Exchange Income Corporation Reports Record Third Quarter Financial Results and Announces a 4.5% Dividend Increase

WINNIPEG, Manitoba – November 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 nine-month periods ended September 30, 2016. All amounts are in Canadian currency unless noted.

CEO Commentary

"In October 2014, we announced the sale of WesTower USA and two weeks later we announced that EIC was acquiring Provincial Aerospace," stated Mike Pyle, CEO of EIC. "These two transactions improved our diversification and set the stage for the growth we have experienced over the last 24 months. I am very pleased to announce that for the 12th time in our history, the fourth time in the last 24 months, and the second time this year, we are increasing our dividend. Effective with our November dividend, the dividend will increase to an annualized rate of $2.10 up 4.5%. During this two year period, inflation in Canada has totaled approximately 3%, while our dividend has increased 25%."

Mr. Pyle continued, "Our third quarter results reflect new highs in EBITDA and earnings. This performance was driven by investments we have made in our existing portfolio of companies in recent periods. It shows the power of our diversified model where, in spite of weak economic conditions in Alberta and Newfoundland and wet weather in Manitoba, the strength of our airlines and aerospace companies drove the strong level of performance. Subsequent to the implementation of the three dividend increases over 2015 and 2016, our payout ratio remained strong at 54% for the quarter and 60% for the year to date."

Q3 2016 Financial and Operating Highlights

- Consolidated revenue was $224.6 million, up 6%.
- Consolidated EBITDA increased 11% to $60.0 million.
- Free Cash Flow was $45.9 million, up 9%.
- Free Cash Flow less maintenance capital expenditures increased 6% to $26.5 million, or $0.93 per basic share, down from $1.01 per share.
- Dividend payout ratio[1] was 54%.
- Net earnings totaled $20.6 million, up 29% from $16.0 million, or $0.72 per basic share, up from $0.64 per share.
- Adjusted net earnings were $23.1 million, up 23% from $18.8 million, or $0.81 per basic share, up from $0.76 per share.
- Made $53.3 million in growth capital investments, primarily focused on expanding Regional One's portfolio of assets.
- Acquired a net total of nine aircraft in Regional One, net of the sale of one aircraft. The new aircraft acquired are part of the company's leasing portfolio.
- 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. CarteNav will be integrated within the operations of Provincial Aerospace.

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

Highlights Subsequent to Quarter End

- Increased dividend distributions by 4.5% to $2.10 per share on an annualized basis. The increase marks EIC's second dividend increase in 2016 and the 12th since the Corporation became public in 2004. The dividend increase will take effect with the November dividend.

- Completed the acquisition of Team J.A.S., a parts and maintenance repair services company that has specialized in Twin Otter aircraft for 30 years, with a purchase price of approximately US$10 million subject to customary post-closing adjustments. Headquartered in Jacksonville, Florida, Team J.A.S. brings expertise in a new aircraft type to EIC and will provide internal sourcing of parts for Provincial's existing fleet of Twin Otters. Team J.A.S. will be integrated within the operations of Regional One.

Selected Financial Highlights

(All amounts in thousands except % and share data)

	Q3 2016	Q3 2015	% Change	YTD 2016	YTD 2015	% Change
Revenue	$224,620	$212,750	+6%	$669,369	$582,899	+15%
EBITDA[2]	$60,012	$54,052	+11%	$161,271	$133,185	+21%
Net Earnings	$20,581	$15,983	+29%	$47,668	$30,311	+57%
per share (basic)	$0.72	$0.64	+13%	$1.70	$1.28	+33%
Adjusted Net Earnings[3]	$23,127	$18,811	+23%	$55,523	$39,626	+40%
per share (basic)	$0.81	$0.76	+7%	$1.99	$1.67	+19%
Free Cash Flow[4]	$45,873	$42,195	+9%	$123,446	$103,747	+19%
per share (basic)	$1.60	$1.70	-6%	$4.41	$4.38	+1%
Maintenance Capital Expenditures[5]	$19,389	$17,229	+13%	$54,685	$49,802	+10%
Free Cash Flow less Maintenance Capex	$26,484	$24,966	+6%	$68,761	$53,945	+27%
per share (basic)	$0.93	$1.01	-8%	$2.46	$2.28	+8%
Payout Ratio (basic)	54%	46%		60%	59%	
Dividends declared	$14,366	$11,873	+21%	$41,463	$31,975	+30%

Review of Q3 Financial Results

Consolidated revenue was up by 6% to $225 million from $213 million in 2015. This improvement was driven by the continued organic growth at Regional One and the strength of operations at our Legacy Airlines. The increase demonstrated the robust nature of EIC's diversified business model, as the growth at Regional One and the Legacy Airlines was offset by very weak economic conditions in Alberta and Newfoundland, as well as a very anemic firefighting season in Manitoba resulting from a wet summer. The growth was a direct result of investments made in increasing the size of the lease fleet at Regional One, as well as investment in capital assets and successful integration of those assets in the Legacy Airlines.

[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. 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.

On a segmented basis, the Aerospace & Aviation segment, which consists of Legacy Airlines, Regional One and Provincial, generated revenue in Q3 2016 of $178.8 million, up 14% from Q3 2015. The growth was largely driven by the performance of Regional One, Provincial and the Legacy Airlines.

In Q3 2016, the Aerospace & Aviation segment generated 80% of the Corporation's consolidated revenue compared to 74% in Q3 2015. The revenue growth of the Aerospace & Aviation segment 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 geographic regions 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 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 $45.8 million in Q3 2016, down $9.6 million, or 17%, from Q3 2015. The revenue decline was largely driven by weak demand in Alberta as a result of low oil prices and softer than normal demand in our stainless tank business.

Consolidated EBITDA for Q3 2016 was $60.0 million, up 11% from $54.1 million for Q3 2015. In the same manner as Revenue, EBITDA increases were largely driven by the contributions made by Regional One and Legacy Airlines.

On a segmented basis, the Aerospace & Aviation segment generated EBITDA of $57.6 million in Q3 2016, up 16% from $49.5 million in Q3 2015. The Aerospace & Aviation segment's EBITDA margin for Q3 2016 was 32.2% compared to 31.5% in Q3 2015.

The Manufacturing segment generated EBITDA of $6.4 million in Q3 2016, down 22% from $8.2 million in Q3 2015. The decline was predominantly due to challenging market conditions in Alberta already discussed. The Manufacturing segment's EBITDA margin for Q3 2016 was 14.0%, down from 14.8% for Q3 2015.

On a consolidated basis, EIC generated net earnings of $20.6 million, or $0.72 per share (basic), for Q3 2016 and is the highest quarterly EPS in a decade. These compare to net earnings of $16.0 million, or $0.64 per share, for Q3 2015. The improvement was driven by improved EBITDA performance. Excluding the net impact of acquisition costs, the amortization of asset intangibles and related tax impact, EIC generated adjusted net earnings of $23.1 million, or $0.81 per share (basic), for Q3 2016. These compare to $18.8 million and $0.76, respectively, for Q3 2015.

Reviews of Financial Results for the 9-month Period

On a year-to-date basis, EIC's consolidated revenue for FY2016 was $669.4 million, up 15% from $582.9 million for FY2015. Consolidated EBITDA was $161.3 million, up 21% from $133.2 million. Net Earnings for FY2016 were $47.7 million, or $1.70 per share (basic). These compare to $30.3 million and $1.28, respectively, for FY2015.

Review of Key Performance Indicators for Q3

Free Cash Flow for Q3 2016 totaled $45.9 million, up 9% from $42.2 million for Q3 2015. Free Cash Flow on a per share basis in Q3 2016 was $1.60 (basic), down from $1.70 for Q3 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. Per share results were also impacted by the shares issued as a result of the conversion of debentures into equity.

Free Cash Flow less Maintenance Capex was $26.5 million, or $0.93 on a per share (basic) basis, for Q3 2016. These compare to $25.0 million and $1.01, respectively, for Q3 2015.

Maintenance Capex was $19.4 million, up 13% from $17.2 million for Q3 2015, due to the timing of maintenance activities within the Legacy Airlines and increased maintenance capex at Regional One with its larger lease portfolio.

The basic per share payout ratio for Q3 2016 was 54%. In Q3 2015, the basic per share payout ratio was 46%.

Working Capital
As at September 30, 2016, EIC had a net cash position of $16.0 million and net working capital of $150.8 million, which represents a current ratio of 1.90 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
"We are excited to be entering into the final quarter of the year in the best position in our history," said Carmele Peter, President of EIC. "The prior investments in the Aerospace & Aviation segment, in particular in the CRJ fleet of aircraft, are delivering gains that exceed our target return and the net purchase of an additional nine aircraft in the third quarter will continue to fuel growth at Regional One. Our strategic tuck-in acquisitions of CarteNav Solutions Inc. and Team J.A.S. bring an additional dimension to, and opportunities for, both Provincial and Regional One. Also, we are confident that the efficiency gains in our Legacy Airlines will continue to produce improved results and our Manufacturing segment is well positioned to capitalize on early signs of increased customer demand and opportunities that become available from the prolonged low energy prices."

Ms. Peter added, "Our balance sheet remains strong and well positioned to capitalize on further growth opportunities with no long-term debt or debentures maturing before 2019 and approximately $180 million of undrawn credit facility. The ability to switch between internal and external investments to maximize the return on capital allows us to deploy this capital to grow revenue and EBITDA without having to participate in a market where values of large company transactions are higher than we are willing to pay."

The Company's complete interim financial statements and management's discussion and analysis for the three- and nine-month periods ended September 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 November 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 third 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 Thursday, November 17, 2016 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 94233798.

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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