Exchange Income Corporation

Exchange Income Corporation Reports Record Second Quarter Financial Results
- Revenue increases 16% to $226.9 million; EBITDA grows 18% to $56.9 million -

WINNIPEG, Manitoba – August 9, 2016 – 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- and six-month periods ended June 30, 2016. All amounts are in Canadian currency.

"We are very pleased with the second quarter," stated CEO Mike Pyle. "Record results in most financial metrics demonstrate the progress that has been made in diversifying our operations and growing the Corporation. Perhaps the best example is our dividend payout ratio. In spite of an increase of 14% in per share dividends over the same period last year, our dividend payout ratio remained a very low 54%. Strong performance across our Aerospace & Aviation segment drove the growth in EBITDA and Net Earnings."

Q2 2016 Financial and Operating Highlights

- Increased dividend distributions by 5% to $2.01 per share on an annualized basis. The increase marked the Corporation's 11th dividend increase in the past 12 years.
- Consolidated revenue was $226.9 million, up 16%.
- Consolidated EBITDA increased 18% to $56.9 million.
- Excluding the contributions from the addition of Ben Machine, which was acquired in July 2015, organic EBITDA growth was 13% or $6.5 million.
- Free Cash Flow was $42.7 million, up 13%.
- Free Cash Flow less maintenance capital expenditures increased 28% to $25.5 million, or $0.92 per share up from $0.86 per share.
- Dividend payout ratio[1] of 54% was very strong, up slightly from 51% in 2015, in spite of a 14% increase in dividend per share.
- Net earnings totaled $17.2 million, up 29% from $13.4 million, or $0.62 per share up from $0.58 per share.
- Adjusted net earnings were $20.4 million, up 23% from $16.5 million, or $0.74 per share up from $0.71 per share.
- Growth capital investments totaling $33.5 million were focused on expanding Regional One's portfolio of assets of aircraft and parts available for sale or lease.
- Closed a 5.25% convertible debenture offering that generated gross proceeds of $69 million. The proceeds were earmarked to reduce the Corporation's outstanding senior credit facility and fund the redemption of the 6.25% Series J convertible debentures.
- Completed the early redemption of the seven-year 6.25% Series J Convertible Senior Secured Debentures for $30.4 million.

Highlights Subsequent to Quarter End

- Completed the strategic acquisition of CarteNav, a leading software developer providing intelligence, surveillance, reconnaissance ("ISR") and situational awareness software solutions for up to $17 million.

[1] Based on the Company's Free Cash Flow less maintenance capital expenditures on a basic per share basis.

Selected Financial Highlights

(All amounts in thousands except % and share data)

	Q2 2016	Q2 2015	% Change	YTD 2016	YTD 2015	% Change
Revenue	$226,851	$196,214	+16%	$444,749	$370,149	+20%
EBITDA[2]	$56,928	$48,053	+18%	$101,259	$79,133	+28%
Net Earnings	$17,214	$13,394	+29%	$27,087	$14,328	+89%
per share (basic)	$0.62	$0.58	+7%	$0.98	$0.62	+58%
Adjusted Net Earnings[3]	$20,388	$16,516	+23%	$32,396	$20,815	+56%
per share (basic)	$0.74	$0.71	+4%	$1.17	$0.90	+30%
Free Cash Flow[4]	$42,683	$37,626	+13%	$77,573	$61,552	+26%
per share (basic)	$1.54	$1.63	-6%	$2.80	$2.67	+5%
Maintenance Capital Expenditures[5]	$17,207	$17,756	-3%	$35,296	$32,573	+8%
Free Cash Flow less Maintenance Capex	$25,476	$19,870	+28%	$42,277	$28,979	+46%
per share (basic)	$0.92	$0.86	+7%	$1.53	$1.25	+22%
Payout Ratio (basic)	54%	51%		64%	70%	
Dividends declared	$13,839	$10,064	+38%	$27,097	$20,102	+35%

Review of Q2 Financial Results

Consolidated revenue for Q2 2016 was $226.9 million, up 16% from $196.2 million for Q2 2015. The increase was largely driven by organic growth experienced by Regional One, which continued to monetize its recently expanded portfolio of assets, Provincial Aerospace, which won a five-year contract valued at $150 million in November 2015 for in-service support, and by the Corporation's Legacy Airlines, which benefitted from previous investments in fleet renewal and route optimization activities. Ben Machine, which was acquired in July 2015, also contributed to EIC's revenue growth in Q2 2016. The Corporation's revenue growth was partially offset, however, by declines experienced by Manufacturing segment entities that were challenged by weak market conditions caused by low commodity prices, particularly in Alberta. Provincial Aerospace's aviation subsidiary also experienced revenue declines due to weak economic conditions in its core Newfoundland and Labrador market.

On a segmented basis, the Aerospace & Aviation segment, which consists of Legacy Airlines, Regional One and Provincial, generated revenue in Q2 2016 of $177.1 million, up 18% from Q2 2015. The growth was largely driven by the performances of Regional One and Provincial Aerospace, together with improvements at the Legacy Airlines.

In Q2 2016, the Aerospace & Aviation segment generated 78% of the Corporation's consolidated revenue compared to 76% in Q2 2015. The growth of the Aerospace & Aviation segment's revenue is consistent with EIC's efforts to become more diversified as a result of acquisition activities and growth capital investments that have introduced new revenue streams, new products and services and new geographies to its operations. In addition to scheduled passenger and cargo services, the Aerospace & Aviation segment provides a wide array of offerings, including maritime surveillance solutions, medevac

[2] 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. 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.

[3] Adjusted Net Earnings: is defined as net earnings from continuing operations adjusted for acquisition costs expensed, asset impairment and restructuring costs, gains or losses recognized on the fair value of contingent consideration items, amortization of intangible assets that are purchased at the time of acquisition, and one-time non-cash accelerated accretion as a result of the redemption of convertible debentures.

[4] Free Cash Flow is a financial metric used by Management to assess the Corporation's performance and assess its ability to sustain its dividend policy. Free Cash Flow for the period is equal to the cash flow from operating activities as defined by IFRS, adjusted for changes in non-cash working capital and any unusual non-operating one-time items. It is not a recognized measure under IFRS.

[5] Maintenance Capex 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 and includes principal payments made on finance leases.

transportation services, maintenance repair and overhaul ("MRO"), fixed base operations services and the sale and lease of aftermarket aircraft and parts.

The Manufacturing segment generated revenue of $49.7 million in Q2 2016, up $3.4 million or 7% from Q2 2015. The revenue growth was driven largely by the contributions of Ben Machine, which was acquired in July 2015, and the improved performance of WesTower. The revenue growth was partially offset, however, by lower revenues at other Manufacturing segment entities, particularly among Alberta Operations.

Consolidated EBITDA for Q2 2016 was $56.9 million, up 18% from $48.1 million for Q2 2015. EBITDA increases were largely driven by the contributions made by Regional One, Provincial, the Legacy Airlines and the addition of Ben Machine.

On a segmented basis, the Aerospace & Aviation segment generated EBITDA of $54.5 million in Q2 2016, up 15% from $47.2 million in Q2 2015. The Aerospace & Aviation segment's EBITDA margin for Q2 2016 was 30.7% compared to 31.5% in Q2 2015.

The Manufacturing segment generated EBITDA of $6.7 million in Q2 2016, up 32% from $5.1 million in Q2 2015. The increase was largely due to the addition of Ben Machine, which was acquired in July 2015, with no comparative for the prior year period, and by the improved performance of WesTower. These positive contributions were partially offset by weaker results from the Alberta Operations. The Manufacturing segment's EBITDA margin for Q2 2016 was 13.4%, up from 10.9% for Q2 2015.

On a consolidated basis, EIC generated net earnings of $17.2 million, or $0.62 per share (basic), for Q2 2016. These compare to net earnings of $13.4 million, or $0.58 per share, for Q2 2015. The improvement was driven by improved EBITDA performance already cited and reduced acquisition related costs.

Excluding the net impact of acquisition costs, the amortization of asset intangibles and one-time non-cash accelerated accretion as a result of the redemption of convertible debentures, EIC generated adjusted net earnings of $20.4 million, or $0.74 per share (basic), for Q2 2016. These compare to $16.5 million and $0.71, respectively, for Q2 2015.

Reviews of Financial Results for the 6-month Period

On a year-to-date basis, EIC's consolidated revenue for FY2016 was $444.7 million, up 20% from $370.1 million for FY2015. Consolidated EBITDA was $101.3 million, up 28% from $79.1 million. Net Earnings for FY 2016 were $27.1 million or $0.98 per share (basic). These compare to $14.3 million and $0.62, respectively, for FY 2015. FY2015 results do not include any contributions for Ben Machine, which was acquired in July 2015.

Review of Key Performance Indicators for Q2

Free Cash Flow for Q2 2016 totaled $42.7 million, up 13% from $37.6 million for Q2 2015. Free Cash Flow on a per share basis in Q2 2016 was $1.54 (basic), down from $1.63 for Q2 2015. The decline in Free Cash Flow on a per share basis was due to higher taxes and the increase in the number of shares mainly as a result of the Corporation's $75 million equity issuance in the third quarter of 2015 which resulted in 3,019,000 shares being issued at that time.

Free Cash Flow less Maintenance Capex was $25.5 million, or $0.92 on a per share (basic) basis, for Q2 2016. These compare to $19.9 million and $0.86, respectively, for Q2 2015.

Maintenance Capex was $17.2 million, down 3% from $17.8 million for Q2 2015, largely due to the timing of maintenance activities within the Legacy Airlines.

The basic per share payout ratio for Q2 2016 was 54%. In Q2 2015, the basic per share payout ratio was 51%. The increase was due to a 38% increase in total dividends paid during the quarter as a result of the 14% increase in dividends declared during the current quarter and growth in the numbers of shares outstanding. EIC's payout ratio in Q2 2016 was below the historical range used by the Corporation to determine the sustainability of its dividend policy or whether to increase its dividend.

Working Capital
As at June 30, 2016, EIC had a net cash position of $15.5 million and net working capital of $145.3 million, which represents a current ratio of 1.86 to 1. These compare to a net cash position of $15.5 million and net working capital of $135.3 million, or a current ratio 1.74 to 1, at December 31, 2015.

Outlook
"Our outlook remains very encouraging and we are bullish about sustaining Q2's momentum through the second half of the year," added Ms. Carmele Peter, President of Exchange Income Corporation. "In the short term, we expect continued opportunities for organic growth for our Aerospace & Aviation segment, particularly within our Legacy Airlines given that the third quarter is historically our strongest in the year. We anticipate similar opportunities for growth for Regional One as demand for its after-market parts is strong since regional carriers around the world are taking advantage of lower fuel costs to bring older aircraft on stream and continue utilization of older aircraft. The anticipated growth within the Aerospace & Aviation segment will help to offset some of the challenges that our Manufacturing entities are experiencing due to the decreased demand for their products caused by low commodities pricing."

"We are very optimistic about the future prospects for EIC. Our strong balance sheet with approximately $220 million in available capital provides the resources necessary to realize on growth opportunities, both organically and through acquisition," remarked Carmele Peter, President of EIC. "While our Manufacturing segment continues to face a weaker than normal demand profile, and a very wet summer has hampered our rotary wing business, the diversity of our operations provide channels for growth. We are particularly excited about the opportunities at Regional One, stemming from our investment in 11 CRJ aircraft in 2016, and within Provincial's aerospace operations with its work in the Middle East and the ongoing construction of a surveillance aircraft."

The Company's complete interim financial statements and management's discussion and analysis for the three- and six-month periods ended June 30, 2016 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

Conference Call Notice
The Corporation will hold a conference call on August 10, 2016 at 10:00 a.m. ET with Mike Pyle, CEO, Ms. Carmele Peter, President, and Ms. Tamara Schock, CFO to discuss its 2016 second quarter financial results.

All interested parties can join the conference call by dialing 1-888-231-8191 or 647-427-7450. Please dial in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until Wednesday, August 17, 2016 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 92068487.

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 365 days.

About Exchange Income Corporation
Exchange Income Corporation is a diversified acquisition-oriented company, focused in 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 and operate in niche markets.

The Corporation currently operates two segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment consists of the operations by Perimeter Aviation, Keewatin Air, Calm Air International, Bearskin Lake Air Service, Custom Helicopters, Regional One and Provincial Aerospace. The Manufacturing segment consists of the operations by Jasper Tank, Overlanders Manufacturing, Water Blast Manufacturing, Stainless Fabrication, WesTower Communications and Ben Machine Products. 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, and foreign currency fluctuations, legal proceedings, commodity prices and raw material exposure, dependence on key personnel, and environmental, health and safety and other regulatory requirements. 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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