and to 60% on an Adjusted Net Earnings basis. We have demonstrated in the past and in this year in particular that we can both increase dividends and reduce our payout ratio at the same time. In 2018 our dividends per share increased by 4% while our payout ratios declined from 71% to 60% on a Free Cash Flow less Maintenance Capital

Expenditures basis and from 81% to 74% on an Adjusted Net Earnings basis. The continued reduction in our payout ratio will further increase the stability and sustainability of our dividend.

In closing, I would like to take this opportunity to thank our shareholders and all of our stakeholders for their support over the past year. We are pleased with the progress we have made in growing and diversifying our operations but are disappointed that this success has not been reflected in our stock value. While the short campaign discussed by our Chairman in his message can suppress the stock price for a period of time, we know that in the long run it will be valued based on our results. Our Adjusted Net Earnings per share is the highest it has been in our history. We have maintained our 15 year dividend CAGR of 5% which has resulted in an annualized dividend of $2.19 per share, while at the same time improving our Free Cash Flow less Maintenance Capital Expenditures payout ratio to 60%, our all-time best. We have a plan to continue this progress in 2019 and beyond. I look forward to speaking with you soon to discuss our progress. Thanks again for your support.

Mike Pyle
Chief Executive Officer

February 20, 2019

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PREFACE

This MD&A supplements the audited consolidated financial statements and related notes for the year ended December 31, 2018 ("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, 2018. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

FORWARD-LOOKING STATEMENTS

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

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

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

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this report are made as of the date of this report or such other date specified in such statement. Except as required by Canadian Securities Law, the Corporation does not undertake to update any forward-looking statements.

EXCHANGE INCOME CORPORATION

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

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

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

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

Segment Summary

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

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

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

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

1. FINANCIAL HIGHLIGHTS AND SIGNIFICANT EVENTS

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

FINANCIAL PERFORMANCE	**2018**	**per share basic**	**per share fully diluted**	2017	per share basic	per share fully diluted
For the year ended December 31						
Revenue	**$ 1,203,392**			$ 1,012,950		
EBITDA(1)	**277,765**			248,698		
Net earnings	**70,769**	**$ 2.25**	**$ 2.18**	72,160	$ 2.33	$ 2.26
Adjusted net earnings(1)	**92,360**	**2.94**	**2.80**	79,727	2.58	2.47
Adjusted net earnings payout ratio(1)		**74%**	**78%**		81%	85%
Free Cash Flow(1)	**223,363**	**7.10**	**6.22**	191,114	6.17	5.46
Free Cash Flow less Maintenance Capital Expenditures(1)	**114,367**	**3.64**	**3.38**	91,946	2.97	2.81
Free Cash Flow less Maintenance Capital Expenditures payout ratio(1)		**60%**	**64%**		71%	75%
Dividends declared	**68,460**	**2.175**		65,087	2.10	
FINANCIAL POSITION	**December 31, 2018**			December 31, 2017		
Working capital	**$ 301,141**			$ 236,834		
Capital assets	**877,691**			796,576		
Total assets	**1,957,298**			1,749,197		
Senior debt and finance leases	**727,511**			550,621		
Equity	**617,247**			577,508		
SHARE INFORMATION	**December 31, 2018**			December 31, 2017		
Common shares outstanding	**31,316,006**			31,317,890		
	December 31, 2018			December 31, 2017		
Weighted average shares outstanding during the period - basic	**31,457,420**			30,960,708		

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

SIGNIFICANT EVENTS

Early Redemption of Convertible Debentures

On January 11, 2018, the Corporation exercised its right to call its 7 year 5.50% convertible debentures which were due on September 30, 2019. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its December 2017 5.25% convertible debenture offering. Prior to the redemption date, $0.7 million principal amount of debentures were converted into 20,291 common shares at a price of $36.80 per share. On January 11, 2018 the remaining outstanding debentures in the principal amount of $56.8 million were redeemed by the Corporation.

Normal Course Issuers Bid ("NCIB")

On January 31, 2018, the Corporation renewed its NCIB. Purchases under the NCIB commenced on February 5, 2018 and ended on February 4, 2019. Under the NCIB, the Corporation was able purchase a maximum of 1,566,827 shares and daily purchases were limited to 36,859 shares, other than block purchase exemptions.

On February 8, 2019, the Corporation renewed its NCIB. Purchases under the NCIB can commence on February 22, 2019 and will end on February 21, 2020. Under the renewed NCIB, the Corporation can purchase a maximum of 1,567,004 shares and daily purchases will be limited to 21,522 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.

Purchase of CANLink Global Inc.

On February 28, 2018 the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College") for up to $55 million. Moncton Flight College is the largest flight training college in Canada and offers domestic Canadian pilot training as well as a foreign pilot program. The total purchase price before normal post-closing adjustments includes $29 million paid in cash at closing, shares of the Corporation issued at closing with a value of $6 million and with the ability to earn up to an additional $20 million if post-closing targets are met.

Partnership with Wasaya Group

On April 19, 2018, the Corporation closed a partnership transaction with Wasaya Group ("Wasaya"). The partnership is expected to enhance the level of air service in Northwestern Ontario and result in operational efficiencies. The Corporation invested $25 million in Wasaya, of which $13 million is a loan to Wasaya and $12 million is an equity investment. The equity investment has been funded through the issuance of shares of the Corporation to the vendors of Wasaya.

Amended Credit Facility

On May 7, 2018, the Corporation amended its credit facility to increase its size and extend its term. The amendments included increasing the available credit to $1 billion, of which $945 million is allocated to the Corporation's head office and US $55 million is allocated to EIIF Management USA, Inc. This is an increase of $250 million over the Corporation's previous credit facility. In addition to increasing the credit facility available, the revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. One financial institution was added to the syndicate, increasing the number of syndicate members to 11, and the maturity was extended to May 7, 2022.

On February 1, 2019, the Corporation amended its credit facility to obtain more favourable pricing and extend its term. The revised credit facility includes further improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. The maturity of the facility has been extended to May 7, 2023.

Convertible Debenture Offering

On June 26, 2018, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued $80.5 million principal amount of debentures including the exercise of the full $10.5 million over-allotment option that was granted to the underwriters. The debentures bear interest at 5.35% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity of the debentures is June 30, 2025.

Early Redemption of Convertible Debentures

On July 17, 2018, the Corporation exercised its right to call its 7 year 5.35% convertible debentures which were due on March 31, 2020. The redemption of the debentures was completed with cash on hand from the Corporation's issuance of its June 2018 5.35% convertible debenture offering. Prior to the redemption date, less than $0.1 million principal amount of debentures were converted into 528 common shares at a price of $41.60 per share. On July 17, 2018 the remaining outstanding debentures in the principal amount of $65.0 million were redeemed by the Corporation.

Kivalliq Contract Award

During the year ended December 31, 2018, Keewatin was awarded a long term medevac contract for the Kivalliq region of Nunavut. As a result of the award, Keewatin as the incumbent continues to have all three regions of Nunavut under contract, all of which are now under long term contracts. The award further establishes Keewatin as the preeminent northern medevac provider.

Certification of Provincial Aerospace Demonstrator Surveillance Aircraft

On October 29, 2018, Provincial reached a significant milestone in its Force Multiplier Surveillance Program. Provincial's DASH-8 demonstrator surveillance aircraft, following a complex process due to the highly modified state and technical capabilities of the aircraft, received final certification from Transport Canada. This demonstrator surveillance aircraft is a rapidly deployable asset that can immediately assist clients with the provision of actionable data/information within a broad range of missions. This modern platform significantly enhances Provincial's contracted Intelligence, Surveillance and Reconnaissance ("ISR") capabilities worldwide in addition to their historic surveillance programs. This aircraft has several key differentiators from other ISR assets such as its enhanced onboard data management capabilities and long range mission ability.

Wings Over Kississing Acquisition

On December 19, 2018, the Corporation completed the acquisition of certain assets and operations of Wings Over Kississing ("Wings") for a purchase price of $10.0 million, subject to customary post-closing adjustments. The purchase was funded through the issuance of $2.2 million of EIC common shares to the vendors and $7.8 million of cash from its credit facility.

Transactions with SkyWest, Inc.

On December 12, 2018, the Corporation announced it had entered into an agreement to lease ten CRJ200 aircraft to SkyWest, Inc. ("SkyWest"). On February 19, 2019, the Corporation announced that it had completed a joint venture with SkyWest to acquire, lease and sell CF34 engines, expanding its relationship with SkyWest. As part of the transaction, Regional One will purchase CRJ700 airframes from SkyWest. The airframes will be parted out, leased and sold consistent with Regional One's model.

2. ANNUAL RESULTS OF OPERATIONS

The following section analyzes the financial results of the Corporation for the year ended December 31, 2018 and the comparative 2017 year.

				Year Ended December 31, 2018
	Aerospace & Aviation	Manufacturing	Head Office(2)	Consolidated
Revenue	$ 883,962	$ 319,430	$ -	$ 1,203,392
Expenses(1)	636,052	267,219	22,356	925,627
EBITDA	247,910	52,211	(22,356)	277,765
Depreciation of capital assets				118,591
Amortization of intangible assets				19,596
Finance costs - interest				51,706
Acquisition costs				3,686
Other				(4,616)
Earnings before income tax				88,802
Current income tax expense				14,318
Deferred income tax expense				3,715
Net earnings				$ 70,769
Net earnings per share				$ 2.25
Adjusted net earnings				$ 92,360
Adjusted net earnings per share				$ 2.94

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

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

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

REVENUE AND EBITDA

On a consolidated basis, the Corporation generated revenue of $1.2 billion, an increase of $190.4 million or 19% over the comparative period. Of the increase, $75.4 million was generated by the Aerospace & Aviation segment and $115.0 million was generated by the Manufacturing segment.

EBITDA of $277.8 million was generated by the Corporation during the year, an increase of $29.1 million or 12% over the comparative period. This performance was primarily attributable to a significant increase in the Manufacturing segment, as a result of both the acquisition of Quest and organic growth.

During the year, the Corporation's head office costs were relatively flat to the prior period, increasing by $0.1 million.

Aerospace & Aviation Segment

Revenue generated by the Aerospace & Aviation segment increased by $75.4 million or 9% to $884.0 million.

Revenue in the Legacy Airlines and Provincial increased by $49.2 million or 9% over the comparative year. The increase in revenue at the Legacy Airlines includes the benefit of the Kitikmeot contract, which commenced in the fourth quarter of 2017, and higher passenger volumes in the Ontario and Kivalliq markets. Increased revenue from previous Growth Capital Expenditures in the rotary wing operation after it expanded to provide new services and increases associated with emergency medical services also contributed to the improvement. Revenue increased at Provincial as a result of two factors. First, the acquisition of Moncton Flight College in the first quarter of 2018 increased revenue as there was no comparative in the prior year. Moncton Flight College contributed results that were in line with our internal expectations with the exception of severe weather near the end of the year that disrupted student flying hours and also shut down the airport facility due to damaged airport infrastructure. Second, Provincial's Air Borealis partnership, which was entered into in the second quarter of 2017, positively impacted results for a full year in 2018.

Regional One's revenues for the current period increased by $26.2 million or 11%. This was driven by growth in sales and service revenue partially offset by a decrease in lease revenue as summarized in the table below.

Regional One Revenue	Year Ended December 31,	**2018**	2017	Variance	Variance %
Sales and service revenue		$ **196,534**	$ 159,116	$ 37,418	24%
Lease revenue		**77,009**	88,254	(11,245)	-13%
		$ **273,543**	$ 247,370	$ 26,173	11%

The revenue generated by Regional One is comprised of two main streams – sales and service revenue and lease revenue. Sales and service revenue is derived from the sales of aircraft parts, aircraft engines and whole aircraft as well as from the provision of services such as asset management. Lease income is generated through the leasing of aircraft engines or whole aircraft.

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

Sales and service revenue increased by 24% in the current year with growth across all revenue streams. The most significant contributor to the increase was sales of whole aircraft and engines as a result of increased transactional sales during the fourth quarter compared to the prior year. Other service fee revenue showed a strong increase but continues to be a smaller component of this category.

Lease revenue decreased by $11.2 million in the current year compared to the same period in 2017 as a result of a lack of redelivery settlements which occurred in the comparative year. The redelivery settlements in 2017 totaled $11.3 million with no such corresponding transactions in the current year. When looking at the performance of the portfolio without the redelivery settlement, lease revenue was flat between both years. Regional One experienced lower levels of utilization on the lease portfolio assets in the first half of the year and was ahead of the comparative period for the second half of the year. This improvement in the second half of 2018 was a result of stronger lease income from its fleet of CRJ900 aircraft during higher utilization summer travel months and having all these aircraft currently on lease.

In the Aerospace & Aviation segment EBITDA was consistent with the prior period at $247.9 million.

EBITDA contributed by the Legacy Airlines and Provincial increased by $8.3 million or 6%. The increase in EBITDA is primarily driven by the acquisition of Moncton Flight College, which was acquired in the first quarter of 2018, the benefit of capacity sharing across all airline subsidiaries and investment in additional aircraft in the prior year.

The results at Moncton Flight College met our internal expectations during the first ten months under the Corporation's ownership apart from the impact of severe weather in the fourth quarter that disrupted student flying hours and an airport shutdown due to damaged airport infrastructure. The student training hours that were not able to take place in the fourth quarter will be completed in 2019 and therefore the revenue is deferred into 2019, not lost. Further EBITDA growth at Provincial was diminished by external factors which impacted revenue, including customer labour disruptions and the temporary shutdown at a provincial government hydroelectric dam project.

In the Legacy Airlines, the increase was driven by higher revenue and operational efficiencies. The benefit of capacity sharing across airline subsidiaries and investment in additional aircraft partway through 2017 reduced third party charter costs and also generated additional revenue.

The growth in EBITDA at the Legacy Airlines and Provincial was achieved despite increased fuel costs and industry related labour challenges. Fuel surcharges throughout the year and a decrease in fuel prices from peak levels by year end mitigated the impact of the fuel price increase. Industry-wide labour shortages resulted in higher overtime, contractor and training costs compared to 2017. The airlines continue to actively work with Moncton Flight College to develop and implement initiatives to mitigate the impact, but these strategies will require time to take full effect.

Regional One's EBITDA was down $8.3 million or 7% from the prior year's record levels, which included $11.3 million of high margin lease redelivery revenue that was not experienced in 2018. In addition, lower utilization of the lease portfolio in the first half of the year also impacted EBITDA as lease revenue has margins of approximately 97%. Higher volumes of sales and service revenues partially offset the change in lease income. Regional One experienced strong margins on its parts revenue for the year, increasing slightly over the 2017 period. Aircraft and engine sales, while making up a larger proportion of total revenue in 2018, contributed margins that are consistent with historical norms for Regional One.

<u>Manufacturing Segment</u>

Manufacturing segment revenue increased by $115.0 million or 56% over the prior period to $319.4 million. EBITDA also increased by $29.1 million or 126% to $52.2 million. The acquisition of Quest midway through the fourth quarter of 2017 is the largest contributor to these increases.

In addition to the $25.2 million of EBITDA contributed by Quest, the remaining manufacturing entities collectively experienced strong growth in revenue and EBITDA compared to 2017. Increased revenue across the segment resulted in growth in EBITDA of $6.8 million or 33% over the comparative period. The segment benefitted from an increase in custom manufacturing, high levels of defense spending worldwide, greater spending by telecommunication companies and operational efficiencies. Growth Capital Expenditures previously made to expand production capacity within the segment assisted in capturing increased demand, driving revenue and EBITDA up from levels experienced in 2017.

NET EARNINGS

Year Ended December 31		2018		2017		Variance	Variance %
Net Earnings	$	**70,769**	$	72,160	$	(1,391)	-2%
Net Earnings per share	$	**2.25**	$	2.33	$	(0.08)	-3%

Net Earnings was $70.8 million, a decrease of $1.4 million or 2%. The 12% increase in EBITDA was offset by a number of items, in particular increased expenses associated with acquisitions and fleet expansion. Depreciation associated with assets purchased through acquisition and Growth Capital Expenditures increased by $10.0 million. Amortization of acquisition related intangible assets increased by $9.2 million. Much of the increase in amortization of intangibles is related to Quest's backlog at the time of acquisition. This intangible asset amortizes relatively quickly and therefore causes a sizable increase in amortization. Interest expense increased by $14.7 million due to both the funding of our acquisitions and the $2.6 million in accretion of contingent purchase consideration. In 2018, a $4.6 million gain was recorded as a result of the revaluation of contingent consideration, which is required when we believe that the amount ultimately paid to vendors will differ from the amount estimated at the acquisition's close (*Section 9 – Critical Accounting Estimates and Judgments).* In 2017, a gain of $5.6 million was recorded as a result of our disposal of our partnership interest in Innu Mikun.

Income tax expense has decreased by $5.1 million and the effective rate of tax has decreased to 20.3% from 24.3%. A higher proportion of pre-tax earnings was in lower tax rate jurisdictions in comparison to 2017. Additionally, the tax rate applicable to taxable earnings in the US has decreased due to tax reform in comparison to the prior year. The remeasurement of contingent consideration in the current year resulted in a gain of $4.6 million, which is not taxable and therefore decreased the effective tax rate. Current tax expense decreased in the current year as a result of recently introduced government incentives that allow for enhanced first-year tax deductions on capital asset purchases. The impact of these deductions is one of timing and does not impact the overall effective tax rate.

The decrease in basic Net Earnings per share was due to a decrease in Net Earnings as discussed above and the 2% increase in the weighted average number of shares outstanding compared to 2017. 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,		2018		2017
Net Earnings	$	**70,769**	$	72,160
Acquisition costs, net of tax		**3,122**		2,328
Amortization of intangible assets, net of tax		**14,305**		7,590
Interest accretion on acquisition contingent consideration		**2,568**		-
Accelerated interest accretion on redeemed debentures, net of tax		**1,596**		1,559
Gain on disposal of Innu Mikun, net of tax		**-**		(3,910)
Adjusted Net Earnings	$	**92,360**	$	79,727
per share - Basic	$	**2.94**	$	2.58
per share - Diluted	$	**2.80**	$	2.47

Adjusted Net Earnings increased by 16% to $92.4 million over the 2017 year. The Adjusted Net Earnings included the add-back of acquisition related costs, comprising of $14.3 million in intangible asset amortization, $2.6 million in interest accretion on contingent consideration, and $3.1 million in acquisition costs (all net of tax). In addition, the 2018 period included $1.6 million of after tax accelerated interest accretion on the early redemption of the Corporation's 2020 convertible debentures.

Adjusted Net Earnings per share increased by 14% over the 2017 year as a result of increased Adjusted Net Earnings, slightly offset by the 2% increase in the weighted average number of shares outstanding in the current year. Details around the change in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

FREE CASH FLOW Year Ended December 31,		2018		2017
Cash flows from operations	**$**	**164,643**	$	124,253
Change in non-cash working capital items and long-term deferred revenue		**55,598**		64,533
Acquisition costs, net of tax		**3,122**		2,328
	$	**223,363**	$	191,114
per share - Basic	**$**	**7.10**	$	6.17
per share - Fully Diluted	**$**	**6.22**	$	5.46

The Free Cash Flow generated by the Corporation during 2018 was $223.4 million, an increase of $32.2 million or 17% over the comparative period. The main reasons for this increase are the $29.1 million or 12% increase in EBITDA and the decrease in current tax expense, partially offset by increased interest costs. Free Cash Flow is discussed further in *Section 13 – Non-IFRS Measures and Glossary*.

On a basic per share basis, the increase in absolute Free Cash Flow was slightly offset by the 2% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $7.10 per share, an increase of 15% over the comparative period. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

Changes in non-cash working capital 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. The investment in working capital during the year was driven primarily by two factors. First, working capital increased in conjunction with increased business volumes across the Corporation's subsidiaries in general and at Quest in particular, which saw an increase in revenue of approximately 45% from its pre-acquisition level. Second, the Corporation continued its investment in Regional One's inventory of parts and whole aircraft for resale. A more detailed discussion of changes in working capital is included within *Section 4 – Investing Activities*.

3. FOURTH QUARTER RESULTS

The following section analyzes the financial results of the Corporation for the three months ended December 31, 2018 and the comparative three month period in 2017.

				Three Months Ended December 31, 2018
	Aerospace & Aviation	Manufacturing	Head Office[2]	Consolidated
Revenue	$ 234,172	$ 81,565	$ -	$ 315,737
Expenses[1]	171,152	70,468	4,610	246,230
EBITDA	63,020	11,097	(4,610)	69,507
Depreciation of capital assets				30,191
Amortization of intangible assets				5,266
Finance costs - interest				13,056
Acquisition costs				1,793
Other				(3,145)
Earnings before tax				22,346
Current income tax recovery				(645)
Deferred income tax expense				4,545
Net earnings				$ 18,446
Net earnings per share				$ 0.59
Adjusted net earnings				$ 24,670
Adjusted net earnings per share				$ 0.79

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

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

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

REVENUE AND EBITDA

Revenue generated by the Corporation during the fourth quarter was $315.7 million, an increase of $51.8 million or 20% over the comparative period. Of the increase, $33.6 million relates to the Aerospace & Aviation segment and $18.2 million relates to the Manufacturing segment.

EBITDA generated by the Corporation during the fourth quarter was $69.5 million, an increase of $6.2 million or 10% over the comparative three month period. The Aerospace & Aviation segment generated $0.5 million of the increase and the Manufacturing segment generated $3.0 million of the increase. Head-office costs of the Corporation decreased by $2.7 million over the comparative period primarily due to lower compensation costs during the fourth quarter of 2018.

Aerospace & Aviation Segment

In the Aerospace & Aviation segment, revenue increased by $33.6 million or 17% to $234.2 million.

Revenue in the Legacy Airlines and Provincial increased by $13.7 million or 10%. The increase at the Legacy Airlines is consistent with the annual discussion and is primarily driven by revenue from the Kitikmeot contract, which commenced in the fourth quarter of 2017, higher passenger volumes in Ontario and growth in new and expanded services in the rotary wing operation including emergency medical services. The acquisition of Moncton Flight College in the first quarter of 2018 was the largest factor increasing revenues at Provincial. While severe weather during the fourth quarter reduced revenues at Moncton Flight College compared to our expectations, the student flying hours that were not able to take place in the fourth quarter will be completed in 2019.

Regional One's revenue increased by 32% over the comparative three month period. This was driven by growth in sales and service revenue partially offset by a decrease in lease revenue as summarized in the table below.

Regional One Revenues	Three Months Ended December 31,		**2018**		2017		Variance	Variance %
Sales and service revenue		$	**61,517**	$	37,546	$	23,971	64%
Lease revenue			**19,569**		23,654		(4,085)	-17%
		$	**81,086**	$	61,200	$	19,886	32%

The sales and service revenue increased by 64% compared to the same period in 2017. Regional One benefitted from increased sales of whole aircraft and engines compared to the prior period as a result of the transactional nature of the business. The sale of parts is the most consistent portion of sales and service revenue and was relatively flat to the prior year.

Lease revenue decreased by 17% compared to the fourth quarter in 2017. As discussed in *Section 2 – Annual Results of Operations*, this is due to lease redelivery settlements that occurred in the fourth quarter of 2017 that did not recur in 2018. Lease redelivery revenue experienced in the prior period exceeded the year over year decline in lease revenue in 2018.

In the Aerospace & Aviation segment, EBITDA increased by $0.5 million to $63.0 million. This is the result of increases in the Legacy Airlines and Provincial, mostly offset by a decrease at Regional One.

EBITDA contributed by the Legacy Airlines and Provincial increased by $3.8 million or 12%. The increase at the Legacy Airlines is driven primarily by higher revenue and operational efficiencies. Fuel prices stabilized in the fourth quarter and increases over the prior period were largely mitigated by the fuel surcharges implemented in prior quarters in 2018. Consistent with the annual discussion, the industry-wide labour shortage increased costs in the fourth compared to the prior period. Provincial's results benefitted from the acquisition of Moncton Flight College, for which there is no comparative. The EBITDA contributed by Moncton Flight College was partially offset by the impact of a temporary shutdown at a provincial government hydroelectric dam project, which ceased all charter work for this project.

Regional One contributed EBITDA of $28.0 million for the quarter, down from $31.3 million in the prior period. The decrease is the direct result of lower lease revenue, specifically lease redelivery settlements that occurred in the prior period. Regional One benefitted from strong aircraft and engine sales in the fourth quarter resulting in a higher EBITDA contribution from sales and services revenue. The parts sales included in sales and service revenue were consistent with the prior year and the margins were slightly higher. Overall, sales and service gross margin was down from the prior period as a result of the higher portion of aircraft and engine sales in this period, which are typically at lower margins than the parts sales. This is a result of product mix and will change from period to period.

Manufacturing Segment

The Manufacturing segment revenue increased by $18.2 million or 29% to $81.6 million over the prior period. EBITDA also increased by $3.0 million or 38% to $11.1 million. The acquisition of Quest midway through the fourth quarter of 2017 contributed an additional $1.5 million in EBITDA. Results would have been even better if it were not for temporary production delays at Quest due to a water main break, which flooded the plant and shutdown production in November.

The balance of the segment collectively experienced growth in revenue and EBITDA. Increased revenue across the segment increased EBITDA by $1.5 million or 29% compared to the same period in 2017. Consistent with the annual discussion, the segment benefitted from an increase in custom manufacturing, high levels of defense spending worldwide, increased spending from telecommunications companies across Canada and operational efficiencies. Growth Capital Expenditures made in previous periods allowed the segment to respond to increased demand from customers, resulting in increased revenue and EBITDA.

NET EARNINGS

Three Months Ended December 31		2018		2017		Variance	Variance %
Net Earnings	$	**18,446**	$	16,920	$	1,526	9%
Net Earnings per share	$	**0.59**	$	0.55	$	0.04	7%

Net Earnings for the three months ended December 31, 2018 was $18.4 million, an increase of 9% over the comparative period. The 10% increase in EBITDA was offset by a number of items, in particular increased expenses associated with acquisitions and fleet expansion. Depreciation increased by $3.2 million as a result of the acquisitions of Quest and Moncton Flight College and Growth Capital Expenditures. Amortization of acquisition related intangible assets increased by $2.9 million. Much of the increase in amortization of intangibles is related to Quest's backlog at the time of acquisition. This intangible asset amortizes relatively quickly and therefore causes a sizable increase in amortization. Interest expense increased by $0.9 million due to both the funding of our acquisitions and the accretion of contingent purchase consideration. In the fourth quarter of 2018, $3.1 million gain was recorded as a result of the revaluation of contingent consideration, which is required when we believe that the amount ultimately paid to vendors will differ from the amount estimated at the acquisition's close (*Section 9 – Critical Accounting Estimates and Judgments).*

Income tax expense increased by $1.8 million in the fourth quarter of 2018 and the effective tax rate increased to 17.5% from 11.2%. The main reason for the increase is that a decrease in income tax rates was passed in the US prior to December 31, 2017. While this decreased taxes paid throughout 2018, the revaluation of the Corporation's deferred income tax liabilities that are attributable to our US operations in the fourth quarter of 2017 resulted in a deferred tax recovery of $2.7 million which did not recur in 2018. The remeasurement of the Corporation's contingent consideration during the quarter resulted in a gain of $3.1 million that was not taxable, which decreased the effective tax rate. Current tax expense decreased in the current quarter as a result of recently introduced government incentives that allow for enhanced first-year tax deductions on capital asset purchases. The impact of these deductions is one of timing and does not impact the overall effective tax rate.

The 7% increase in basic Net Earnings per share was due to higher Net Earnings, and was partially offset by the 1% increase in the weighted average number of shares outstanding compared to 2017. 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		2018		2017
Net Earnings	$	**18,446**	$	16,920
Acquisition costs, net of tax		**1,426**		2,024
Amortization of intangible assets, net of tax		**3,844**		1,757
Interest accretion on redeemed debentures, net of tax		**-**		1,559
Interest accretion on acquisition contingent consideration		**954**		
Adjusted Net Earnings	$	**24,670**	$	22,260
per share - Basic	$	**0.79**	$	0.72
per share - Diluted	$	**0.75**	$	0.68

Adjusted Net Earnings for the three months ended December 31, 2018 increased by 11% to $24.7 million compared to the fourth quarter of 2017. The Adjusted Net Earnings included the add-back of acquisition related costs, including increases, net of tax, of $2.1 million in intangible asset amortization and $1.0 million of interest accretion on contingent consideration. Acquisition costs and interest accretion on the early redemption of convertible debentures, net of tax, decreased on a combined basis by $2.2 million during the fourth quarter of 2018.

Adjusted Net Earnings per share increased by 10% compared to the fourth quarter of 2017 as a result of the 11% increase in Adjusted Net Earnings, partially offset by the 1% increase in the weighted average number of shares outstanding. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

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

FREE CASH FLOW				
Three Months Ended December 31		**2018**		2017
Cash flows from operations	**$**	**100,413**	$	23,436
Change in non-cash working capital items		**(42,076)**		24,285
Acquisition costs, net of tax		**1,426**		2,024
	$	**59,763**	$	49,745
per share - Basic	**$**	**1.91**	$	1.61
per share - Fully Diluted	**$**	**1.66**	$	1.45

The Free Cash Flow generated by the Corporation for the fourth quarter of 2018 was $59.8 million, an increase of $10.0 million or 20% over the comparative period. The primary reason for the increase is the 10% increase in EBITDA and decrease in current taxes, partially offset by an increase in interest costs.

On a basic per share basis, the 20% increase in absolute Free Cash Flow was slightly offset by the 1% increase in the weighted average shares outstanding during the period. The combined impact resulted in Free Cash Flow of $1.91 per share, an increase of 19% over the comparative period. Details around the increase in shares outstanding can be found in *Section 7 – Liquidity and Capital Resources*.

Changes in non-cash working capital balance is included in cash flow from operations per the Statement of Cash Flow and is removed in the reconciliation to Free Cash Flow. As a result, it has no impact on the calculation of Free Cash Flow. As forecasted in the Corporation's third quarter report, the Corporation experienced a cash inflow from working capital of $42.1 million in the fourth quarter. Discussion of changes in working capital is included within *Section 4 – Investing Activities*.

4. INVESTING ACTIVITIES

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

ACQUISITIONS

CANLink Global Inc.

On February 28, 2018, the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College"). Moncton Flight College, headquartered in Moncton, New Brunswick, is the largest flight training college in Canada having trained over 19,000 students since its inception. Moncton Flight College offers domestic Canadian pilot training as well as a foreign pilot program. Moncton Flight College provides a unique opportunity as an internal avenue for pilot recruitment and retention for EIC's aviation companies.

The components of the consideration paid to acquire Moncton Flight College are outlined in the table below.

Consideration given:		
Cash (net of closing adjustments)	$	**25,396**
Issuance of 176,102 shares of the Corporation at $34.06 per share		**5,998**
Working capital and other post-closing adjustments		**(262)**
Contingent cash consideration - earn out		**15,902**
Total purchase consideration	$	**47,034**

The purchase price included an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments, plus a multi-year earn out if certain performance targets are met for fiscal periods 2018 and 2019. The maximum earn out that could be achieved by the vendors was $20 million. The contingent consideration recorded by the Corporation reflects the discounted liability of the estimated likelihood of performance targets being met for fiscal 2018 and 2019, which was assessed as of the date of acquisition. The allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:	
Cash	$ **1,193**
Accounts receivable	**1,159**
Inventory	**1,682**
Prepaid expenses and deposits	**160**
Capital assets	**10,342**
Intangible assets	**21,100**
	35,636
Less fair value of liabilities assumed:	
Accounts payable and accrued liabilities	**1,446**
Income taxes payable	**4,097**
Deferred revenue	**2,225**
Other long-term liabilities	**96**
Deferred income tax liabilities	**5,423**
Fair value of identifiable net assets acquired	**22,349**
Goodwill	**24,685**
Total purchase consideration	$ **47,034**

Of the $21.1 million acquired intangible assets, $13.5 million was assigned to customer relationships and $7.6 million was assigned to trade name. The customer relationship intangible asset is subject to amortization while the trade name is considered to have an indefinite life.

Wings Over Kississing

On December 19, 2018, the Corporation completed the acquisition of certain assets and operations of Wings Over Kississing ("Wings") for a purchase price of $10.2 million, subject to customary post-closing adjustments. The acquisition provides the Corporation access to new markets for its rotary wing operations in Manitoba and strengthens the Corporation’s relationship with its First Nation customers. The components of the consideration paid to acquire these assets are outlined in the table below.

Consideration given:	
Cash	$ **8,003**
Issuance of 80,568 shares of the Corporation at $26.90 per share	**2,167**
Estimated working capital settlement	**16**
Total purchase consideration	$ **10,186**

The preliminary fair values of the net assets acquired at the time of the transaction are summarized in the chart below. The amounts will be finalized in 2019 with the final settlement of working capital.

Fair value of assets acquired:		
Accounts receivable	$	**381**
Capital assets		**7,024**
Deferred income tax asset		**11**
Intangible assets		**1,300**
		8,716
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		**29**
Fair value of identifiable net assets acquired		**8,687**
Goodwill		**1,499**
Total purchase consideration	$	**10,186**

The $1.3 million of intangible assets acquired was assigned to customer relationships, which are subject to amortization consistent with the Corporation's amortization policy on this class of intangible assets.

Partnership with Wasaya Group

On April 19, 2018, the Corporation closed a partnership transaction with Wasaya Group. The partnership is expected to enhance the level of air service in Northwestern Ontario and result in operational efficiencies. The Corporation has invested $25.3 million in Wasaya, of which $13.0 million is a loan to Wasaya and $12.3 million is an equity investment. The equity investment has been funded through the issuance of shares of the Corporation to the vendors of Wasaya. The Corporation's equity investment in Wasaya is accounted for using the equity method. Upon closing the transaction, the Corporation recorded its equity investment and its loan to Wasaya in Other Assets on the Statement of Financial Position.

CAPITAL EXPENDITURES

	Year Ended December 31, 2018			
CAPITAL EXPENDITURES	**Aerospace & Aviation**	**Manufacturing**	**Head Office**	**Total**
Maintenance Capital Expenditures	**$ 104,402**	**$ 2,584**	**$ 788**	**$ 107,774**
add: finance lease principal payments	**-**	**1,222**	**-**	**1,222**
Maintenance Capital Expenditures	**104,402**	**3,806**	**788**	**108,996**
Growth Capital Expenditures	**31,448**	**17,557**	**-**	**49,005**
	$ 135,850	**$ 21,363**	**$ 788**	**$ 158,001**
	Year Ended December 31, 2017			
CAPITAL EXPENDITURES	Aerospace & Aviation	Manufacturing	Head Office	Total
Maintenance Capital Expenditures	$ 96,206	$ 1,214	$ 907	$ 98,327
add: finance lease principal payments	-	841	-	841
Maintenance Capital Expenditures	96,206	2,055	907	99,168
Growth Capital Expenditures	126,878	1,499	-	128,377
	$ 223,084	$ 3,554	$ 907	$ 227,545

Aerospace & Aviation

Maintenance Capital Expenditures for the Legacy Airlines and Provincial for the twelve months ended December 31, 2018 was $69.3 million, an increase of 10% over 2017. The investment in additional aircraft, adding to the Corporation's fleet throughout 2017 and 2018, and the timing of maintenance events, which includes the impact of additional aircraft engine events in 2018 compared to 2017, increased maintenance capital expenditures and is consistent with our expectations and with our previous disclosures. In addition, the acquisition of Moncton Flight College in the first quarter of 2018 increased Maintenance Capital Expenditures as there is no comparative for these amounts in the prior period. During the year ended December 31, 2018, the Legacy Airlines and Provincial invested $29.6 million in Growth Capital Expenditures. These expenditures primarily relate to increased infrastructure to support the northern operation, a second base and an additional aircraft for the Baffin medical contract, the purchase of additional aircraft to increase capacity within both the Legacy Airlines and Provincial and the completion of Provincial's demonstrator surveillance aircraft which enabled Provincial to expand its service offering. The aircraft is in service after receiving its final certification during the fourth quarter. The investment in northern infrastructure includes the purchase of a previous third party provider of ramp and cargo support services. This investment has resulted in ancillary revenue and reduced expenses.

Regional One's Maintenance Capital Expenditures for year ended December 31, 2018 were $35.1 million, an increase of 6% over the comparative period as a result of modest net investment in the lease portfolio during 2018. The Maintenance Capital Expenditures for Regional One are directly attributable to the depreciation on its fleet of leased aircraft and engines. The table below provides a summary of the fleet of assets in Regional One's lease portfolio.

Regional One Lease Portfolio	December 31, 2018		December 31, 2017	
	Aircraft	Engines	Aircraft	Engines
Lease portfolio	46	54	37	48

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

Growth Capital Expenditures at Regional One represent the difference between net capital assets acquired (assets purchased less assets sold or transferred to inventory) and the amount of Maintenance Capital Expenditures. Because of 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, we do not expect that negative Growth Capital Expenditures would consistently occur over a longer period of time as it is the Corporation's intention to maintain or grow the lease portfolio.

During the year ended December 31, 2018, Regional One invested $1.9 million in Growth Capital Expenditures. In addition to purchases of capital assets, investment in Regional One is made through purchases of parts and aircraft that are intended solely for the purpose of parting-out or sale as whole aircraft and are recorded in inventory at the time of purchase. During the year ended December 31, 2018, the investment in inventory totaled $21.4 million, resulting in a net increase in investment in Regional One of $23.3 million when combined with growing the leasing portfolio. Further discussion of investment in inventory at Regional One is included below in the overall discussion of investment in working capital.

Total capital expenditures decreased materially during 2018 compared to 2017 in the Aerospace & Aviation segment. The overall decrease was caused by a decrease in Growth Capital Expenditures in 2018 of $95.4 million. The Corporation completed the purchase of its fleet of CRJ900 aircraft in the first half of 2017, and, as previously communicated, Growth Capital Expenditures have decreased with the completion of those purchases.

Manufacturing Segment

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

Maintenance Capital Expenditures of $3.8 million made by the Manufacturing segment during the year is an increase of $1.8 million from the comparative period, which relates primarily to the acquisition of Quest in November 2017. The remaining increase is due to the timing of replacement of production equipment across the remaining subsidiaries.

Growth Capital Expenditures of $17.6 million in this segment for the year is mainly due to Quest's US expansion, as almost all of the equipment has been received and the plant is expected to begin test production runs in the first quarter of 2019. In addition, Ben Machine and Stainless purchased equipment to increase production capacity in response to the growth in demand.

INVESTMENT IN WORKING CAPITAL

During 2018, the Corporation invested $55.6 million into working capital across several entities. The investment during the period relates primarily to the investment in Regional One's portfolio of parts and whole aircraft for resale and investment required to support increased business volumes across the Corporation's subsidiaries in 2018, of which Quest's rapid growth since being acquired in November 2017 has required the most significant investment.

The Corporation experienced a $190.4 million or 19% increase in revenue in 2018, driven by growth from both the Aerospace & Aviation segment and the Manufacturing segment. The most significant investment required by the Corporation was at Quest as its revenue increased approximately 45% from its pre-acquisition level, which has outperformed our internal expectations and therefore required additional investment in working capital.

Finally, the Corporation continued to invest in Regional One's inventory of parts and aircraft for resale as Regional One has continued to demonstrate an ability to generate exceptional returns on investment. This investment included investments in the ERJ 145 and ERJ 170 platforms as previously disclosed throughout 2018.

The overall net working capital position of the Corporation at December 31, 2017 included the September 2019 convertible debentures as a current liability as they were redeemed in January 2018. Included in current assets at December 31, 2017 was cash on hand which was used to repay those convertible debentures.

Detail of the increase is included in Note 23 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. We are able to keep this commitment through our 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

			2018 Dividends			2017 Dividends
Month	**Record date**	**Per share**	**Amount**	Record date	Per Share	Amount
January	January 31, 2018	**$ 0.175**	**$ 5,484**	January 31, 2017	$ 0.175	$ 5,438
February	February 28, 2018	**0.175**	**5,517**	February 28, 2017	0.175	5,447
March	March 29, 2018	**0.1825**	**5,732**	March 31, 2017	0.175	5,450
April	April 30, 2018	**0.1825**	**5,807**	April 28, 2017	0.175	5,455
May	May 31, 2018	**0.1825**	**5,791**	May 31, 2017	0.175	5,444
June	June 29, 2018	**0.1825**	**5,759**	June 30, 2017	0.175	5,411
July	July 31, 2018	**0.1825**	**5,754**	July 31, 2017	0.175	5,402
August	August 31, 2018	**0.1825**	**5,735**	August 31, 2017	0.175	5,383
September	September 28, 2018	**0.1825**	**5,726**	September 29, 2017	0.175	5,367
October	October 31, 2018	**0.1825**	**5,730**	October 31, 2017	0.175	5,367
November	November 30, 2018	**0.1825**	**5,710**	November 30, 2017	0.175	5,447
December	December 31, 2018	**0.1825**	**5,715**	December 29, 2017	0.175	5,476
Total		**$ 2.175**	**$ 68,460**		$ 2.10	$ 65,087

Dividends declared for the current year increased over the comparative year as a result of the increase in the dividend rate per month in the current year and the higher average number of shares outstanding throughout 2018. The Corporation increased the monthly dividend rate per share by $0.0075 during the first quarter of 2018 (4% increase).

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

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

Free Cash Flow less Maintenance Capital Expenditures is a measure that ensures that 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 of time reduces the impact of seasonality on the analysis. The first quarter of the fiscal year is always the most seasonally challenging for the Corporation. Winter roads into northern communities lessen the demand for the Corporation's air services. Therefore a single quarter can be impacted by seasonal variations that do not impact the Corporation's ability to pay dividends over a longer period of time.

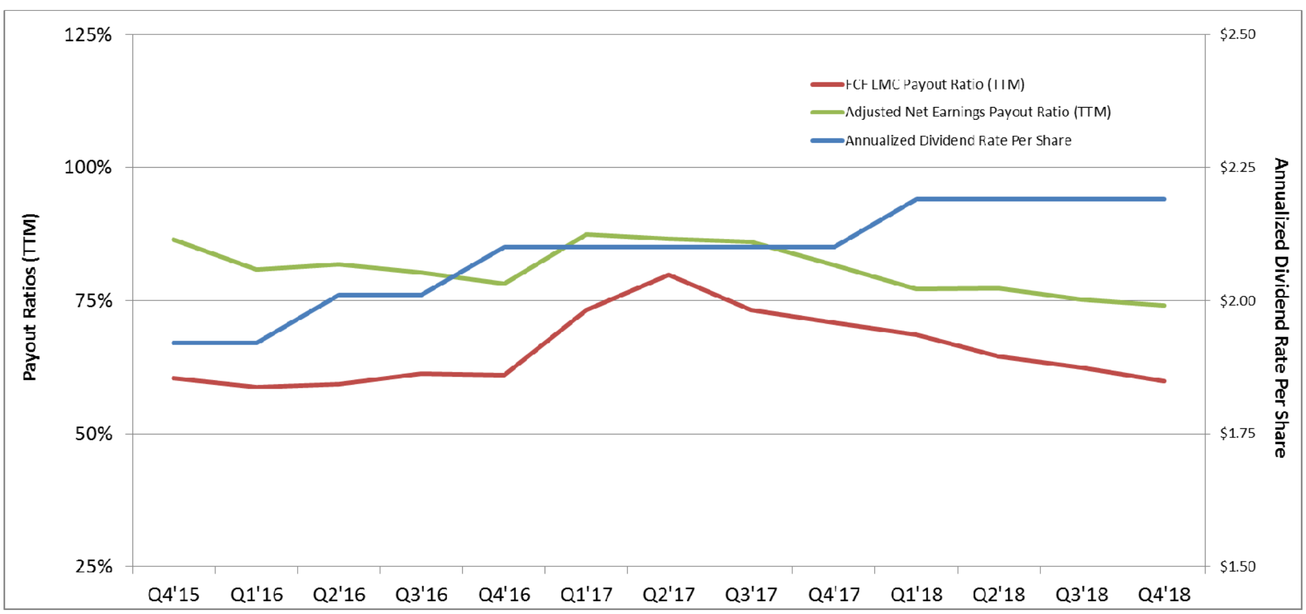
Payout Ratios

Basic per Share Payout Ratios for the Corporation	**2018**		2017	
Years Ended December 31	**Three Months**	**Twelve Months**	Three Months	Twelve Months
Adjusted Net Earnings	***69%***	***74%***	*73%*	*81%*
Free Cash Flow less Maintenance Capital Expenditures	***51%***	***60%***	*58%*	*71%*

The Corporation's three month Adjusted Net Earnings payout ratio and three month Free Cash Flow less Maintenance Capital Expenditures payout ratio both improved over the prior period. The twelve month payout ratios have both improved materially, from 81% to 74% on an Adjusted Net Earnings basis and from 71% to 60% on a Free Cash Flow less Maintenance Capital Expenditures basis. The percentage increase in Adjusted Net Earnings exceeded the increase in dividends declared during the period, resulting in an improved payout ratio for the 2018 year. In addition, the percentage increase in Free Cash Flow exceeded the impact of the increase in Maintenance Capital Expenditures and dividends, resulting in an improved payout ratio for the 2018 year.

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

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



6. OUTLOOK

EIC is positioned for continued growth in 2019 driven primarily by prior strategic investment in expansion initiatives within existing businesses. This organic growth is the result of long-term decision making and investment into our subsidiaries, who continue to expand and increase the breadth of their services. Moving into 2019, the Force Multiplier surveillance aircraft, expansion of the Fixed

Wing Search and Rescue ("FWSAR") contract, new partnerships at Regional One and a substantial expansion of our manufacturing capacity at Quest will lead the way. Moreover, numerous RFP's for both new and incumbent contracts will provide EIC with additional opportunities to expand our services.

Quest's new 330,000 square foot facility in Texas will more than double its current capacity over time. Planning and development of this new facility is nearly complete and test runs will begin late in the first quarter with a ramp up into the second half of the year. Prior to the expansion, Quest has over a $350 million backlog, limiting its ability to respond to new opportunities. This new facility will enable Quest to better serve its repeat US customers, enable it to meet shorter lead times, expand its customer base and service new regions.

Regional One has been successful in partnering with industry leaders to grow its portfolio of assets. The recently announced partnership with SkyWest, Inc. ("SkyWest"), the leading regional airline in North America, is a prime example. The partnership agreement will see Regional One purchase CRJ-700 airframes and enter into a joint venture with SkyWest for CF-34 engines. The assets will be parted out, leased, and sold consistent with Regional One's model. The partnership with SkyWest will pair Regional One's expertise and knowledge of these assets with the largest consumer of these aircraft in North America to the mutual benefit of both parties. While this transaction is significant in itself, it is the strategic partnership that will bring more long-term value.

Our Force Multiplier aircraft went into service in the fourth quarter of 2018. This was the result of a multi-year investment into this state of the art aircraft. This aircraft generated revenue late in 2018 and in the first quarter of 2019. There has been significant interest from governments both in North America and overseas as they respond to their intelligence needs. As such we expect demand for this service to increase throughout 2019 as governments follow through on their interest to deploy this aircraft.

The first C-295 aircraft for the awarded Fixed Wing Search and Rescue program is expected to be delivered to the Canadian government later in 2019. As the aircraft enters into service, our in-service support contract will increase in scope. As part of this in-service support, a new parts depot will be opened in Winnipeg late in 2019 to support these aircraft. This will be followed by a new maintenance facility in 2020 to service these aircraft.

Custom and Keewatin both expanded their EMS operations in the 2018. Keewatin now has long-term contracts in all three regions in Nunavut and expanded both their number of aircraft and bases in Nunavut in 2018 under these contracts. Custom also invested in a new facility in St. Andrews, Manitoba and acquired operations in the Island Lake region of Manitoba. These investments will serve to increase the performance of both these companies in 2019.

In addition to the RFP that Keewatin won in 2018, EIC is awaiting the outcomes on two RFP's that it responded to in 2018. Provincial submitted a proposal in response to the Government of Canada's RFP for the Fisheries Aerial Surveillance & Enforcement Program. Provincial currently performs this work under contract and has been performing this work under various contracts for the last 20 years. The award of this contract was originally anticipated to be late in 2018 but now is not expected until the first half of the year with service commencing in 2020. Provincial will continue to perform this work throughout 2019 and if it is successfully awarded the contract, it will expand the scope of its services in 2020.

EIC also submitted a proposal in response to the Government of Manitoba's RFP for Air Services for Manitoba, in particular for medevac services. If EIC is successful in our proposal, the medevac revenue generated in the province of Manitoba would increase from our current levels. We expect there to be competition from both domestic and international companies for this contract. With the investment EIC has made in the Province of Manitoba including infrastructure and human resources, and our leading position in medevacs throughout Canada, we believe we are strongly positioned to provide this service to the Province of Manitoba. The Government's assessment process for the medevac work is expected to be concluded in the second half of 2019.

In the first quarter of 2019, the Government of Nunavut Medical Transfer RFP was released as the current contract expires in August of 2019. Calm Air is the incumbent for the Kivalliq region of this contract. Calm Air is well positioned to be successful on this contract based on many years of providing these services, as well as recent investment made in the ground handling operations and a new passenger lounge in Rankin Inlet in 2019 to support these operations.

Fuel prices rose significantly in 2018 impacting our results. While all our companies implement fuel surcharges to address these higher costs, there is always a delay in the fuel surcharges leading to a short-term impact on results. As 2018 came to a close, fuel prices stabilized and previously implemented fuel surcharges mitigated the higher fuel prices. The situation has been stable throughout the first quarter and fuel prices are expected to have less of an impact on results in 2019.

As explained in previous quarters, the pilot shortage covered in the media is very real. This pilot shortage will likely have a greater impact on regional airlines. As such, EIC has proactively developed a strategy to address this pilot shortage, providing it with an advantage over its competitors. This strategy is a fully integrated retention strategy, which utilizes our strength across our diverse aviation companies and incorporates the addition of Moncton Flight College, the largest flight training college in Canada. This strategy contains multiple initiatives that removes barriers for pilots to gain the necessary experience and provides a pathway for the employees' career. This strategy will help EIC manage costs but more importantly will provide our subsidiaries with enough pilots and the right experience to continue to deliver services to our customers, including essential services in northern Canada. This will give our subsidiaries a significant competitive advantage to similar size aviation competitors. The initiatives under this strategy continue to be implemented but will require some time to take effect. We will see a negative impact on short-term results due to higher contractor and training costs until this strategy is fully implemented and takes effect.

The acquisition of MFC not only supports our pilot retention strategy but it is also a strong business in its own right. It's the largest flight school in Canada and is internationally recognized as a top flight school. In the last few months, it signed 3 of its 4 major international customers to multi-year contract extensions. This combined with an expansion of its capacity in 2018 will lead to growth in 2019.

Acquisitions are a fundamental aspect of our growth strategy. Deal flow continues to be strong and EIC is actively seeking potential companies to acquire. While the recent multiples have been inflated in many industries as a result of the capital availability in the market, EIC continues to seek companies that fit EIC. Connecting with vendors who value our approach will continue to drive our growth.

Capital Expenditures

Maintenance capital expenditures are necessary to maintain the earning power of our subsidiaries. EIC expects maintenance capital expenditures to increase in line with the overall growth of our business in 2019. Consistent with prior years, these expenditures will be skewed towards the first half of the year as EIC takes advantage of the seasonally lower utilization in the early part of the year to perform heavy maintenance.

In the 2017 outlook, EIC noted that growth capital expenditures in 2018 were expected to be down from prior years. This held true with growth capital expenditures of $49 million in 2018 compared to an annual average of $144 million over the past couple of years. Moving into 2019 we expect growth capital expenditures to continue at the 2018 levels.

The 2019 growth capital expectations includes the capital required for the SkyWest transaction. Not included is the capital required for the multiple RFP's that are to be awarded in 2019. If EIC is successful on these RFP's, the capital required for 2019 would increase.

A key tenet to EIC's business model is to continue to invest in our subsidiaries. As such, EIC will continue to assess prospects to grow through additional investment as opportunities are developed by their subsidiaries throughout the year. Regional One is the most fluid example as their business opportunities can arise and be acted upon in short order. Their ability to be opportunistic is a key aspect of their business model and our long-term investment strategy.

7. LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2018, the Corporation redeemed its 7 year 5.5% convertible debentures which were due September 30, 2019. The redemption of $56.8 million was funded with a portion of the proceeds of the $100 million of 5 year 5.25% convertible unsecured subordinated debenture offering which closed on December 20, 2017. On June 26, 2018, the Corporation issued $80.5 million of convertible unsecured subordinated debentures including the exercise of the full $10.5 million over-allotment option that was granted to the underwriters. The debentures bear interest at 5.35% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity of the debentures is June 30, 2025. A portion of the proceeds of this offering were used to make a repayment on the credit facility. The remainder of the proceeds were used for the early redemption of its 7 year 5.35% convertible debentures, which were to mature on March 31, 2020. On the redemption date, the remaining outstanding convertible debentures in the principal amount of $65.0 million were redeemed by the Corporation.

On May 7, 2018, the Corporation amended its credit facility to increase its size by $250 million and extend its term to May 2022. Additionally, one financial institution was added to the syndicate and the interest rate charged on utilized and unutilized portions of the facility were reduced. The Corporation amends and extends its facility on a regular basis to continuously have a maturity that extends at least three years and to increase the size of the facility to correspond to the increasing size of the Corporation. Subsequent to December 31, 2018, the Corporation amended its credit facility, which further reduced the interest rate charged on utilized and unutilized portions of the facility and extended the maturity to May 7, 2023.

Our working capital position, Free Cash Flow and capital resources are strong and we have no long term debt coming due until March 2021. Our strong balance sheet combined with the recent changes to our credit facility and convertible debentures have enhanced our access to capital to make acquisitions and invest in our operating subsidiaries.

As at December 31, 2018, the Corporation had a cash position of $43.0 million (December 31, 2017 - $72.3 million) and a net working capital position of $301.1 million (December 31, 2017 - $236.8 million) which represents a current ratio of 2.26 to 1 (December 31, 2017 - 1.90 to 1). A portion of the increase in working capital at December 31, 2018 can be attributed to the impact of the weakening Canadian dollar, resulting in an increase in working capital due to the translation US functional currency based subsidiaries. The

Corporation's cash balance at December 31, 2017 included $56.8 million to fund the redemption of its 7 year 5.5% convertible debentures which were redeemed in January 2018. The entire earn out for Quest is expected to be paid within a year and has now been reclassified into the current liabilities section on the balance sheet.

The Corporation aims to maintain leverage ratios at consistent levels over time. There are points where leverage temporarily rises as a result of a significant acquisition where the associated EBITDA has not yet been realized. Our target leverage range, based on senior debt to EBITDA, is between 1.5 and 2.5. Our leverage covenant with our lenders allows for a senior leverage ratio maximum of 3.25. The Corporation's leverage ratio at December 31, 2018 as calculated under the terms of our credit facility, which is adjusted for the impact of the timing of acquisitions and is inclusive of outstanding letters of credit as of the balance sheet date, was 2.46 (December 31, 2017 – 1.86). Our leverage ratio at December 31, 2017 was impacted by the cash position that was used to redeem convertible debentures as noted above.

Overview of Capital Structure

The Corporation's capital structure is summarized below.

	December 31 2018	December 31 2017
Total senior debt outstanding (principal value)	**$ 727,169**	$ 550,318
Convertible debentures outstanding (par value)	**277,335**	318,678
Common shares	**588,498**	576,471
Total capital	**$ 1,593,002**	$ 1,445,467

Credit facility

The size of the Corporation's credit facility as at December 31, 2018 is approximately $1 billion, with $945 million allocated to the Corporation's Canadian head office and US $55 million allocated to EIIF Management USA Inc. The facility allows for borrowings to be denominated in either Canadian or US funds. As of December 31, 2018, the Corporation had drawn $229.1 million and US $365.1 million (December 31, 2017 - $109.7 million and US $351.2 million). During the year, the Corporation made draws on its credit facility to fund the investment in Wasaya, the acquisitions of Moncton Flight College and Wings Over Kississing, the investment in Quest's US facility and investments in working capital as described in *Section 4 – Investing Activities*. Draws were also made by the Corporation for the purchase of shares for cancellation under its NCIB.

During the year, the Corporation used derivatives through several cross currency basis swaps ("swap") with a member of the Corporation's lending syndicate. The swap requires that funds are exchanged back in 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 is able to 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, 2018, US $186.0 million (December 31, 2017 – US $194.7 million) of the Corporation's US denominated borrowings are hedged with these swaps.

Convertible Debentures

The following summarizes the convertible debentures outstanding as at December 31, 2018 and the changes in the amount of convertible debentures outstanding during the year ended December 31, 2018:

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012(1)	EIF.DB.E	September 30, 2019	5.5%	$36.80
Unsecured Debentures - 2013(2)	EIF.DB.F	March 31, 2020	5.35%	$41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$44.75
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$51.50
Unsecured Debentures - 2018	EIF.DB.J	June 30, 2025	5.35%	$49.00

Par value		Balance, beginning of year		Issued		Converted		Redeemed / Matured		Balance, end of year
Unsecured Debentures - September 2012(1)	$	56,843	$	-	$	(90)	$	(56,753)	$	-
Unsecured Debentures - March 2013(2)		64,980		-		(2)		(64,978)		-
Unsecured Debentures - March 2014		27,880		-		(20)		-		27,860
Unsecured Debentures - June 2016		68,975		-		-		-		68,975
Unsecured Debentures - December 2017		100,000		-		-		-		100,000
Unsecured Debentures - June 2018		-		80,500		-		-		80,500
Total	$	318,678	$	80,500	$	(112)	$	(121,731)	$	277,335

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

Note 2) On July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible debentures which were due March 31, 2020.

Share Capital

The following summarizes the changes in the shares outstanding of the Corporation during the year ended December 31, 2018:

	Date issued (redeemed)	Number of shares
Shares outstanding, beginning of year		31,317,890
Issued upon conversion of convertible debentures	various	3,123
Issued under dividend reinvestment plan (DRIP)	various	217,939
Issued under deferred share plan	various	8,534
Shares cancelled under NCIB	various	(939,577)
Issued under First Nations community partnership agreements	various	10,039
Issued under employee share purchase plan	various	55,480
Issued to Moncton Flight College vendors on closing	February 28, 2018	176,102
Issued to Wasaya vendors on closing	April 19, 2018	385,908
Issued to Wings Over Kississing vendors on closing	December 19, 2018	80,568
Shares outstanding, end of year		31,316,006

During the year, the Corporation issued shares to the vendors of Moncton Flight College, Wasaya and Wings Over Kississing. On February 28, 2018, the Corporation issued 176,102 shares with a value of $6.0 million as part of the acquisition of Moncton Flight College. On April 19, 2018, the Corporation issued 385,908 shares with a value of $12.3 million as part of its investment in Wasaya. On December 19, 2018, the Corporation issued 80,568 shares with a value of $2.2 million as part of the acquisition of certain assets and operations of Wings Over Kississing.

The Corporation issued 217,939 shares under its dividend reinvestment plan (“DRIP”) during the year ended December 31, 2018 and received $6.7 million for those shares in accordance with the DRIP.

During the year ended December 31, 2018, the Corporation repurchased shares for cancellation under its NCIB, which is detailed further below.

The weighted average shares outstanding during the three and twelve months ended December 31, 2018 increased by 1% and 2%, respectively, over the comparative period. The increase is mainly attributable to the shares issued in connection with the acquisition of Quest, Moncton Flight College and the investment in Wasaya, mostly offset by shares repurchased and cancelled under the Corporation’s NCIB throughout 2017 and 2018.

Normal Course Issuers Bid

On January 31, 2018, the Corporation received approval from the TSX for the renewal of its NCIB to purchase up to an aggregate of 1,566,827 shares, representing 5% of the issued and outstanding shares as at January 23, 2018. Purchases of shares pursuant to the renewed NCIB could be made through the facilities of the TSX commencing on February 5, 2018 and ending on February 4, 2019. The maximum number of shares that could be purchased by the Corporation on a daily basis was 36,859 shares, other than block purchase exemptions.

During the year ended December 31, 2018, the Corporation purchased a total of 939,577 shares through its NCIB. The Corporation paid $30.5 million to purchase these shares at a weighted average purchase price of $32.42. All shares purchased under the NCIB were cancelled.

On February 8, 2019, subsequent to December 31, 2018, the Corporation renewed its NCIB. Purchases under the NCIB can commence on February 22, 2019 and will end on February 21, 2020. Under the renewed NCIB, the Corporation can purchase a maximum of 1,567,004 shares and daily purchases will be limited to 21,522 shares, other than block purchase exemptions.

The Corporation sought renewal of the NCIB because it believes that, from time to time, the market price of its shares may not fully reflect the value of the shares. The Corporation believes that, in such circumstances, the purchase of shares represents an accretive use of capital.

Schedule of Financial Commitments

The following are the financial commitments of the Corporation and its subsidiaries at December 31, 2018:

	Total	Less Than 1 year	Between 1 year and 5 years	More than 5 years
Long-term debt (principal value)	$ 727,169	$ -	$ 727,169	$ -
Convertible debentures (par value)	277,335	-	196,835	80,500
Operating leases	151,283	27,159	75,253	48,871
Finance leases	2,881	1,186	1,695	-
	$ 1,158,668	$ 28,345	$ 1,000,952	$ 129,371

8. RELATED PARTY TRANSACTIONS

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

Property Leases

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. In addition, the Corporation leases office space for its head office from a company controlled by a director of the Corporation. These leases are considered to be at market terms and are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2018 under these leases was $3.9 million (2017 – $3.7 million) and the lease term maturities range from 2019 to 2023. The lease expenses are recorded within general and administrative expenses and are classified as operating leases, therefore no related balances exist on the Corporation's statement of financial position.

Key Management Compensation

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

Compensation awarded to key management for the 2018 year and the comparative 2017 year is as follows:

Year ended December 31,	**2018**	2017
Salaries and short-term benefits	$ **5,457**	$ 5,601
Share-based payments	**3,718**	3,071
	$ **9,175**	$ 8,672

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 profits as money is collected on the sale of the aircraft assets. In connection with this agreement, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During 2018, CRJ Capital Corp. invested US $6.5 million (2017 - US $7.9 million), generating returns paid or payable to CRJ Capital Corp. of US $1.4 million (2017 - US $3.5 million). As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at December 31, 2018 was US $10.0 million (December 31, 2017 - US $5.1 million). At December 31, 2018, less than US $0.1 million is recorded as accounts receivable from CRJ Capital Corp. (December 31, 2017 - US $1.4 million).

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 is generally recognized in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is 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 CarteNav and Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $4.6 million and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

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

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

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

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

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

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2018 would result in an increase of approximately $5.4 million (2017 - $6.5 million) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

Goodwill and indefinite life intangible assets are not amortized. Goodwill and all indefinite life intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit ("CGU") to its recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. The recoverable amount is forecasted with management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the cash generating units operate.

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

Intangible Assets

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

The Corporation has concluded that no impairments of its indefinite lived intangible assets existed as a result of this assessment as at December 31, 2018.

Goodwill

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

The Corporation used its forecasted EBITDA based on its approved budget and used its best estimate of market participant EBITDA multiples (Level 3 within the fair value hierarchy). The EBITDA multiple used for the Aerospace & Aviation segment was 7.5x (2017 – 7.5x) and was 7.0x (2017 – 7.0x) for the Manufacturing segment.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2018.

Deferred Income Taxes

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

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

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

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

10. ACCOUNTING POLICIES

The accounting policies of the Corporation used in the determination of the results for years ended December 31, 2018 and 2017 that are discussed and analyzed in this report are described in detail in Note 3 of the Corporation's 2018 consolidated financial statements.

Adoption of IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring additional disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The Corporation's adoption of IFRS 15 was effective beginning on January 1, 2018. The Corporation has adopted IFRS 15 from January 1, 2018 which resulted in changes in accounting policies and adjustments recognized in the financial statements. In accordance with the transition provision in IFRS 15, the Corporation has adopted the standard on a modified retrospective basis. There was no restatement of comparative financial information with the cumulative effect of adoption recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018. Under this transition method, the Corporation has applied IFRS 15 retrospectively only to those contracts that were not completed as of January 1, 2018. The impact of adoption is summarized in the Note 3 – Significant Accounting Policies of the Corporation's annual consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

Accounting standards issued but not yet effective

IFRS 16 Leases

IFRS 16 will be effective for the Corporation's fiscal year beginning on January 1, 2019. As a result of adopting this new standard, many of the Corporation's leases, that were previously accounted for as operating leases, will be accounted for by recognizing a "right to use" asset and a lease liability on the balance sheet. The Corporation's current intention is to adopt the new standard using the modified retrospective method. Under this method, the lease assets and liabilities will be measured by discounting the remaining lease payments using the incremental borrowing rate. Subsequently, the lease liability will be reduced by the lease payments made and interest expense will be recorded on the outstanding liability. Also, the right to use asset will be depreciated over the term of the lease. Accordingly, such lease payments will no longer be reflected as operating expenses in the Consolidated Statement of Income. Rather, interest expense related to the liability and depreciation related to the right to use asset will now be reflected as non-operating expenses.

As a result of adopting the new standard:

- Both assets and liabilities on the Consolidated Balance Sheet will increase;
- Operating expenses will decrease and therefore operating profit before depreciation, amortization, finance costs and other on the Consolidated Statement of Income will increase;
- Finance costs – interest on the Consolidated Statement of Income will increase; and
- Depreciation of capital assets on the Consolidated Statement of Income will increase.

On adoption, the Corporation estimates that the Right to Use Assets will increase approximately $115 million, Right to Use Liability (both current and long term portions) will increase approximately $119 million, and Opening Retained Earnings will decrease approximately $4 million. The adoption date impact will be finalized in the first quarter of 2019.

For the 2019 period, the Corporation estimates that EBITDA will increase approximately $20 million and that Net Earnings will decrease approximately $0.05 per share as a result of the adoption of IFRS 16.

IFRIC 23 – Uncertainty Over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned

to be used in its income tax filings.

- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for the Corporations fiscal year beginning on January 1, 2019. The Company is currently assessing the impact however does not expect a material adjustment upon adoption.

11. CONTROLS AND PROCEDURES

Internal Controls over Financial Reporting

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

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

Management has evaluated the design and operating effectiveness of the Corporation's internal controls over financial reporting as at December 31, 2018, 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 2018 year that would have materially affected or are likely to materially affect the internal controls over financial reporting.

Disclosure Controls and Procedures

Management has established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Corporation is made known to management in a timely manner and that information required to be disclosed by the Corporation is reported within the time periods prescribed by applicable securities legislation. Management has concluded that disclosure controls and procedures were effective as at December 31, 2018.

12. RISK FACTORS

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

RISK GOVERNANCE

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

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

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

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

EXTERNAL RISKS:

Economic and Geopolitical Conditions

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

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

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

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

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

Competition

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

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

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

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

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

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

Government Funding for First Nations Health Care

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

Access to Capital

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

Market Trends and Innovation

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

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

General Uninsured Loss

Each of the Subsidiaries carries comprehensive general liability, fire, flood and extended coverage insurance with policy specifications, limits and deductibles customarily carried for similar businesses. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not 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 MFC's ability to maintain its flight training schedule, leading to less 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 our airline subsidiaries are impacted by the length of winter road season, which is impacted by the weather during the first few months of the calendar year. The colder the winter season, the longer the winter roads are available for customers to use as an alternative to flying with the airlines of the Corporation.

Acts of Terrorism

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

Pandemic

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

Level and Timing of Defence Spending

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

Government-Funded Defence and Security Programs

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

OPERATIONAL RISKS:

Significant Contracts and Customers

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

Operational Performance and Growth

The Corporation's principal source of funds is cash generated from its Subsidiaries 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 business levels. In the event that additional capital and operating expenditures depend on increased cash flow or additional financing arise in the future, lack of those funds could limit or delay the future growth of the Subsidiaries and their cash flow. Furthermore, underperformance of a material Subsidiary and/or combination thereof could have an adverse effect by also limiting or delaying future growth of the Subsidiaries and their cash flow, while also potentially impacting the amount of cash available for dividends to the Shareholders.

Laws, Regulations and Standards

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

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

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 changes in policy that could have a material adverse effect on the airline industry in general by significantly increasing the cost of airline operations, imposing additional requirements on operations, increasing airport and/or user fees, or reducing the demand for air travel. With the adoption of Bill C-49, the CTA is implementing new regulations in 2019 for establishing a new airline passenger rights regime. The regulations will govern flights to, from, and within Canada, including connecting flights, and will specify the requirements governing a carrier's obligations in the case of flight delay, cancellation or denial of boarding, as well as minimum standards of treatment, compensation and assistance in completing the planned itinerary. The Corporation and its Subsidiaries continue to monitor the ongoing development of such regulations, determining their impact on current operations and developing a strategy, inclusive of compensation policies already in place, to address their impact. These new regulations could have an adverse effect on the Corporation's results from operations and financial condition.

The Canadian Federal Government outlined a pan-Canadian benchmark for pricing carbon emissions in response to global climate change initiatives. The benchmark outlines that jurisdictions may either implement an explicit price-based system, such as a carbon tax or levy, or a cap-and-trade system. The impact of this legislation applies to a broad set of emission sources which includes fossil fuel sources including jet fuel used within the aviation industry. Certain provinces such as Alberta, British Columbia, and Quebec have implemented a carbon pricing system. Other provinces, including Manitoba, are in discussions with the federal government and therefore have yet to conclude what carbon pricing strategy will be implemented. This will have the greatest impact on our airline Subsidiaries while also having potential indirect implications through the supply chains of our other industries. Furthermore, the Company may be subject to mandated greenhouse gas emissions reduction, reporting or carbon trading requirements in other jurisdictions where the Company operates. This legislation could result in additional costs, which the Corporation might be unable to fully pass on through its sales prices, having an adverse impact to the Company's margins and financial results.

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

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

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

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

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

Certain of our subsidiaries regularly engage in business transactions with US based suppliers and customers. The United States-Mexico-Canada Agreement was negotiated in late 2018, replacing the previous North American Free Trade Agreement. While the discussions around the renegotiation of a free trade agreement and its impact have led to a better understanding of such implications, uncertainty continues to exist on the outcome of these renegotiations until fully implemented. This could negatively impact the operations and financial condition of our Subsidiaries. Among the possible risks are the possibilities of new tariffs, increased difficulty associated with the movement of goods and people across the border and changes to access to work permits by employees. 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.).

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

Acquisition Risk

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

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

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

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

Concentration and Diversification Risk

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

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

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

Maintenance Costs

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

Access to Parts and Relationships with Key Suppliers

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

Casualty Losses

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

Environmental Liability Risks

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

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

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

Dependence on Information Systems and Technology

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

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

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

Cybersecurity threats are continually growing and changing and require continuous monitoring and detection efforts to address. 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 cyber security threats can be fully detected, prevented or mitigated. Should such threats materialize, the Corporation could suffer costs, expenses, losses and damages such as property damage, corruption of data, lower earnings, reduced cash flow, third party claims, fines and penalties; all or some of which may not be recoverable.

International Operations Risks

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

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

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

Fluctuations in Sales Prices of Aviation Related Assets

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

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

Fluctuations in Purchase Prices of Aviation Related Assets

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

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

Warranty Risk

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

Global Offset Risk

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

Intellectual Property Risk

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

FINANCIAL RISKS:

Availability of Future Financing

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

Income Tax Matters

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

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

Commodity Risk

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

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

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

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

Foreign Exchange

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

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

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

Interest Rates

As at December 31, 2018, the credit facility has a variable interest rate on the Canadian and US portions of the amount outstanding under the facility. A one-percentage point increase in average interest rates would cost the Corporation approximately $6.5 million (ignoring the impact of foreign exchange) per annum for the credit facility based on the amounts outstanding as at December 31, 2018. The terms of the credit facility allow for the Corporation to choose the base interest rate between prime, bankers' acceptances or London Inter-Bank Offer Rate (LIBOR). The Corporation manages the base rate used on the outstanding facility and seeks financing terms in individual arrangements that are most advantageous. The Corporation considers derivative instruments to manage the variable interest rate risk and has entered into interest rate swaps in order to manage this risk in the past. The Corporation's outstanding debentures have fixed interest rates which are not affected by changes in rates.

Credit Facility and the Trust Indentures

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

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

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

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

Dividends

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

Unpredictability and Volatility of Share Prices

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

Dilution Risk

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

Credit Risk

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

HUMAN CAPITAL RISKS:

Reliance on Key Personnel

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

Employees and Labour Relations

The success of the Subsidiaries is dependent in large part upon their ability to attract and retain key management and employees. Recruiting and maintaining personnel in the industries in which the Subsidiaries are involved is highly competitive and it cannot be guaranteed that these entities will be able to attract and retain the qualified personnel needed for their businesses. In particular, skilled labour for the WesTower operations of tower maintenance and erection, engineers in Provincial's modification operations, software developers and certain metal fabricators are specialized and it can be difficult to find qualified personnel and retain them given the competitive environments that these businesses operate in. As well, the pilots, nurses and maintenance personnel within the Aerospace & Aviation segment's operations are in high demand within the aviation industry. The previously proposed Transport Canada regulations with respect to Pilot Fatigue and Flight Duty Times were published in late 2018, with an implementation period over the next 2-4 years. These regulations will have an additional impact on the number of pilots required for EIC Aviation Operators. The acquisition of MFC provides a mitigation measure by giving airline subsidiaries direct access to pilots and limits disruption to planned routes. A failure to attract or retain qualified personnel could have an adverse effect on the Corporation's business, results from operations and financial condition.

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

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

Conflicts of Interest

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

13. NON-IFRS FINANCIAL MEASURES AND GLOSSARY

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

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

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

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

Maintenance and Growth Capital Expenditures: Maintenance Capital Expenditures is defined as the capital expenditures made by the Corporation to maintain the operations of the Corporation at its current level and includes the principal payments made by the Corporation on its finance leases and depreciation recorded on assets in the Corporation’s leasing pool. Other capital expenditures are classified as Growth Capital Expenditures as they will generate new cash flows and are not considered by management in determining the cash flows required to sustain the current operations of the Corporation.

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

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

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

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

14. SELECTED ANNUAL AND QUARTERLY INFORMATION

The following table provides selected annual information for the Corporation for the years ended 2016 through to 2018.

		2018		2017		2016
Revenues	$	**1,203,392**	$	1,012,950	$	891,026
Expenses[1]		**925,627**		764,252		678,451
EBITDA	$	**277,765**	$	248,698	$	212,575
Total non-operating expense		**206,996**		176,538		151,085
Net Earnings	$	**70,769**	$	72,160	$	61,490
Net Earnings per share						
Basic	$	**2.25**	$	2.33	$	2.18
Diluted		**2.18**		2.26		2.12
Adjusted Net Earnings	$	**92,360**	$	79,727	$	72,202
Basic		**2.94**		2.58		2.56
Diluted		**2.80**		2.47		2.43
Dividends declared	$	**68,460**	$	65,087	$	56,331
Per share		**2.175**		2.10		1.995
Free Cash Flow	$	**223,363**	$	191,114	$	164,211
Per share basic		**7.10**		6.17		5.83
Per share fully diluted		**6.22**		5.46		5.08
Free Cash Flow less Maintenance Capital Expenditures	$	**114,367**	$	91,946	$	91,584
Per share basic		**3.64**		2.97		3.25
Per share fully diluted		**3.38**		2.81		3.00
Financial Position						
Working capital	$	**301,141**	$	236,834	$	178,492
Total assets		**1,957,298**		1,749,197		1,424,532
Total long-term liabilities[2]		**1,013,635**		831,840		687,296
Total liabilities		**1,340,051**		1,171,689		938,395
Share Information						
Common shares outstanding as at December 31,		**31,316,006**		31,317,890		28,793,354
Weighted average common shares outstanding during the year - basic		**31,457,420**		30,960,708		28,151,807

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

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

The following summary reflects quarterly results of the Corporation:

	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
Revenue	$ 315,737	$ 308,179	$ 313,449	$ 266,027	$ 263,910	$ 253,367	$ 273,145	$ 222,528	$ 221,657
EBITDA	69,507	79,174	75,071	54,013	63,315	71,964	70,071	43,348	51,304
Net Earnings	18,446	24,162	19,547	8,614	16,920	23,902	25,779	5,559	13,822
Basic	0.59	0.77	0.62	0.27	0.55	0.78	0.83	0.18	0.48
Diluted	0.57	0.72	0.60	0.27	0.53	0.72	0.77	0.18	0.47
Adjusted Net Earnings	24,670	29,550	25,208	12,932	22,260	25,716	23,943	7,808	16,631
Basic	0.79	0.94	0.80	0.41	0.72	0.84	0.77	0.25	0.58
Diluted	0.75	0.86	0.76	0.40	0.68	0.77	0.72	0.25	0.56
Free Cash Flow ("FCF")	59,763	64,219	58,785	40,596	49,745	55,849	51,731	33,789	40,765
Basic	1.91	2.04	1.86	1.29	1.61	1.81	1.66	1.09	1.42
Diluted	1.66	1.76	1.66	1.15	1.45	1.58	1.46	0.98	1.25
FCF less Maintenance Capital Expenditures	33,743	41,103	29,679	9,842	27,748	35,976	21,842	6,380	22,823
Basic	1.08	1.31	0.94	0.31	0.90	1.17	0.70	0.21	0.80
Diluted	0.98	1.16	0.90	0.31	0.86	1.05	0.66	0.20	0.74
Maintenance Capital Expenditures	26,020	23,116	29,106	30,754	21,997	19,873	29,889	27,409	17,942
Growth Capital Expenditures	31,578	15,086	301	2,040	15,768	20,771	33,048	58,790	44,760

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 Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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

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

Other information

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

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’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 Company'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 Company'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 Company 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 Company 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.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Winnipeg, Manitoba
February 20, 2019

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

As at	December 31 2018	December 31 2017
ASSETS		*(Note 3)*
CURRENT		
Cash and cash equivalents	$ **42,970**	$ 72,315
Accounts receivable	**232,910**	204,612
Amounts due from customers on construction contracts (Note 16)	**13,943**	9,294
Inventory (Note 7)	**216,150**	178,397
Prepaid expenses and deposits	**33,666**	29,932
Income taxes receivable	**641**	5,072
	540,280	499,622
OTHER ASSETS (Note 8)	**74,078**	28,754
CAPITAL ASSETS (Note 9)	**877,691**	796,576
INTANGIBLE ASSETS (Note 10)	**144,571**	135,706
DEFERRED INCOME TAX ASSETS (Note 25)	**-**	258
GOODWILL (Note 10)	**320,678**	288,281
	$ **1,957,298**	$ 1,749,197
LIABILITIES		
CURRENT		
Accounts payable and accrued expenses	$ **199,256**	$ 166,415
Deferred revenue	**26,546**	24,160
Amounts due to customers on construction contracts (Note 16)	**12,151**	14,200
Current portion of long-term debt and finance leases (Note 11)	**1,186**	1,170
Current portion of convertible debentures (Note 12)	**-**	56,843
	239,139	262,788
LONG-TERM DEBT AND FINANCE LEASES (Note 11)	**726,325**	549,451
OTHER LONG-TERM LIABILITIES	**29,881**	34,493
DEFERRED REVENUE	**3,606**	6,934
CONVERTIBLE DEBENTURES (Note 12)	**253,823**	240,962
DEFERRED INCOME TAX LIABILITY (Note 25)	**87,277**	77,061
	1,340,051	1,171,689
EQUITY		
SHARE CAPITAL (Note 13)	**588,498**	576,471
CONVERTIBLE DEBENTURES - Equity Component (Note 12)	**11,954**	14,311
CONTRIBUTED SURPLUS	**9,693**	3,478
DEFERRED SHARE PLAN	**13,525**	9,867
RETAINED EARNINGS		
Cumulative Earnings	**390,689**	320,141
Cumulative Dividends (Note 14)	**(424,178)**	(355,718)
Cumulative impact of share cancellation under the NCIB (Note 13)	**(25,053)**	(12,074)
	(58,542)	(47,651)
ACCUMULATED OTHER COMPREHENSIVE INCOME	**52,119**	21,032
	617,247	577,508
	$ **1,957,298**	$ 1,749,197

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

Approved on behalf of the directors by:

Duncan Jessiman, Director
Signed

Donald Streuber, Director
Signed

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF INCOME

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

For the years ended December 31		2018		2017
REVENUE				
Aerospace & Aviation	$	883,962	$	808,569
Manufacturing		319,430		204,381
		1,203,392		1,012,950
EXPENSES				
Aerospace & Aviation expenses - excluding depreciation and amortization		513,863		460,397
Manufacturing expenses - excluding depreciation and amortization		228,766		153,894
General and administrative		182,998		149,961
		925,627		764,252
OPERATING PROFIT BEFORE DEPRECIATION, AMORTIZATION, FINANCE COSTS AND OTHER (Note 4)		277,765		248,698
Depreciation of capital assets (Note 9)		118,591		108,556
Amortization of intangible assets (Note 10)		19,596		10,397
Finance costs - interest		51,706		36,982
Acquisition costs		3,686		3,041
Other (Note 5)		(4,616)		-
Gain on disposal of partnership interest, net of transaction costs (Note 8)		-		(5,585)
EARNINGS BEFORE INCOME TAXES		88,802		95,307
INCOME TAX EXPENSE (RECOVERY) (Note 25)				
Current		14,318		27,812
Deferred		3,715		(4,665)
		18,033		23,147
NET EARNINGS	$	70,769	$	72,160
EARNINGS PER SHARE (Note 17)				
Basic	$	2.25	$	2.33
Diluted	$	2.18	$	2.26

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

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

Attributable to common shareholders For the years ended December 31		2018		2017
NET EARNINGS	$	70,769	$	72,160
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that are or may be reclassified to the Statement of Income				
Cumulative translation adjustment, net of tax expense (recovery) of $27 and $(49), respectively.		48,330		(35,054)
Net gain on hedge of net investment in foreign operation, net of tax expense (recovery) of $(1,016) and $1,304, respectively.		(17,243)		12,437
		31,087		(22,617)
COMPREHENSIVE INCOME	$	101,856	$	49,543

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

Exchange Income Corporation
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands of Canadian dollars)

					Retained Earnings				
	Share Capital	Convertible Debentures - Equity Component	Contributed Surplus - Matured Debentures	Deferred Share Plan	Cumulative Earnings	Cumulative Dividends	Cumulative impact of share repurchase under NCIB	Accumulated Other Comprehensive Income (Loss)	**Total**
Balance, January 1, 2017	$ 463,603	$ 11,245	$ 3,478	$ 7,207	$ 247,981	$ (290,631)	$ (395)	$ 43,649	$ **486,137**
Shares issued to acquisition vendors (Note 6)	12,114	-	-	-	-	-		-	**12,114**
Prospectus offering, January 2017 (Note 13)	94,288	-	-	-	-	-		-	**94,288**
Convertible debentures									
Converted into shares (Note 13)	11,457	(524)	-	-	-	-	-	-	**10,933**
Issued	-	3,590	-	-	-	-	-	-	**3,590**
Shares issued under dividend reinvestment plan (Note 13)	6,630	-	-	-	-	-	-	-	**6,630**
Shares issued under First Nations community partnership agreements (Note 13)	577	-	-	-	-	-	-	-	**577**
Deferred share plan vesting	-	-	-	2,859	-	-	-	-	**2,859**
Deferred share plan issuance	199	-	-	(199)	-	-	-	-	**-**
Shares issued under ESPP (Note 13)	1,957	-	-	-	-	-	-	-	**1,957**
Shares cancelled under NCIB (Note 13)	(14,354)	-	-	-	-	-	(11,679)	-	**(26,033)**
Comprehensive income	-	-	-	-	72,160	-	-	(22,617)	**49,543**
Dividends declared (Note 14)	-	-	-	-	-	(65,087)	-	-	**(65,087)**
Balance, December 31, 2017	**$ 576,471**	**$ 14,311**	**$ 3,478**	**$ 9,867**	**$ 320,141**	**$ (355,718)**	**$ (12,074)**	**$ 21,032**	**$ 577,508**
Balance, December 31, 2017	$ 576,471	$ 14,311	$ 3,478	$ 9,867	$ 320,141	$ (355,718)	$ (12,074)	$ 21,032	**577,508**
Restatement (Note 3)	-	-	-	-	(221)	-	-	-	**(221)**
Balance, January 1, 2018 (Restated - Note 3)	$ 576,471	$ 14,311	$ 3,478	$ 9,867	$ 319,920	$ (355,718)	$ (12,074)	$ 21,032	$ **577,287**
Shares issued to acquisition vendors (Note 6)	20,491	-	-	-	-	-	-	-	**20,491**
Convertible debentures									
Converted into shares (Note 13)	120	(8)	-	-	-	-	-	-	**112**
Issued	-	3,866	-	-	-	-	-	-	**3,866**
Matured/Redeemed	-	(6,215)	6,215	-	-	-	-	-	**-**
Shares issued under dividend reinvestment plan (Note 13)	6,737	-	-	-	-	-	-	-	**6,737**
Shares issued under First Nations community partnership agreements (Note 13)	322	-	-	-	-	-	-	-	**322**
Deferred share plan vesting (Note 13)	-	-	-	3,829	-	-	-	-	**3,829**
Deferred share plan issuance	171	-	-	(171)	-	-	-	-	**-**
Shares issued under ESPP (Note 13)	1,654	-	-	-	-	-	-	-	**1,654**
Shares cancelled under NCIB (Note 13)	(17,468)	-	-	-	-	-	(12,979)	-	**(30,447)**
Comprehensive income	-	-	-	-	70,769	-	-	31,087	**101,856**
Dividends declared (Note 14)	-	-	-	-	-	(68,460)	-	-	**(68,460)**
Balance, December 31, 2018	**$ 588,498**	**$ 11,954**	**$ 9,693**	**$ 13,525**	**$ 390,689**	**$ (424,178)**	**$ (25,053)**	**$ 52,119**	**$ 617,247**

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

Exchange Income Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands of Canadian dollars)

For the years ended December 31	**2018**	2017
OPERATING ACTIVITIES		
Net earnings for the year	$ **70,769**	$ 72,160
Items not affecting cash:		
Depreciation of capital assets	**118,591**	108,556
Amortization of intangible assets	**19,596**	10,397
Accretion of interest	**10,145**	7,083
Long-term debt discount	**(520)**	59
Gain on sale of disposal of capital assets	**(1,268)**	(1,678)
Deferred income tax expense	**3,715**	(4,665)
Deferred share program share-based vesting (Note 19)	**3,829**	2,859
Other (Note 5)	**(4,616)**	-
Gain on disposal of partnership interest (Note 8)	**-**	(5,985)
	220,241	188,786
Changes in non-cash current and long-term operating working capital items (Note 23)	**(55,598)**	(64,533)
	164,643	124,253
FINANCING ACTIVITIES		
Proceeds from long-term debt & finance leases, net of issuance costs (Note 11)	**299,543**	558,900
Repayment of long-term debt & finance leases (Note 11)	**(153,712)**	(436,975)
Proceeds from issuance of convertible debentures, net of issuance costs	**76,597**	95,195
Redemption of convertible debentures (Note 12)	**(121,731)**	-
Issuance of shares, net of issuance costs	**8,713**	102,158
Payment for repurchase of shares under NCIB (Note 13)	**(30,457)**	(26,033)
Cash dividends (Note 14)	**(68,460)**	(65,087)
	10,493	228,158
INVESTING ACTIVITIES		
Purchase of capital assets	**(186,715)**	(264,803)
Proceeds from disposal of capital assets	**34,464**	40,318
Purchase of intangible assets	**(4,528)**	(2,219)
Investment in other assets	**(17,981)**	(7,205)
Cash outflow for acquisitions, net of cash acquired	**(32,206)**	(73,175)
Finance lease receivable payments, net of reserves and other	**-**	(8)
	(206,966)	(307,092)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(31,830)**	45,319
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**72,315**	26,494
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**2,485**	502
CASH AND CASH EQUIVALENTS, END OF YEAR	$ **42,970**	$ 72,315
Supplementary cash flow information		
Interest paid	$ **46,953**	$ 27,226
Income taxes paid	$ **13,773**	$ 36,052

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 aerospace, aviation services and equipment, and manufacturing sectors. The business plan of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets. The Corporation is incorporated in Canada and the address of the registered office is 1067 Sherwin Road, Winnipeg, Manitoba, Canada R3H 0T8.

As at December 31, 2018, the principal operating subsidiaries of the Corporation are Perimeter Aviation LP (including its operating division, Bearskin Airlines), Keewatin Air LP, Calm Air International LP, Custom Helicopters Ltd., Overlanders Manufacturing LP, Water Blast Manufacturing LP, WesTower Communications Ltd., R1 Canada LP, Provincial Aerospace Ltd., Ben Machine Products Company Inc., EIC Aircraft Leasing Ltd., Quest Window Systems Inc., CANLink Aviation Inc. ("Moncton Flight College") and EIIF Management USA Inc. Stainless Fabrication, Inc., Dallas Sailer Enterprises, Inc., Regional One Inc., and Quest USA 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. With the diversity of the Manufacturing segment, the seasonality of the segment is relatively flat throughout the fiscal period.

2. BASIS OF PREPARATION

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

During the year the Corporation reclassified certain of the comparative figures to correspond with current period reporting.

The consolidated financial statements were approved by the Board of Directors of the Corporation for issue on February 20, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) *Basis of Measurement*

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

b) *Principles of Consolidation*

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

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

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

c) *Revenue Recognition*

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring additional disclosures. IFRS 15 supersedes IAS 11, Customer Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. The Corporation's adoption of IFRS 15 was effective beginning on January 1, 2018. The Corporation has adopted IFRS 15 from January 1, 2018 which resulted in changes in accounting policies and adjustments recognized in the financial statements. In accordance with the transition provision in IFRS 15, the Corporation has adopted the standard on a modified retrospective basis. There was no restatement of comparative financial information with the cumulative effect of adoption recognized as an adjustment to the opening balance of retained earnings for the period commencing January 1, 2018. Under this transition method, the Corporation has applied IFRS 15 retrospectively only to those contracts that were not completed as of January 1, 2018. As a result of the adoption of IFRS 15, the Corporation's accounting policy for revenue recognition has been revised and disclosed below.

The following table shows the adjustments recognized for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

	Reported at January 1, 2018	Balance without the adoption of IFRS 15	Impact of Adoption
Statement of Financial Position			
Opening cumulative earnings	$ 319,920	$ 320,141	$ (221)
Opening deferred revenue	24,480	24,160	320
Opening deferred income tax liability	76,962	77,061	(99)

The Corporation made an adjustment to opening retained earnings as a result of the adoption of IFRS 15, reducing opening retained earnings by $221 relating to contracts with a licensing deliverable and an associated support contract. Under the Corporation's previous revenue recognition policy, the revenue associated with the software licenses were recognized immediately. Under IFRS 15, the Corporation determined that the software license revenue should be recognized over the life of the associated support contract as the two deliverables represented a single performance obligation, resulting in a one-time adjustment to reduce previously recognized revenue.

In addition to the transitional disclosures above, additional disclosures required under IFRS 15 are included within Note 15 – Segmented and Supplemental Information.

Revised Revenue Recognition Policy - 2018

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

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 title has passed.

The Corporation is also party to consignment agreements where parts are sold with the Corporation acting as 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.

The Corporation may enter into finance leases with customers. In such circumstances, the Corporation records gross profit from the lease that is equivalent to the present value of the lease payments received less the cost of the related asset. Interest revenue is earned over the term of the lease and recognized using the effective interest method. Long-term receivables relating to sales-type leases are recorded within "Other Assets" on the Statement of Financial Position.

ii. Aircraft and engine sales

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

iii. Aircraft and engine lease revenue

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

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

iv. Surveillance and aircraft modification services

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

v. Software development and sales of software licenses

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

vi. Charter, passenger flight, medevac and cargo services

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

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

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

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

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

viii. Pilot Training

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

Manufacturing Segment

i. Sale of equipment and manufactured goods

Revenue from the sale of equipment and manufactured goods is recognized when control of the asset has passed to the customer, this 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 output measures such as surveys of work performed and units delivered, which represents the continuous transfer of control of goods and services to the customer. Such contracts provide that the customer accept completion of progress to date and compensate the Corporation for services rendered. The timing of billings to the customer and customer payments can result in either an asset ("Amounts due from customers on construction contracts") or a liability ("Amounts due to customers on construction contracts").

iii. Tower construction services

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

iv. Stainless tank sales

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

Revenue Recognition - 2017

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

Aerospace & Aviation Revenues

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

The Corporation recognizes aviation part sales revenue when the title has been passed to the customer and the effective control of the product and the risks and rewards of ownership have been passed to the customer. Payments received in advance are recorded as deferred revenue until the product has been delivered to the customer. The Corporation recognizes revenue from consignment sales as discussed above and are generally recorded at the gross amount of revenue with the payment to the consignor recorded as a cost of sales as the Corporation is the principal.

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

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

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

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

<u>Manufacturing Revenues</u>

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

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

d) Expenses

Aerospace & Aviation expenses – excluding depreciation and amortization

The fixed and variable costs along with cost of sales incurred in the operations of the Corporation’s Aerospace & Aviation segment are included in this line item on the Consolidated Statements of Income. This includes costs related to shipping and handling and the cost of 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 which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary is reallocated between controlling and non-controlling interests.

Transactions and balances

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

f) *Cash and Cash Equivalents*

Cash and cash equivalents are comprised of cash and temporary investments consisting of highly liquid investments having maturities of three months or less. Interest is recorded on an accrual basis. As at December 31, 2018, cash equivalents was nil (December 31, 2017 – nil).

g) *Financial Instruments*

Recognition

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

Classification

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

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

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

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

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

Measurement

The Corporation 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, fair value through OCI, or fair value through profit or loss. Measurement of financial liabilities is chosen at the time of initial recognition and unless specifically identified as FVTPL at the time of adoption, are subsequently measured at amortized cost.

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

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

Fair value through other comprehensive income (“FVOCI”): 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.

Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt 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

On the date a derivative is entered into, the instrument is recognized at fair value and re-measured at the end of each reporting period. The accounting for a derivative contract depends on whether the derivative is designated as a hedging instrument. If it is designated as a hedging instrument, the accounting treatment is dependent on the nature of the hedged item and the hedging relationship.

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

Hedges of a net investment in foreign operation

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

Financial Liabilities

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

Derivative financial instruments

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

On initial designation of the derivative or financial liability as a hedging instrument, the Corporation formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives, the strategy in undertaking the hedge transaction and the hedged risk, the identification of the nature of the risk being hedged and how the Corporation will assess whether the hedging relationship meets the hedge effectiveness requirements. The Corporation makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging relationship meets the hedge effectiveness requirements including the economic relationship, the conclusion that credit risk does not dominate the value changes from 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.

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 net realizable value of the inventory subsequently recovers.

The Corporation classifies its inventory into the following categories:

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

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

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:

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

Buildings	20 – 50 years
Aircraft frames and rotables	2 – 30 years
Aircraft engines	3 – 20 years
Aircraft propellers	4 – 7 years
Aircraft landing gear	7 – 15 years
Equipment	5 – 10 years
Other	2 – 15 years
Leasehold improvements over the term of lease	

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

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

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 5 years
Operating certificates	Straight-line over 2 – 30 years or until expiry
Information technology systems	Straight-line over 3 – 5 years
Backlog	Over the term of the backlog

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

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

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 units ("CGU"), or group of CGUs, that are expected to benefit from the related business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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.

n) *Employee Benefits*

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

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

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

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

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 restricted shares granted to employees of the Corporation vest on December 31 of the year that is two years following the applicable award date and are cash settled. The Corporation will record 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. There was no impact in the 2018 period as the first grant under the restricted share plan is expected to occur in 2019.

Share-Based Compensation – Employee Share Purchase Plan

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

Pension Plan

The Corporation has pension-related costs associated with the defined contribution pension plans to which certain Calm Air, Bearskin, Custom and Provincial personnel are entitled. The Corporation's accounting policy is to expense contributions as earned during the period when the contributions become payable and are recorded within general and administrative expenses of the Aerospace & Aviation segment. During 2018, the Corporation recorded defined contribution pension plan costs of $4,315 (2017 – $3,790).

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

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

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.

u) *Accounting standards issued but not yet effective*

IFRS 16 Leases

IFRS 16 will be effective for the Corporation's fiscal year beginning on January 1, 2019. As a result of adopting this new standard, many of the Corporation's leases, that were previously accounted for as operating leases, will be accounted for by recognizing a "right to use" asset and a lease liability on the balance sheet. The Corporation's current intention is to adopt the new standard using the modified retrospective method. Under this method, the lease assets and liabilities will be measured by discounting the remaining lease payments using the incremental borrowing rate. Subsequently, the lease liability will be reduced by the lease payments made and interest expense will be recorded on the outstanding liability. Also, the right to use asset will be depreciated over the term of the lease. Accordingly, such lease payments will no longer be reflected as operating expenses in the Consolidated Statement of Income. Rather, interest expense related to the liability and depreciation related to the right to use asset will now be reflected as non-operating expenses.

As a result of adopting the new standard:

- Both assets and liabilities on the Consolidated Balance Sheet will increase;
- Operating expenses will decrease and therefore operating profit before depreciation, amortization, finance costs and other on the Consolidated Statement of Income will increase;
- Finance costs – interest on the Consolidated Statement of Income will increase; and
- Depreciation of capital assets on the Consolidated Statement of Income will increase.

On adoption, the Corporation estimates that the Right to Use Assets will increase approximately $115 million, Right to Use Liability (both current and long term portions) will increase approximately $119 million, and Opening Retained Earnings will decrease approximately $4 million. The adoption date impact will be finalized in the first quarter of 2019.

IFRIC 23 – Uncertainty Over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
    - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
    - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for the Corporations fiscal year beginning on January 1, 2019. The Company is currently assessing the impact however does not expect a material adjustment upon adoption.

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Accounting Estimates

Business Combinations

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

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

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

The Corporation's liabilities for contingent consideration associated with the earn out portion of its acquisitions is 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 CarteNav and Moncton Flight College was reduced to reflect expected earnings levels during the remaining earn out period. This resulted in a recovery of $4,616 and is included within "Other" in the Statement of Income.

Long-term Contract Revenue Recognition

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

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

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

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

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

Depreciation & Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's aircraft fleet plans and the cash flows expected to be generated from them. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, changing market prices for aircraft of the same or similar types, and changes in the utilization of other major manufacturing equipment and buildings. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for as a change in estimate, on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on the Corporation's aircraft with remaining useful lives greater than five years as at December 31, 2018 would result in an increase of approximately $5,369 (2017 - $6,469) to annual depreciation expense. For the Corporation's aircraft with shorter remaining useful lives and other major manufacturing equipment and buildings, the residual values are not expected to change significantly.

Impairment Considerations on Long-lived Assets

Goodwill and indefinite life intangible assets are not amortized. Goodwill and all indefinite life intangibles are assessed for impairment at least annually. Impairment testing is performed on long-lived assets by comparing the carrying amount of the asset or cash generating unit ("CGU") to its recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. The recoverable amount is forecasted with management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the cash generating units operate.

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

Intangible Assets

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

The Corporation has concluded that no impairments of its indefinite lived intangible assets existed as a result of this assessment as at December 31, 2018.

Goodwill

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

The Corporation used its forecasted EBITDA based on its approved budget and used its best estimate of market participant EBITDA multiples (Level 3 within the fair value hierarchy). The EBITDA multiple used for the Aerospace & Aviation segment was 7.5x (2017 – 7.5x) and was 7.0x (2017 – 7.0x) for the Manufacturing segment.

The Corporation has concluded that there was no impairment of its goodwill CGUs as a result of this assessment at December 31, 2018.

Deferred Income Taxes

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

Critical Accounting Judgments

Measurement and Presentation of Capital Assets and Inventory

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

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

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

6. ACQUISITIONS

Acquisition of CANLink

On February 28, 2018, the Corporation acquired all of the shares of CANLink Global Inc. ("Moncton Flight College"). Moncton Flight College, headquartered in Moncton, New Brunswick, is a flight training college in Canada. Moncton Flight College offers domestic Canadian pilot training as well as a foreign pilot program.

The components of the consideration paid to acquire Moncton Flight College are outlined in the table below.

Consideration given:		
Cash (net of closing adjustments)	$	**25,396**
Issuance of 176,102 shares of the Corporation at $34.06 per share		**5,998**
Working capital and other post-closing adjustments		**(262)**
Contingent cash consideration - earn out		**15,902**
Total purchase consideration	$	**47,034**

The purchase price included an initial payment of cash and the issuance of common shares to the vendors, net of normal closing adjustments, plus a multi-year earn out if certain performance targets are met for fiscal periods 2018 and 2019. The maximum earn out that could be achieved by the vendors was $20,000. The contingent consideration recorded by the Corporation reflects the discounted liability of the estimated likelihood of performance targets being met for fiscal 2018 and 2019, which was assessed as of the date of acquisition. The allocation of the purchase price is reflected in the table that follows.

Fair value of assets acquired:		
Cash	$	**1,193**
Accounts receivable		**1,159**
Inventory		**1,682**
Prepaid expenses and deposits		**160**
Capital assets		**10,342**
Intangible assets		**21,100**
		35,636
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		**1,446**
Income taxes payable		**4,097**
Deferred revenue		**2,225**
Other long-term liabilities		**96**
Deferred income tax liabilities		**5,423**
Fair value of identifiable net assets acquired		**22,349**
Goodwill		**24,685**
Total purchase consideration	$	**47,034**

Of the $21,100 acquired intangible assets, $13,500 was assigned to customer relationships and $7,600 was assigned to trade name. The customer relationship intangible asset is subject to amortization while the trade name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies and the profitability of the acquired business.

Wings Over Kississing

On December 19, 2018, the Corporation completed the acquisition of certain assets and operations of Wings Over Kississing ("Wings"), subject to customary post-closing adjustments. The acquisition provides the Corporation access to new markets for its rotary wing operations in Manitoba and strengthens the Corporation's relationship with its First Nation customers. The components of the consideration paid to acquire these assets are outlined in the table below.

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

Consideration given:		
Cash	$	**8,003**
Issuance of 80,568 shares of the Corporation at $26.90 per share		**2,167**
Estimated working capital settlement		**16**
Total purchase consideration	$	**10,186**

The preliminary fair values of the net assets acquired at the time of the transaction are summarized in the chart below. The amounts will be finalized in 2019 with the final settlement of working capital.

Fair value of assets acquired:		
Accounts receivable	$	**381**
Capital assets		**7,024**
Deferred income tax asset		**11**
Intangible assets		**1,300**
		8,716
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		**29**
Fair value of identifiable net assets acquired		**8,687**
Goodwill		**1,499**
Total purchase consideration	$	**10,186**

The $1,300 of intangible assets acquired was assigned to customer relationships, which are subject to amortization consistent with the Corporation's amortization policy on this class of intangible assets. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies and the profitability of the acquired business.

Acquisition of Quest

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

Consideration given:		
Cash	$	**73,017**
Issue of 377,500 shares of the Corporation at a price of $32.09 per share		**12,114**
Final working capital settlement		**(1,386)**
Contingent consideration - earn out		**13,889**
Total purchase consideration	$	**97,634**

The total purchase consideration, including the fair value of an earn out, was $97,634. Purchase consideration includes $73,017 of cash paid on closing, the fair value of the earn out of $13,889 that is payable to the vendors, plus the final working capital shortfall of $1,386. The maximum earn out that could be achieved by the vendors was $15,000.

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

Fair value of assets acquired:		
Accounts receivable	$	**24,055**
Inventory		**8,919**
Prepaid expenses		**307**
Capital assets		**5,032**
Intangible assets		**37,840**
		76,153
Less fair value of liabilities assumed:		
Accounts payable and accrued liabilities		**11,840**
Fair value of identifiable net assets acquired		**64,313**
Goodwill		**33,321**
Total purchase consideration	$	**97,634**

Of the $37,840 acquired intangible assets, $17,740 was assigned to order backlog, $6,700 was assigned to customer relationships and $13,400 was assigned to trade name. The order backlog and customer relationships are subject to amortization while the trade name is considered to have an indefinite life. The goodwill is attributable to the skilled workforce, expansion capabilities into other geographies and the profitability of the acquired business.

7. INVENTORIES

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

		December 31 2018		December 31 2017
Parts and other consumables	$	**44,788**	$	38,993
Aviation parts for resale		**131,624**		101,908
Raw materials		**29,158**		27,497
Work in process		**5,913**		5,701
Finished goods		**4,667**		4,298
Total inventory	$	**216,150**	$	178,397

During 2018, inventory from the Aerospace & Aviation segment with a value of $147,386 (2017 – $98,112) was recorded as an expense within the Aerospace & Aviation expenses and inventory from the Manufacturing segment with a value of $88,562 (2017 – $52,988) was recorded as an expense within Manufacturing expenses.

(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 2018		December 31 2017
Long term prepaid expenses and security deposits	$	1,597	$	1,131
Long term receivables		13,155		4,068
Long term holdback receivables		4,609		3,184
Equity method investments		30,472		14,306
Other investments - Fair value through OCI		3,914		1,963
Cross currency basis swap - Fair value through profit and loss		3,741		-
Loan to Wasaya		13,000		-
Loan to NGC		3,590		4,102
Total other assets	$	74,078	$	28,754

The Corporation is invested in three equity accounted investments in non-trading entities at December 31, 2018. The Corporation's ownership percentages in the entities are 33%, 49% and 49%, and the carrying values at December 31, 2018 are $8,477 (2017 – $7,070), $11,284 (2017 - $7,236) and $10,711 (2017 - nil), respectively. The reporting period end for the equity accounted investments is December 31. These entities have total assets of $93,420 and total liabilities of $51,804 at December 31, 2018. The entities had revenues of $114,625 and net income of $8,058 for the year ended December 31, 2018. 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 which are accounted for at fair value through OCI. At December 31, 2018, the carrying value of these entities is $3,914 (2017 - $1,963).

The Corporation, with the acquisition of Quest, has as part of its contracts with customers amounts that are held back and therefore not expected to be collected within twelve months. As at December 31, 2018, the long term hold backs due from customers was $4,609 (2017 - $3,184) and is recorded within Other Assets.

The Corporation has entered into derivative contracts with a member of its syndicate as described in further detail in Note 22. The fair value of that derivative increased due to changes in the value of the Canadian dollar after it was entered into and the corresponding increase in fair value has been recorded in Other Assets. The derivative will be settled at a later date at already agreed upon terms, which will result in the fair value on settlement of nil. As at December 31, 2018, $3,741 (2017 - nil) was recorded within Other Assets relating to these derivative contracts. In the prior period, the fair value was a liability of $5,748 and recorded within Other Long-Term Liabilities.

Partnership with Wasaya Group

During the year, the Corporation closed a partnership transaction with Wasaya Group. EIC invested $25,326 in Wasaya, of which $13,000 is a loan to Wasaya and $12,326 is an equity investment, which was funded through the issuance of shares of the Corporation to the vendors of Wasaya. The Corporation's equity investment in Wasaya is accounted for using the equity method.

Air Borealis

On June 18, 2017, PAL Airlines expanded its Labrador indigenous partnership to include both the Innu Development Limited Partnership ("IDLP") and Nunatsiavut Group of Companies ("NGC"). In the prior period, the Corporation recorded a non-cash gain of $5,585 on the disposal of its interest in Innu Mikun. The costs associated with this transaction have been expensed and netted with the non-cash gain on the income statement. In connection with this transaction, the Corporation loaned $5,100 to NGC, of which $3,590 was outstanding at December 31, 2018 (2017 - $4,102).

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

9. CAPITAL ASSETS

The Corporation's capital assets consist of the following:

			December 31, 2018
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 8,327	$ -	$ 8,327
Buildings	126,392	31,082	95,310
Aircraft frames	311,135	112,216	198,919
Aircraft engines	185,137	83,674	101,463
Aircraft propellers and rotors	44,689	18,067	26,622
Aircraft landing gear	36,971	9,953	27,018
Aircraft rotable parts	41,410	14,564	26,846
Equipment	134,865	81,455	53,410
Other	10,473	6,536	3,937
Leasehold improvements	15,209	6,734	8,475
	914,608	364,281	550,327
Assets for lease to third parties (aircraft and engines)	383,735	56,371	327,364
Total	$ 1,298,343	$ 420,652	$ 877,691

							Year Ended December 31, 2018
Net Book Value	Opening	Acquisition (Note 6)	Additions/ Transfers	Disposals	Depreciation	Exchange Differences	Ending
Land	$ 8,254	$ -	$ -	$ -	$ -	$ 73	$ 8,327
Buildings	90,974	4,958	3,743	(160)	(4,308)	103	95,310
Aircraft frames	181,937	10,296	34,481	(509)	(27,286)	-	198,919
Aircraft engines	97,901	-	33,599	(1,336)	(28,701)	-	101,463
Aircraft propellers and rotors	25,060	-	6,872	(58)	(5,252)	-	26,622
Aircraft landing gear	23,869	-	5,884	-	(2,735)	-	27,018
Aircraft rotable parts	27,938	-	3,533	(111)	(4,514)	-	26,846
Equipment	36,646	1,425	23,930	(327)	(8,764)	500	53,410
Other	2,522	236	2,353	-	(1,338)	164	3,937
Leasehold improvements	5,265	451	3,430	-	(754)	83	8,475
	500,366	17,366	117,825	(2,501)	(83,652)	923	550,327
Assets for lease to third parties (aircraft and engines)	296,210	-	70,880	(30,695)	(34,939)	25,908	327,364
Total	$ 796,576	$ 17,366	$ 188,705	$ (33,196)	$ (118,591)	$ 26,831	$ 877,691

During the year, the Corporation had net transfers of $1,163 from capital assets to inventory (December 31, 2017 - $9,887 from capital assets to inventory). The Corporation transfers capital assets out of the lease portfolio into inventory for part out and resale when it is determined beneficial to do so as part of the normal life cycle of older aircraft. In addition, the Corporation may also transfer assets from inventory to capital assets to increase the future economic benefit of its operating aircraft. The net of these transfers is included within the Additions/Transfer column.

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

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

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

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

10. INTANGIBLE ASSETS & GOODWILL

The following summarizes the Corporation's intangible assets as at December 31, 2018 and 2017:

December 31, 2018	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 81,634	$ -	$ 81,634
Finite Life Assets			
Customer contracts and relationships	73,868	39,780	34,088
Certifications	8,951	497	8,454
Information technology systems	10,533	3,359	7,174
Backlog	24,555	15,587	8,968
Other	6,935	2,682	4,253
Total	$ 206,476	$ 61,905	$ 144,571

Net Book Value (Year Ended December 31, 2018)	Opening	Acquisition (Note 6)	Additions	Disposals	Amortization	Exchange Differences	Ending
Indefinite Life Assets							
Brand name	$ 72,623	$ 7,600	$ -	$ -	$ -	$ 1,411	$ 81,634
Finite Life Assets							
Customer contracts and relationships	27,555	14,800	-	-	(8,389)	122	34,088
Certifications	8,486	-	-	-	(32)	-	8,454
Information technology systems	4,514	-	3,851	-	(1,191)	-	7,174
Backlog	18,075	-	-	-	(9,107)		8,968
Other	4,453	-	677	-	(877)	-	4,253
Total	$ 135,706	$ 22,400	$ 4,528	$ -	$ (19,596)	$ 1,533	$ 144,571

December 31, 2017	Cost	Accumulated Amortization	Net Book Value
Indefinite Life Assets			
Brand name	$ 72,623	$ -	$ 72,623
Finite Life Assets			
Customer contracts and relationships	58,946	31,391	27,555
Certifications	8,951	465	8,486
Information technology systems	6,682	2,168	4,514
Backlog	24,555	6,480	18,075
Other	6,258	1,805	4,453
Total	$ 178,015	$ 42,309	$ 135,706

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

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

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

Goodwill	**2018**	2017
Balance, beginning of year	**$ 288,281**	$ 259,887
Goodwill from business acquisitions	**26,184**	32,181
Measurement period adjustment - settlement of working capital	**1,140**	158
Translation of goodwill of foreign operations (Stainless, Regional One, Water Blast Dakota, and Team J.A.S)	**5,073**	(3,945)
Balance, end of year	**$ 320,678**	$ 288,281

As a result of the foreign currency translation policy for the consolidation of Stainless, Water Blast Dakota, Regional One, and Team J.A.S. as described in Note 3, the goodwill recorded in Stainless (US $14,751), in Water Blast Dakota (US $476), in Regional One (US $30,105), and Team J.A.S (US $929) are valued at the period-end exchange rate. As a result the goodwill fluctuates as the Canadian dollar reporting currency changes in comparison to the US dollar.

The Corporation completed its annual impairment testing for goodwill and indefinite life intangible assets as at December 31, 2018 based on management's best estimates of market participant assumptions including weighted average cost of capital. The forecasts are based on management's best estimate using market participant assumptions considering historical and expected operating plans, current strategies, economic conditions, and the general outlook for the industry and markets in which the CGUs operate.

As at December 31, 2018, there was no impairment of goodwill or indefinite life intangible assets based on management's assessment (Note 5).

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

11. LONG-TERM DEBT AND FINANCE LEASES

The following summarizes the Corporation's long-term debt and finance leases as at December 31, 2018 and December 31, 2017:

	December 31 2018	December 31 2017
Revolving term facility:		
Canadian dollar amounts drawn	**$ 229,100**	$ 109,700
United States dollar amounts drawn (US$365,100 and US$351,230 respectively)	**498,069**	440,618
Total credit facility debt outstanding, principal value	**727,169**	550,318
less: unamortized transaction costs	**(2,019)**	(1,707)
less: unamortized discount on outstanding Banker's Acceptances	**(520)**	(103)
Net credit facility debt	**724,630**	548,508
Finance leases	**2,881**	2,113
Total net credit facility debt and finance leases	**727,511**	550,621
less: current portion of finance leases	**(1,186)**	(1,170)
Long-term debt and finance leases	**$ 726,325**	$ 549,451

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, 2018.

The Corporation amended its credit facility to increase its size and extend its term during the year ended December 31, 2018. The amendments included increasing the available credit to $1,000,000, of which $945,000 is allocated to the Corporation's head office and US $55,000 is allocated to EIIF Management US, Inc. This is an increase of $250,000 over the Corporation's previous credit facility. In addition to increasing the credit facility available, the revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. One financial institution was added to the syndicate and the maturity has been extended to May 7, 2022. Subsequent to December 31, 2018, the Corporation amended its credit facility as described in Note 26.

Interest expense recorded by the Corporation during the year ended December 31, 2018 for the long-term debt and finance leases was $27,861 (2017 – $18,177).

Credit Facility

The following is the continuity of long-term debt for the year ended December 31, 2018:

	Year Ended December 31, 2018				
	Opening	Withdrawals	Repayments	Exchange Differences	Ending
Credit facility amounts drawn					
Canadian dollar amounts	$ 109,700	$ 243,400	$ (124,000)	$ -	$ 229,100
United States dollar amounts	440,618	57,447	(28,491)	28,495	498,069
	$ 550,318				$ 727,169

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

										Year Ended December 31, 2017
		Opening		Withdrawals		Repayments		Exchange Differences		Ending
Credit facility amounts drawn										
Canadian dollar amounts	$	217,300	$	279,200	$	(386,800)	$	-	$	109,700
United States dollar amounts		228,125		283,708		(50,104)		(21,111)		440,618
	$	445,425							$	550,318

Finance Leases

The Corporation leases vehicles from a third party under finance leases expiring at various times through to fiscal 2020. The assets and liabilities under finance leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Interest rates on finance leases vary from 4% to 7%.

The following is the continuity of the finance leases outstanding for the year ended December 31, 2018 and the comparative 2017 period:

								2018
		Opening		Assumed / Entered Into		Repayments / Disposals		Ending
Finance leases	$	2,113	$	1,990	$	(1,222)	$	2,881

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

The future minimum lease payments and the net present value of the future minimum payments of the Corporation's finance leases as at December 31, 2018 are as follows:

		Less than 1 year		Between 1 year and 5 years		More than 5 years		Total
Total future minimum lease payments	$	1,293	$	1,789	$	-	$	3,082
less: amount representing interest		(107)		(94)		-		(201)
Present value of future minimum lease payments	$	1,186	$	1,695	$	-	$	2,881

The cost and accumulated depreciation of the finance leased equipment consists of the following as at December 31, 2018 and December 31, 2017:

		December 31 2018		December 31 2017
Vehicles under finance leases	$	6,731	$	5,220
less: accumulated depreciation		(3,953)		(3,288)
	$	2,778	$	1,932

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

12. CONVERTIBLE DEBENTURES

Series - Year of Issuance	Trade Symbol	Maturity	Interest Rate	Conversion Price
Unsecured Debentures - 2012[1]	EIF.DB.E	September 30, 2019	5.5%	$ 36.80
Unsecured Debentures - 2013[2]	EIF.DB.F	March 31, 2020	5.35%	$ 41.60
Unsecured Debentures - 2014	EIF.DB.G	March 31, 2021	6.0%	$ 31.70
Unsecured Debentures - 2016	EIF.DB.H	June 30, 2023	5.25%	$ 44.75
Unsecured Debentures - 2017	EIF.DB.I	December 31, 2022	5.25%	$ 51.50
Unsecured Debentures - 2018	EIF.DB.J	June 30, 2025	5.35%	$ 49.00

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

Note 2) On July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible debentures which were due March 31, 2020.

Summary of the debt component of the convertible debentures:

	2018 Balance, Beginning of Year	Debentures Issued	Accretion Charges	Debentures Converted	Redeemed / Matured	2018 Balance, End of Year
Unsecured - 2012	**$ 56,843**	**$ -**	**$ -**	**$ (90)**	**$ (56,753)**	**$ -**
Unsecured - 2013	**63,311**	**-**	**1,669**	**(2)**	**(64,978)**	**-**
Unsecured - 2014	**26,833**	**-**	**330**	**(20)**	**-**	**27,143**
Unsecured - 2016	**65,041**	**-**	**616**	**-**	**-**	**65,657**
Unsecured - 2017	**94,762**	**-**	**897**	**-**	**-**	**95,659**
Unsecured - 2018	**-**	**74,932**	**319**	**-**	**-**	**75,251**
						263,710
less: unamortized transaction costs						**(9,887)**
Convertible Debentures - Debt Component, end of year						**$ 253,823**

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

During the year ended December 31, 2018, convertible debentures totaling a face value of $112 were converted by the holders at various times into 3,123 shares of the Corporation (2017 – $11,404 face value into 358,938 shares). Interest expense recorded during the 2018 year for the convertible debentures was $21,276 (2017 - $18,805).

On January 11, 2018, the Corporation redeemed its 7 year 5.50% convertible debentures which were to mature on September 30, 2019. On the redemption date, the remaining outstanding debentures with a face value of $56,753 were redeemed by the Corporation.

On June 26, 2018, the Corporation closed a bought deal offering of convertible unsecured subordinated debentures. At the closing of the offering, the Corporation issued $80,500 principal amount of debentures. The debentures bear interest at 5.35% per annum, payable semi-annually. The debentures are convertible at the holder's option into common shares of the Corporation at a conversion price of $49.00 per share. The maturity date of the debentures is June 30, 2025.

On July 17, 2018, the Corporation redeemed its 7 year 5.35% convertible debentures which were to mature on March 31, 2020. On the redemption date, the remaining outstanding debentures with a face value of $64,978 were redeemed by the Corporation.

<u>September 2012 Unsecured Convertible Debenture Offering</u>

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

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

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

<u>March 2013 Unsecured Convertible Debenture Offering</u>

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

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

The March 2013 Unsecured convertible debentures have nil (2017 - $64,980) of principal outstanding as at December 31, 2018 and were redeemed July 17, 2018 as described above.

<u>March 2014 Unsecured Convertible Debenture Offering</u>

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

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

The March 2014 Unsecured convertible debentures have $27,860 (2017 - $27,880) of principal outstanding as at December 31, 2018 and mature in March 2021.

June 2016 Unsecured Convertible Debenture Offering

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

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

The June 2016 Unsecured convertible debentures have $68,975 (2017 - $68,975) of principal outstanding as at December 31, 2018 and mature in June 2023.

December 2017 Unsecured Convertible Debenture Offering

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

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

The December 2017 Unsecured convertible debentures have $100,000 (2017 - $100,000) of principal outstanding as at December 31, 2018 and mature in December 2022.

June 2018 Unsecured Convertible Debenture Offering

The Corporation issued the $80,500 Seven Year 5.35% Convertible Unsecured Subordinated Debentures on June 26, 2018. The maturity date of the debentures is June 30, 2025. 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.

Transaction costs of $3,903 were incurred in relation to the issuance of these debentures.

The June 2018 convertible unsecured debentures have $80,500 (2017 - nil) of principal outstanding as at December 31, 2018 and mature in June 2025.

Convertible Debentures Equity Component

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

(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 2018	December 31 2017
Unsecured Debentures - 2012	$ -	$ 3,160
Unsecured Debentures - 2013	-	3,062
Unsecured Debentures - 2014	1,237	1,238
Unsecured Debentures - 2016	3,261	3,261
Unsecured Debentures - 2017	3,590	3,590
Unsecured Debentures - 2018	3,866	-
Convertible Debentures - Equity Component, end of year	$ 11,954	$ 14,311

All convertible debentures outstanding at December 31, 2018 represent direct unsecured debt obligations of the Corporation.

13. SHARE CAPITAL

Changes in the shares issued and outstanding during the year ended December 31, 2018 are as follows:

	Number of Shares	2018 Amount
Share capital, beginning of year	31,317,890	$ 576,471
Issued upon conversion of convertible debentures	3,123	120
Issued under dividend reinvestment plan	217,939	6,737
Issued under First Nations community partnership agreements	10,039	322
Issued under deferred share plan	8,534	171
Shares cancelled under NCIB	(939,577)	(17,468)
Issued under employee share purchase plan	55,480	1,654
Issued to Moncton Flight College vendors on closing (Note 6)	176,102	5,998
Issued to Wasaya vendors on closing (Note 8)	385,908	12,326
Issued to Wings Over Kississing vendors on closing (Note 6)	80,568	2,167
Share capital, end of year	31,316,006	$ 588,498

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

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

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

On January 31, 2018, the Corporation received approval from the TSX for the renewal of its NCIB and during the year ended December 31, 2018 purchased a total of 939,577 shares. The Corporation purchased the shares at an average cost of $32.42 per share for aggregate consideration of $30,457 excluding tax of $10. All of the shares repurchased under NCIB were cancelled. The excess of the cost over the average book value of $12,979 (net of deferred taxes) was charged to retained earnings.

During the year, the Corporation issued shares to the vendors of Moncton Flight College, Wasaya and Wings Over Kississing. On February 28, 2018, the Corporation issued 176,102 shares with a value of $5,998 as part of the acquisition of Moncton Flight College (Note 6). On April 19, 2018, the Corporation issued 385,908 shares with a value of $12,326 as part of its investment in Wasaya (Note 8). On December 19, 2018, the Corporation issued 80,568 shares with a value of $2,167 as part of the acquisition of certain assets and operations of Wings Over Kississing (Note 6).

14. DIVIDENDS DECLARED

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

Cumulative dividends during the 2018 year and the comparative 2017 year are as follows:

Year Ended December 31		**2018**		2017
Cumulative dividends, beginning of year	**$**	**355,718**	$	290,631
Dividends during the year		**68,460**		65,087
Cumulative dividends, end of year	**$**	**424,178**	$	355,718

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

The amounts and record dates of the dividends during the 2018 year and the comparative 2017 year are as follows:

			2018 Dividends			2017 Dividends
Month	**Record date**	**Per share**	**Amount**	**Record date**	**Per Share**	**Amount**
January	January 31, 2018	**$ 0.175**	**$ 5,484**	January 31, 2017	$ 0.175	$ 5,438
February	February 28, 2018	**0.175**	**5,517**	February 28, 2017	0.175	5,447
March	March 29, 2018	**0.1825**	**5,732**	March 31, 2017	0.175	5,450
April	April 30, 2018	**0.1825**	**5,807**	April 28, 2017	0.175	5,455
May	May 31, 2018	**0.1825**	**5,791**	May 31, 2017	0.175	5,444
June	June 29, 2018	**0.1825**	**5,759**	June 30, 2017	0.175	5,411
July	July 31, 2018	**0.1825**	**5,754**	July 31, 2017	0.175	5,402
August	August 31, 2018	**0.1825**	**5,735**	August 31, 2017	0.175	5,383
September	September 28, 2018	**0.1825**	**5,726**	September 29, 2017	0.175	5,367
October	October 31, 2018	**0.1825**	**5,730**	October 31, 2017	0.175	5,367
November	November 30, 2018	**0.1825**	**5,710**	November 30, 2017	0.175	5,447
December	December 31, 2018	**0.1825**	**5,715**	December 29, 2017	0.175	5,476
Total		**$ 2.175**	**$ 68,460**		$ 2.10	$ 65,087

Subsequent to December 31, 2018 and before these consolidated financial statements were authorized, the Corporation declared a monthly dividend of $0.1825 per share for January and February 2019.

15. SEGMENTED AND SUPPLEMENTAL INFORMATION

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

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

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

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

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

	Aerospace & Aviation	Manufacturing	Head Office	Consolidated
				Year Ended December 31, 2018
Revenue	**$ 883,962**	**$ 319,430**	**$ -**	**$ 1,203,392**
Expenses	**636,052**	**267,219**	**22,356**	**925,627**
EBITDA	**247,910**	**52,211**	**(22,356)**	**277,765**
Depreciation of capital assets				**118,591**
Amortization of intangible assets				**19,596**
Finance costs - interest				**51,706**
Acquisition costs				**3,686**
Other (Note 5)				**(4,616)**
Earnings before income tax				**88,802**
Current income tax expense				**14,318**
Deferred income tax expense				**3,715**
Net earnings				**$ 70,769**

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

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

	For the period ended December 31, 2018			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,565,964	$ 341,202	$ 50,132	$ 1,957,298
Net capital asset additions, excluding finance leases	131,880	19,931	440	152,251
Indefinite lived intangible assets	54,635	26,999	-	81,634
Goodwill	220,998	99,680	-	320,678

	For the year ended December 31, 2017			
	Aerospace & Aviation	Manufacturing	Head Office[(1)]	Consolidated
Total assets	$ 1,354,888	$ 318,039	$ 76,270	$ 1,749,197
Net capital asset additions, excluding finance leases	220,865	2,713	907	224,485
Indefinite lived intangible assets	45,688	26,935	-	72,623
Goodwill	191,411	96,870	-	288,281

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

In accordance with IFRS 15, the following table provides disaggregated information about revenue from contracts with customers. We believe that disaggregation by type of sale is most appropriate. The purpose of this disclosure is to provide information about the nature of our contracts and about the timing, amount and uncertainties associated with customer contracts. The comparative figures in the chart below have not been adjusted for the impact of IFRS 15 as it is not required under the modified retrospective method.

Revenue Streams	December 31 2018	December 31 2017
Aerospace & Aviation Segment		
Sale of goods - point in time	$ 216,057	$ 179,958
Sales of services - point in time	661,844	623,128
Sale of goods and services - over time	6,061	5,483
Manufacturing Segment		
Sale of goods - point in time	74,083	62,573
Sale of goods and services - over time	245,347	141,808
Total revenue	$ 1,203,392	$ 1,012,950

The following is the geographic breakdown of revenues for the year ended December 31, 2018 and the 2017 comparative year, based on location of the customer, and the capital assets and goodwill as at the balance sheet dates:

Year Ended December 31	2018	2017
Canada	$ 760,936	$ 666,077
United States	214,785	132,649
Europe	82,460	70,634
Other	145,211	143,590
Total revenue for the year	$ 1,203,392	$ 1,012,950

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

	As at December 31, 2018		As at December 31, 2017	
	Capital Assets	**Goodwill**	Capital Assets	Goodwill
Canada	**$ 536,670**	**$ 257,569**	$ 500,241	$ 230,246
United States	**38,778**	**63,109**	59,770	58,035
Europe	**291,461**	**-**	226,349	-
Other	**10,782**	**-**	10,216	-
	$ 877,691	**$ 320,678**	$ 796,576	$ 288,281

Contract Assets	**December 31 2018**	December 31 2017
Accounts receivable	**$ 250,674**	$ 211,864
Amounts due from customers on construction contracts	**13,943**	9,294
Total	**$ 264,617**	$ 221,158
Current	**$ 246,853**	$ 213,906
Non-current	**$ 17,764**	$ 7,252

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 recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

Contract Liabilities	**December 31 2018**	December 31 2017
Customer loyalty programs - Airlines	**$ 991**	$ 1,108
Deferred revenue	**29,239**	30,018
Amounts due to customers on construction contracts	**12,151**	14,200
Total	**$ 42,381**	$ 45,326
Current	**$ 38,775**	$ 38,392
Non-current	**$ 3,606**	$ 6,934

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. There were no significant changes in the contract liability balances during the reporting period.

16. CONSTRUCTION CONTRACTS

The operations of Stainless, WesTower, and Quest within the Manufacturing segment and Provincial within the Aerospace & Aviation segment have long-term construction contracts where revenues are recognized over time. Under the terms of the contract, the Corporation has an enforceable right for payment for work performed. Revenue is recognized over time using an input or output based method. The input or output methods represent an appropriate measure of progress towards complete satisfaction of the performance obligation. During the year ended December 31, 2018, the Corporation recognized revenue on these types of long-term contracts totaling $251,408 (2017 – $147,291).

(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, 2018 and the 2017 comparative year:

As at December 31		2018		2017
Costs incurred on uncompleted contracts	$	137,730	$	122,329
Estimated earnings		27,108		19,812
		164,838		142,141
less: billings to date		(163,046)		(147,047)
Total	$	1,792	$	(4,906)
Amounts due from customers on construction contracts	$	13,943	$	9,294
Amounts due to customers on construction contracts		(12,151)		(14,200)
Total	$	1,792	$	(4,906)

17. EARNINGS PER SHARE

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

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

The computation for basic and diluted earnings per share for the year ended December 31, 2018 and comparative in 2017 year are as follows:

Year Ended December 31		2018		2017
Net earnings	$	70,769	$	72,160
Effect of dilutive securities				
Convertible debenture interest		5,061		9,071
Diluted earnings	$	75,830	$	81,231
Basic weighted average number of shares		31,457,420		30,960,708
Effect of dilutive securities				
Deferred shares		824,798		656,198
Convertible debentures		2,467,311		4,383,094
Diluted basis weighted average number of shares		34,749,529		36,000,000
Earnings per share:				
Basic	$	2.25	$	2.33
Diluted	$	2.18	$	2.26

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

18. EXPENSES BY NATURE

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

		2018		2017
Salaries, wages & benefits	$	**302,064**	$	264,550
Aircraft operating and sale expenses		**341,580**		286,688
Materials		**149,175**		100,168
General and administrative		**55,563**		46,460
Building rent and maintenance		**20,648**		17,793
Communication and information technology		**7,585**		7,812
Advertising		**3,823**		3,847
Sub-contracting services		**10,593**		7,937
Other		**34,596**		28,997
	$	**925,627**	$	764,252

19. EMPLOYEE BENEFITS

Deferred Share Plan

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

	2018	2017
Deferred shares outstanding, beginning of year	**656,198**	541,708
Granted during the year	**126,775**	84,340
Granted through dividends declared during the year	**52,811**	37,877
Redeemed during the year	**(8,534)**	(7,727)
Forfeited during the year	**(2,452)**	-
Deferred shares outstanding, end of year	**824,798**	656,198
Vested portion of deferred shares outstanding, end of year	**605,556**	464,460

The fair value of the deferred shares granted during the 2018 year was $4,229 at the time of the grant (weighted average grant price of $33.36 per share) and was based on the market price of the Corporation's shares at that time (2017 – $3,313, weighted average grant price of $39.28 per share). During the 2018 year, the Corporation recorded compensation expense of $3,829 for the Deferred Share Plan within head office expenses (2017 – compensation expense of $2,859).

Employee Share Purchase Plan

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

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

During 2018, employees acquired 55,480 shares from Treasury at a weighted average price of $29.81 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 $604 based on the share price and monthly dividend rate as at that time.

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

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

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 2018, total expenses recorded for the ESPP in head office expenses was $559 (2017 – $570).

20. CONTINGENCIES AND COMMITMENTS

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

Commitments		**December 31, 2018**		December 31, 2017
Less than 1 year	**$**	**27,159**	$	21,725
Between 1 year and 5 years		**75,253**		70,889
More than 5 years		**48,871**		29,042
	$	**151,283**	$	121,656

Included in the table above are commitments to related parties in association with leased property used in the operations which are described further in Note 21.

During the year the Corporation's operations expensed $32,936 (2017 - $23,754) of operating lease costs.

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, 2018, the total value of these letters of credit and surety bonds was $33,667 (2017 - $18,347).

21. RELATED PARTY TRANSACTIONS

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

Property Leases

The Corporation leases several buildings from related parties who were vendors of businesses that the Corporation has acquired. These vendors are considered related parties because of their continued involvement in the management of those acquired businesses. In addition, EIC leases office space for its head office from a company controlled by a director of the Corporation. These leases are recognized in the consolidated financial statements at the exchange amounts. The total costs incurred in 2018 under these leases was $3,910 (2017 – $3,702) and the lease term maturities range from 2019 to 2023. The expense is recorded within general and administrative expenses and is paid monthly, therefore no related balances exist on the Corporation's statement of financial position.

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

Key Management Compensation

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

Compensation awarded to key management for the 2018 year and the comparative 2017 year is as follows:

Year ended December 31,		2018		2017
Salaries and short-term benefits	$	5,457	$	5,601
Share-based payments		3,718		3,071
	$	9,175	$	8,672

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 profits as money is collected on the sale of the aircraft assets. In connection with this agreement, the CEO of Regional One has extended his non-compete agreement with the Corporation. The assets are managed by Regional One and Regional One charges a management fee to CRJ Capital Corp. for services rendered. Cash flow returns are paid out when collected from the customer.

During the current period CRJ Capital Corp. invested US $6,479 (2017 - US $7,913), generating returns paid or payable to CRJ Capital Corp. of US $1,417 (2017 - US $3,520). As a result of the sale of certain of these assets and the return of the initial investment to CRJ Capital Corp., its remaining investment at December 31, 2018 was US $9,969 (December 31, 2017 - US $5,068). At December 31, 2018, less than US $100 is recorded as accounts receivable from CRJ Capital Corp. (December 31, 2017 - US $1,421).

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Market Risk

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

Currency Risk

The Corporation has US $365,100 or $498,069 (2017 - US $351,230 or $440,618) outstanding on its credit facility. The outstanding funds in USD results in currency risk that the future cash flows will fluctuate with the changes in market currency rates. The exposure for the USD portion of its credit facility outstanding is offset by the cash generated through the operations of its US based subsidiaries. Of the total US credit facility drawn, US $23,500 (2017 - US $230) is drawn by EIIF USA, an entity that uses US dollars as its functional currency. Therefore, the currency risk on this balance is recognized in other comprehensive income.

The Corporation`s investment in those subsidiaries with USD functional currencies are hedged partially by US $155,550 (2017 - US $156,300) 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 is able to take advantage of lower interest rates. The swap mitigates the risk of changes in the value of the Corporation's US dollar LIBOR borrowings as they will be exchanged for the same Canadian equivalent in one month. The swap is designated as a hedge of the underlying debt instrument and no ineffectiveness was recognized. The fair value of the swaps at December 31, 2018 was a gain of $3,741 (2017 - loss of $5,748). At December 31, 2018, the notional value of the swaps outstanding is US $186,000 (2017 - US $194,700).

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, 2018 would have a nil (2017 - nil) impact on net earnings and decrease the foreign currency translation adjustment in Other Comprehensive Income by approximately $4,980 (2017 - $4,406).

Interest Rate Risk

The Corporation is subject to the risk that future cash flows associated with the credit facility outstanding (Note 11) will fluctuate due to fluctuations in interest rates. The Corporation manages this risk and seeks financing terms in individual arrangements that are most advantageous, including an assessment of what portion of the Corporation's overall debt level is comprised of fixed rate instruments compared to variable rate instruments.

The terms of the credit facility allow for the Corporation to choose the base interest rate between Prime, Bankers Acceptances or the London Inter Bank Offer Rate ("LIBOR"). At December 31, 2018:

- US $365,100 (2017 – US $351,000) was outstanding under US LIBOR,
- nil (2017 – US $230) was outstanding under US Prime,
- nil (2017 – $66,500) was outstanding under Prime, and
- $229,100 (2017 – $43,200) was outstanding under Banker's Acceptances.

Based on the outstanding credit facility throughout 2018, net of cash and cash equivalents, a 1% increase in interest rates for the Corporation would decrease pre-tax net earnings by approximately $6,550 ($4,783 after-tax) (2017 - $4,807 ($3,552 after tax)).

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

Credit Risk

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

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

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

As at December 31, 2018, $30,010 (2017 - $26,558) of the receivables were outstanding for greater than 90 days. Approximately $4,333 (2017 – $2,558) of this relates to the Manufacturing segment and $25,677 (2017 – $24,000) relates to the Aerospace & Aviation segment. Management at each of the Corporation's subsidiaries monitor accounts receivables overdue amounts on a daily basis and respond accordingly. The Corporation's subsidiaries maintain an adequate allowance for doubtful accounts and review the allowance on a monthly basis.

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

As part of the partnership in Air Borealis, the Corporation loaned funds to one of its partners, NGC. The initial loan of $5,100 was subsequently repaid and the carrying value was $3,590 at December 31, 2018 (2017 – $4,102) and the loan is secured against the cash flows the borrower is entitled to from the partnership until the loan is repaid.

As part of the investment in Wasaya, the Corporation loaned $13,000 to Wasaya. The term of the loan is three years, with principal repayments beginning in April 2020 and the balance due on maturity. The loan is secured against the underlying assets of Wasaya.

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

Liquidity Risk

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

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

	Total	Less than 1 year	Between 1 year and 5 years	More than 5 years
Accounts payable and accrued expenses	$ 199,256	$ 199,256	$ -	$ -
Long-term debt (principal value)	727,169	-	727,169	-
Finance leases	2,881	1,186	1,695	-
Convertible debentures (par value)	277,335	-	196,835	80,500
Contractual interest[(1)]	176,092	45,756	123,876	6,460
Total	**$ 1,382,733**	**$ 246,198**	**$ 1,049,575**	**$ 86,960**

Note 1) The contractual interest reflects the assumption that amounts outstanding and floating interest rates at December 31, 2018 will remain at current levels until maturity.

Fair Value of Financial Instruments

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

		Fair Value		
Recurring fair value measurements	**Carrying Value December 31, 2018**	**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 - Cross currency basis swap - Financial asset at fair value through profit and loss	$ 3,741	$ -	$ 3,741	$ -
Other assets - Fair value through OCI	3,914	-	-	3,914
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(31,173)	-	-	(31,173)
Fair Value Disclosures				
Other assets - Amortized cost	35,951	-	35,951	-
Long term debt - Amortized cost	(724,630)	-	-	(727,169)
Convertible debt - Amortized cost	(253,823)	(269,332)	-	-

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

Recurring fair value measurements	Carrying Value December 31, 2017	Fair Value: Quoted prices in an active market Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Financial Assets				
Other assets - Fair value through OCI	$ 1,963	$ -	$ -	$ 1,963
Financial Liabilities				
Consideration liabilities - Financial liability at fair value through profit and loss	(17,410)	-	-	(17,410)
Other long term liabilities - Cross currency basis swap - Financial liability at fair value through profit and loss	(5,748)	-	(5,748)	-
Fair Value Disclosures				
Other assets - Amortized cost	8,170	-	8,170	-
Long term debt - Amortized cost	(548,508)	-	-	(550,318)
Convertible debt - Amortized cost	(297,805)	(323,815)	-	-

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

The following table summarizes the changes in the consideration liabilities recorded on the acquisitions of Regional One, CarteNav, Team J.A.S., Quest, and Moncton Flight College, 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 2018**	December 31 2017
Opening	**$ 17,410**	$ 3,765
Accretion	**2,569**	238
Settled during the period	**(108)**	(463)
Change in estimate (Note 5)	**(4,616)**	-
Acquisition of Quest	**-**	13,889
Acquisition of CANLink	**15,902**	-
Acquisition of Wings Over Kississing	**16**	-
Translation (gain)/loss	**-**	(19)
Ending	**$ 31,173**	$ 17,410

The earn out liability recorded as part of the acquisitions are included in Other Long-Term Liabilities in the Statement of Financial Position with the exception of the earn out for Quest, as it is expected to be paid within 12 months and is recorded within Accounts Payable and Accrued Liabilities. The remaining consideration liabilities, primarily consisting of estimated working capital settlements, are recorded within Accounts Payable and Accrued Expenses in the Statement of Financial Position. 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 $31,173 above are the earn out liabilities for CarteNav, Quest and Moncton Flight College and an estimated working capital settlement for Wings Over Kississing.

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

There were 438,209 shares of the Corporation that were originally issued into escrow at the time of acquisition of Regional One and relate to the retention of the vendor as CEO. At December 31, 2017, 87,642 shares were in escrow and subsequently released on April 13, 2018.

Financial Instrument Fair Value Disclosures

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

As at December 31, 2018, 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 4.25%. The discount rate is determined by using a risk free benchmark bond yield for instruments of similar maturity adjusted for the Corporation's specific credit risk. In determining the adjustment for credit risk, the Corporation considers market conditions, the underlying value of assets secured by the associated instrument and other indicators of the Corporation's credit worthiness.

As at December 31, 2018, management estimated the fair value of the convertible debentures based on trading values. The estimated fair value of its convertible debentures is $269,332 (2017 - $323,815) with a carrying value of $253,823 (2017 - $297,805).

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

23. CHANGES IN WORKING CAPITAL ITEMS

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

Year Ended December 31		2018		2017
Accounts receivable, including long-term portion	$	(23,939)	$	(39,070)
Amounts due from customers on construction contracts		(4,484)		(1,852)
Inventory		(25,765)		(45,729)
Prepaid expenses and deposits, including long-term portion		(3,461)		4,131
Accounts payable and accrued charges		8,065		29,994
Income taxes receivable/payable		371		(8,615)
Deferred revenue, including long-term portion		(3,525)		(7,372)
Amounts due to customers on construction contracts		(2,860)		3,980
Net change in working capital items	$	(55,598)	$	(64,533)

24. CAPITAL MANAGEMENT

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

The Corporation's objective in managing capital is to:

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

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

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

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

	December 31 2018	December 31 2017
Total senior debt outstanding (principal value)	$ 727,169	$ 550,318
Convertible debentures outstanding (par value)	277,335	318,678
Common shares	588,498	576,471
Total capital	$ 1,593,002	$ 1,445,467

There are certain requirements of the Corporation's credit facility that include financial covenants and ratios, including leverage ratios that assess the funded senior debt to adjusted earnings before interest, income tax expense, depreciation, amortization, acquisition costs and other non-cash items ("EBITDA") ratio. Management considers these requirements in the decisions made in managing the level and make-up of the Corporation's capital structure. The Corporation has been in compliance with all of the financial covenants during the 2018 year.

Changes in the capital of the Corporation during the year ended December 31, 2018 are mainly attributed to the following events that occurred during the year. The Corporation completed the early redemption of its September 2019 and March 2020 convertible debentures with par values of $56,753 and $64,978, respectively, at the time of redemption. The Corporation issued 385,908 shares and used its credit facility to complete its partnership transaction with Wasaya which included loaned funds to Wasaya as part of the agreement. The Corporation issued a new series of debentures (Unsecured 2018 series) in June 2018 with a par value of $80,500. Finally, the Corporation used its credit facility to fund the acquisitions of Moncton Flight College and Wings Over Kississing.

In addition to those noted above, further changes to the Corporation's capital structure subsequent to the end of the year are discussed in Note 26.

25. INCOME TAX

Reconciliation of Effective Tax Rate

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

	2018	2017
Earnings before provision for income taxes	$ 88,802	$ 95,307
Combined Canadian federal and provincial tax rates	27.0%	27.0%
Income tax expense at statutory rates	23,977	25,733
Increase (decrease) in taxes resulting from:		
Permanent differences	3,349	3,958
Realized capital gains	36	(23)
Accounting income not subject to tax	(1,246)	-
Impact of foreign jurisdiction differences	(8,370)	(6,460)
Derecognition (benefit) of deferred tax assets	790	(359)
Amounts in respect of prior periods	(506)	290
Other	3	8
Provision for income taxes	$ 18,033	$ 23,147

Unrecognized Deferred Tax Liabilities

At December 31, 2018, no deferred tax liability for temporary differences related to investments in subsidiaries was recognized because the Corporation controls the timing and reversal of the differences and is satisfied that such differences will not reverse in the foreseeable future. The temporary differences associated with the Corporation's foreign subsidiaries are approximately $108,051 (2017 - $97,185).

(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 2018 year and the 2017 comparative year are as follows:

	December 31, 2017	Business Acquisitions	Credited / (charged) through statement of income	Credited / (charged) to other comprehensive income	Credited / (charged) through equity	Goodwill (Note 5)	**December 31, 2018**
Deferred income tax assets							
Accruals - deductible when paid	$ 1,038	$ -	$ 650	$ 105	$ -	$ -	**$ 1,793**
Capital and non-capital loss carryforwards	3,893	-	761	-	-	-	**4,654**
Other	11	27	(31)	-	-	-	**7**
Total deferred income tax asset	$ 4,942	$ 27	$ 1,380	$ 105	$ -	$ -	$ **6,454**
Deferred income tax liability							
Capital assets	$ (43,906)	$ (859)	$ (5,905)	$ (244)	$ -	$ -	$ **(50,914)**
Intangible assets	(28,853)	(4,636)	2,455	(787)	-	-	**(31,821)**
Financing costs	(222)	57	(371)	-	83	-	**(453)**
Convertible debentures	(3,209)	-	1,035	-	(1,504)	-	**(3,678)**
Non-deductible reserves	(2,690)	-	(2,046)	(74)	99	-	**(4,711)**
Amounts recognized in OCI	(1,015)	-	-	1,015	-	-	**-**
Investments	(1,850)	-	(263)	(41)	-	-	**(2,154)**
Total deferred income tax liability	(81,745)	(5,438)	(5,095)	(131)	(1,322)	-	**(93,731)**
Net	$ (76,803)	$ (5,411)	$ (3,715)	$ (26)	$ (1,322)	$ -	$ **(87,277)**

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

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

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 2018	December 31 2017
Deferred tax assets	**$ -**	$ 258
Deferred tax liabilities	**(87,277)**	(77,061)
	$ (87,277)	$ (76,803)

26. SUBSEQUENT EVENTS

Amended Credit Facility

On February 1, 2019, the Corporation amended its credit facility to obtain more favourable pricing and extend its term. The revised credit facility includes improved pricing on both amounts borrowed under the facility and standby charges paid for the unutilized portion of the facility. The maturity of the facility has been extended to May 7, 2023.

Renewal of NCIB

On February 8, 2019, the Corporation renewed its NCIB. Purchases under the NCIB can commence on February 22, 2019 and will end on February 21, 2020. Under the renewed NCIB, the Corporation can purchase a maximum of 1,567,004 shares and daily purchases will be limited to 21,522 shares, other than block purchase exemptions.

Joint Venture with SkyWest, Inc.

On February 19, 2019, the Corporation announced that it had completed a joint venture with SkyWest to acquire, lease and sell CF34 engines. As part of the transaction, the Corporation will purchase CRJ700 airframes from SkyWest and such assets will be parted out, leased and sold in the normal course.