Exchange Income Corporation Strength Evident in First Quarter of 2020 and COVID-19 Response

Diversification, leadership and balance sheet strength key to weathering the pandemic

WINNIPEG, Manitoba – May 12, 2020 – Exchange Income Corporation (TSX: EIF) (the "Corporation" or "EIC"), a diversified, acquisition-oriented company focused on opportunities in the aviation, aerospace and manufacturing sectors, reported its financial results for the three months ended March 31, 2020. All amounts are in Canadian currency.

Q1 Financial Highlights

- Revenue grew 3% to $307 million
- EBITDA decreased by 10% to $57 million
- Adjusted Net Earnings per share decreased 85% to $0.06 per share
- Trailing twelve-month Adjusted Net Earnings payout ratio increased to 82% from 75%
- Trailing twelve-month Free Cash Flow less Maintenance Capital Expenditures payout ratio increased to 68% from 56%

CEO Commentary

"The first quarter of 2020 was truly a tale of two seasons," said Mike Pyle, the CEO of EIC. "Through January and February, we were tracking ahead of plan and on target to have a very good quarter. Strong demand and effective cost control in our Aerospace & Aviation segment drove these results and our Manufacturing segment was in line with expectations. In the last half of March, load factors fell dramatically as the northern communities began to isolate themselves to protect against COVID19. Global air travel also declined sharply, which severely impacted Regional One as parts sales and leasing revenue declined and sales of whole aircraft and engines were postponed or cancelled."

"It is said that adversity doesn't build character, it reveals character," stated Carmele Peter, President of EIC. "I am extremely proud of the way our subsidiaries have responded to the pandemic. Our leadership teams have shown commitment and caring to their businesses, their customers, their employees and their communities that is truly remarkable."

Mr. Pyle added, "In the aviation operations, we provide essential services to the communities we serve, whether it be as the only means of getting into or out of a community, transporting food and related supplies or by providing emergency medevac services on a moment's notice. Additionally, all our manufacturing entities were deemed essential businesses and continue to operate to meet our customers' needs. This meant prioritizing safety, for our customers and for our employees, ahead of all else. I would like to point out that we took steps long before they were required by regulation or implemented by our competitors. This included such items as requiring passengers to fill out questionnaires and having their temperatures taken before allowing them to board, requiring face coverings, and actually providing masks to our passengers. In our manufacturing operations we reduced staffing and physically distanced where appropriate in the plant as well as limited contact between employees while at work. These are just a few of the pervasive safety measures we implemented early in the crisis. The value of our diversified businesses became even more evident as our manufacturing and aviation companies worked cooperatively to identify issues quickly and resolve problems. In addition, utilizing our substantial and diverse engineering and design capabilities, we developed products to help with the fight against COVID-19 such as face shields and IV poles. These measures were done while also remaining vigilant in running the business. Cost control measures were implemented swiftly throughout all subsidiaries and head office. The sharp reduction in flights has reduced the number of hours being flown, which has had a direct and significant impact on reducing the necessary level of Maintenance Capital Expenditures while operations remain at this reduced level."

Selected Financial Highlights

(All amounts in thousands except % and share data)

	Q1 2020	Q1 2019	% Change
Revenue	$306,976	$297,016	+3%
EBITDA[1]	$57,254	$63,826	-10%
Net Earnings (Loss)	$(5,298)	$7,488	-171%
per share (basic)	$(0.15)	$0.24	-163%
Adjusted Net Earnings[2]	$2,058	$12,724	-84%
per share (basic)	$0.06	$0.41	-85%
Trailing Twelve-Month Adjusted Net Earnings Payout Ratio (basic)	82%	75%	
Free Cash Flow[3]	$38,749	$44,246	-12%
per share (basic)	$1.12	$1.41	-21%
Free Cash Flow less Maintenance Capital Expenditures[4]	$2,299	$17,722	-87%
per share (basic)	$0.07	$0.57	-88%
Trailing Twelve-Month Free Cash Flow less Maintenance Capital Expenditures Payout Ratio (basic)	68%	56%	
Dividends declared	$19,801	$17,187	+15%

[1] 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 nonoperating one-time items such as acquisition costs. EBITDA is not a defined performance measure under International Financial Reporting Standards ("IFRS") but it is used by Management to assess the performance of the Corporation and its segments.

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

[3] 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. Free Cash Flow for the period is equal to cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital, acquisition costs, principal payments on right of use assets and any unusual non-operating one-time items.

[4] Maintenance Capital Expenditures is not an IFRS measure. Capital expenditures are characterized as either Maintenance or Growth Capital Expenditures. Maintenance Capital Expenditures are those required to maintain the operations of the Corporation at its current level.

Review of Q1 Financial Results

Consolidated revenue for the quarter was $307.0 million, which was an increase of $10.0 million or 3% over the comparative period. The Manufacturing segment grew by $26.0 million over the prior period and was partially offset by a decline of $16.0 million in the Aerospace & Aviation segment.

Aerospace & Aviation segment revenue decreased by 7% for the quarter to $200.7 million. Revenue in the Legacy Airlines and Provincial was up 2% as a result of strong passenger volumes in the first two months of the quarter. Cargo volumes were also strong in the first quarter, even after the onset of COVID-19 as communities continued to receive essential goods and supplies. These improvements were partially offset by reductions in revenue due to a blizzard in Newfoundland and Labrador that resulted in the province being shut down in a state of emergency for over a week. Revenues were also negatively impacted when Moncton Flight College was closed for the last half of March due to provincially mandated closures of educational facilities in New Brunswick as a result of the COVID-19 pandemic. Revenue at Regional One was down by 27% because of the pandemic, which impacted all aspects of the business, but hurt the sales of whole aircraft and engines particularly hard.

Manufacturing segment revenue increased 32% to $106.3 million for the quarter. The growth in revenue was driven by the acquisitions of AWI and LV Control in the fourth quarter of 2019, as well as the continued ramp-up of Quest's Texas manufacturing facility. All the manufacturing operations have been deemed to be essential businesses and have been operating throughout the COVID-19 pandemic, albeit at reduced efficiency due to the need for social distancing and increased sanitization.

Consolidated EBITDA for the quarter was $57.3 million, which was a decrease of $6.6 million or 10% compared to the first quarter of last year. The decline in EBITDA is directly attributable to the reduced revenue in the Aerospace & Aviation segment resulting from the COVID-19 pandemic. The Corporation has also incurred additional costs to ensure our ability to continue to operate during the pandemic, while at the same time ensuring the safety of our customers and employees.

Adjusted Net Earnings were $2.1 million, or $0.06 per share, compared to $12.7 million, or $0.41 per share, in the first quarter of last year. EIC recorded a Net Loss of $5.3 million in the first quarter of 2020, compared to Net Earnings of $7.5 million in the prior period. The Alberta Operations have been heavily impacted by both the COVID-19 pandemic and record low oil prices, which have caused many companies to delay or cancel large capital projects. As a result, the Corporation recorded a $6.1 million impairment charge against intangible assets related to the Alberta Operations during the quarter.

The Corporation had Free Cash Flow of $38.7 million and Maintenance Capital Expenditures of $36.5 million in the period, compared to $44.2 million and $26.5 million respectively in the first quarter of last year. Dividends declared increased to $19.8 million from $17.2 million a year ago. The trailing twelvemonth payout ratio increased to 68% from 56% due to the decline in Free Cash Flow coupled with the increase in Maintenance Capital Expenditures and dividends in the current period.

"No one knows for certain how long the impacts of the COVID-19 pandemic will last," stated Darryl Bergman, CFO of EIC. "We feel that EIC is well-positioned to absorb those impacts as we prepare for a return to more normal operations. We have a strong and liquid balance sheet, with access to significant capital through cash on hand and our lending facility. Our leverage ratio relative to EBITDA will increase in coming quarters, but we are confident we have sufficient liquidity to manage through these uncertain times."

Mr. Pyle stated, “Even as we work through this crisis, we are planning for the future and a return to more normal operations. We continue to fly to our remote northern communities, as we embrace our moral obligation to continue to provide these communities with the essential goods and services they require. The Province of Manitoba has seen a relatively moderate level of COVID-19 cases and, as a result, is one of the first to commence a return to a “new normal” of operations. Once restrictions on northern travel are lifted, we expect to see a fairly rapid return to historical levels as the bulk of the travel is for medical appointments and treatments that have been deferred and will need to be addressed with relative urgency. Moncton Flight College also resumed its in-air flight instruction after the New Brunswick government loosened the public health restrictions for post-secondary institutions. New aerospace projects are largely driven by government contracts and, not surprisingly, many bids have essentially been put on hold as governments focus their attention on fighting the pandemic. However, all the bid processes will need to be restarted once this is over, so these opportunities will re-emerge in the future. Regional One will likely be the business that is most impacted and will take the longest to return to normal, as global travel demands are not likely to rebound quickly. That said, this crisis will also create opportunities for Regional One as competitors who are not as well capitalized as EIC will struggle and will need to offload assets at a discount to generate cash flow.”

“Our manufacturing operations have all continued to operate throughout the COVID-19 crisis and we have not seen a decrease in demand. Our supply chains have so far held up and we will continue to monitor them. Our biggest hurdle has been to maintain efficiency levels and satisfy customer demand as we implement proper social distancing disciplines and robust sanitization procedures in our facilities. We will also continue to work with governments and health officials as we dedicate some of our capacity to manufacture medical equipment and PPE.”

“Our business model is designed to be flexible and resilient in the face of changing economies. We look to take advantage of opportunities when they arise. Perhaps more importantly, our business model allows us to continue to operate as close to normal as possible during times of uncertainty. We are well-capitalized and have the liquidity we need to weather the storm. Our commitment to prudent growth has been our hallmark for 15 years and will always be at the core of our values.”

EIC’s complete interim financial statements and management's discussion and analysis for the threemonth period ended March 31, 2020 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

Conference Call Notice

Management will hold a conference call to discuss its 2020 first quarter financial results on Wednesday, May 13, 2020 at 8:30 a.m. ET. To join the conference call, dial 1-888-231-8191 or 647427-7450. Please dial in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until May 29, 2020 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 9275787.

A live audio webcast of the conference call will be available at www.ExchangeIncomeCorp.ca and www.newswire.ca. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. An archived replay of the webcast will be available for 90 days.

About Exchange Income Corporation

Exchange Income Corporation is a diversified acquisition-oriented company, focused in two sectors: aerospace & aviation services and equipment, and manufacturing. The Corporation uses a disciplined acquisition strategy to identify already profitable, well-established companies that have strong management teams, generate steady cash flow, operate in niche markets and have opportunities for organic growth. For more information on the Corporation, please visit www.ExchangeIncomeCorp.ca. Additional information relating to the Corporation, including all public filings, is available on SEDAR (www.sedar.com).

Caution concerning forward-looking statements

The statements contained in this news release that are forward-looking are based on current expectations and are subject to a number of uncertainties and risks, and actual results may differ materially. These uncertainties and risks include, but are not limited to*, the dependence of Exchange Income Corporation on the operations and assets currently owned by it, the degree to which its subsidiaries are leveraged, the fact that cash distributions are not guaranteed and will fluctuate with the Corporation's financial performance, dilution, restrictions on potential future growth, the risk of shareholder liability, competitive pressures (including price competition), changes in market activity, the cyclicality of the industries, seasonality of the businesses, poor weather conditions, foreign currency fluctuations, legal proceedings, commodity prices and raw material exposure, dependence on key personnel, and environmental, health and safety and other regulatory requirements. Except as required by Canadian Securities Law, Exchange does not undertake to update any forward-looking statements; such statements speak only as of the date made. Further information about these and other risks and uncertainties can be found in the disclosure documents filed by Exchange Income Corporation with the securities regulatory authorities, available at* www.sedar.com*.*

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