Exchange Income Corporation's Strong First Quarter Driven by Growth in Aerospace and Aviation Operations

Previous Investments and Focus on Reduction of Payout Ratio Delivers Results

WINNIPEG, Manitoba – May 7, 2019 – 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 month period ended March 31, 2019. All amounts are in Canadian currency.

CEO Commentary

"The first quarter of 2019 was very gratifying," stated Mike Pyle, the CEO of EIC. "From a financial standpoint, we continued to generate strong results in all our primary metrics, including revenue, EBITDA, Adjusted Net Earnings and Free Cash Flow less Maintenance Capital Expenditures. Investments made in our Aerospace & Aviation segment in prior periods yielded returns in the quarter as revenue and EBITDA for the segment were up significantly over the prior year. I am particularly proud that the trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio was 56% at the end of the quarter, an improvement from 69% where it stood last year at this time. Our first quarter results mark significant progress towards our goal of a payout ratio of 50% on a Free Cash Flow less Maintenance Capital Expenditures basis and 60% on an Adjusted Net Earnings basis. The sustainability of our model clearly resonates with these results."

"During the quarter, I was also pleased to see the confidence that our customers have in EIC as a dependable and reliable long-term business partner and that they see value in their relationships with EIC. The Government of Canada continued to expand its more than thirty year relationship with PAL Aerospace with the recent awarding of the maritime surveillance contract after a very competitive RFP process. EIC also successfully won the RFP process to provide general transportation services to the Government of Manitoba, primarily providing air service for the legal system in the northern region of the province. Finally, our relationship with SkyWest Inc. continued to grow as we entered into a joint venture with them to lease CRJ aircraft and/or engines to other regional airlines around the world," added Mr. Pyle.

Darryl Bergman, the CFO of EIC, stated, "One of the keys to EIC's track record of growth is maintaining a strong, flexible balance sheet. During the quarter, the Company raised $86 million through a convertible debenture offering, which includes the exercise of the full over-allotment by the underwriting syndicate. We also announced that we would be redeeming the 2014 seven year convertible debenture that was maturing in 2021. The new debenture features a seven year term, a lower interest rate and much higher strike price of $49.00. EIC's convertible debentures are now spread across four maturities between 2022 and 2026, providing us further flexibility. Subsequent to the 2018 year end, approximately $25 million, or 90%, of the debentures were converted into common shares, increasing our equity position and further strengthening our balance sheet. It is apparent from the success of this offering that investors continue to have confidence in EIC's business model and proven track record of delivering results."

Q1 2019 Financial and Operating Highlights

- Consolidated revenue increased 12% to $297 million;
- Consolidated EBITDA grew by 18% to $64 million and was 9% higher excluding the impact of IFRS 16;
- Adjusted Net Earnings per basic share was $0.41, consistent with the prior year, and was $0.43 excluding the impact of IFRS 16;
- Trailing Twelve Month Adjusted Net Earnings payout ratio improved to 75% from 77% for the comparative period;
- Free Cash Flow improved by 9% to $44 million;
- Free Cash Flow less Maintenance Capital Expenditures was $18 million, up 80%;

(Free Cash Flow and Free Cash Flow less Maintenance Capital Expenditures are not impacted by the adoption of IFRS 16).

- Trailing Twelve Month Free Cash Flow less Maintenance Capital Expenditures payout ratio strengthened to 56% from 69% for the comparative period;
- Amended its credit facility to obtain more favourable pricing and extend its term;
- Completed a joint venture with SkyWest to acquire, lease and sell CF34 engines, expanding its relationship with SkyWest;
- Received the five year Aerial Surveillance contract from the Government of Canada, with increased scope and nature of services;
- Received the five year General Transportation contract from the Manitoba Government, providing air service for the legal system;
- Closed an $86 million bought deal offering of convertible unsecured subordinated debentures, including the exercise of the full $11 million over-allotment option that was granted to the underwriters.

Highlights Subsequent to Quarter End

- Redeemed its 7 year 6.00% convertible unsecured debentures which were to mature on March 31, 2021. At December 31, 2018, the Company had $28 million of these debentures on the balance sheet. Approximately $25 million of the debentures were converted into 707,760 common shares prior to redemption.

Selected Financial Highlights

The Corporation's 2019 financial results include the impact of IFRS 16, a substantial change in lease accounting standards, effective January 1, 2019. The Corporation was required to adopt IFRS 16 and used the modified retrospective approach. Financial results prior to 2019 were not prepared on this basis. As a result, the comparability of the Corporation's 2019 EBITDA, Net Earnings and Adjusted Net Earnings prior to 2019 is impacted. The Corporation provided guidance on the impact of IFRS 16 adoption in Section 10 – Accounting Policies of its annual 2018 MD&A that 2019 annual EBITDA would increase approximately $20 million and Net Earnings and Adjusted Net Earnings would decrease by approximately $0.05 per share. In addition, the opening balance sheet as of January 1, 2019 includes right of use assets of $120 million and a right of use lease liability of $123 million as a result of the adoption.

(All amounts in thousands except % and share data)

	Q1 2019	Q1 2018	% Change
Revenue	$297,016	$266,027	+12%
EBITDA[1]	$63,826	$54,013	+18%
Net Earnings	$7,488	$8,614	-13%
per share (basic)	$0.24	$0.27	-11%
Adjusted Net Earnings[2]	$12,724	$12,932	-2%
per share (basic)	$0.41	$0.41	-
Trailing Twelve Month Adjusted Net Earnings Payout Ratio (basic)	75%	77%	
Free Cash Flow[3]	$44,246	$40,596	+9%
per share (basic)	$1.41	$1.29	+9%
Maintenance Capital Expenditures[4]	$26,524	$30,754	-14%
Free Cash Flow less Maintenance Capital Expenditures	$17,722	$9,842	+80%
per share (basic)	$0.57	$0.31	+84%
Trailing Twelve Month Free Cash Flow less Maintenance Capital Expenditures Payout Ratio (basic)	56%	69%	
Dividends declared	$17,187	$16,733	+3%

Review of Q1 Financial Results

Consolidated revenue for Q1 2019 was $297 million, an increase of $31 million or 12% over Q1 2018. Consolidated EBITDA for the same period was $64 million, up $10 million or 18%. Excluding the impact of IFRS 16, EBITDA increased 9% over the prior year. Most of the increase was generated by the Aerospace & Aviation segment and was driven by a combination of significant organic growth and the impact of acquisitions.

Within the Aerospace & Aviation segment, revenue increased by $27 million or 14% to $217 million. EBITDA also increased by $11 million or 23% to $58 million. Excluding the impact of IFRS 16, EBITDA in Q1 2019 increased by $7 million or 15% over the prior period. Within the Legacy Airlines and Provincial, increased EBITDA was driven by higher revenue, cost savings associated with operational efficiencies, stabilization in fuel prices and reduced third party charter costs achieved by sharing capacity across airline subsidiaries and investment in additional aircraft in prior periods. Regional One experienced a significant increase in sales and service revenue and realized a smaller increase in lease revenues.

The Manufacturing segment generated revenue of $80 million in Q1 2019, up $4 million or 5% from Q1 2018. EBITDA also increased during the first quarter of 2019, up $1 million or 4% to $13 million. The adoption of IFRS 16 increased EBITDA by $1 million in 2019 compared to the prior period. Quest's results were negatively impacted in the quarter by production inefficiencies resulting from a flood at the plant caused by a broken water main during the fourth quarter of 2018. While the facility was operational during the quarter, the plant was not fully remediated until the middle of March. The balance of the segment collectively experienced growth in revenue and EBITDA.

[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 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.

[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 and includes principal payments made on finance leases.

On a consolidated basis, EIC generated Net Earnings of $7 million, or $0.24 per share (basic) for the three month period ended March 31, 2019. These compare to $9 million, or $0.27 per share (basic), for the comparative period in 2018. Excluding the impact of IFRS 16, Net Earnings were relatively flat compared to the prior year.

Adjusted Net Earnings for the period was $13 million, or $0.41 per share (basic), which is consistent with the $13 million and $0.41 per share (basic) generated in the comparative period. Excluding the impact of IFRS 16, Adjusted Net Earnings per share increased 5% to $0.43 per share. Many of the costs affecting Net Earnings that are associated with acquisitions, such as amortization of the Corporation's intangible assets, net of tax, and acquisition costs, are added back in the calculation of Adjusted Net Earnings.

Free Cash Flow for Q1 2019 totaled $44 million, up 9% from $41 million in Q1 2018. Free Cash Flow on a per share basis was $1.41 (basic), up 9% from $1.29.

Maintenance Capital Expenditures were $27 million during the three months ended March 31, 2019, a decrease of 14% from $31 million during the comparative period. The Maintenance Capital Expenditures are lower than our expectations. We continue to perform as much scheduled large aircraft maintenance work in the seasonally slower first half of the year as possible. However, the required timing of maintenance events for several engines has moved to later in the year. The Corporation still expects that Maintenance Capital Expenditures will increase in line with the overall growth of the business in 2019.

Free Cash Flow less Maintenance Capital Expenditures in the first quarter of 2019 was $18 million, which is up from $10 million in the first quarter of 2018. On a per share (basic) basis, Free Cash Flow less Maintenance Capital Expenditures was $0.57 per share, up 84% from $0.31 per share.

The trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio improved to 56% at March 31, 2019 compared to 69% at March 31, 2018. The improvement is a direct result of the percentage increase in Free Cash Flow exceeding the percentage increase in Maintenance Capital Expenditures and dividends during the period. The basic per share payout ratio based on trailing twelve month Adjusted Net Earnings also improved slightly during the quarter, from 77% at March 31, 2018 to 75% at March 31, 2019.

Outlook

"This quarter was evidence that our strategy of making investments with a long-term focus works. In 2019, we will continue to make prudent decisions that will generate future, sustainable returns," Mr. Pyle said. "The second facility for Quest has been completed, on time and on budget. We are increasing staffing and will be in production by the end of the second quarter. Production will ramp up throughout the second half of the year and into 2020. Once full production levels are achieved in 2020, the facility will more than double Quest's production capacity."

"We will also continue to grow our Aerospace & Aviation segment. We will make investments to support the recently awarded RFP's from the Government of Canada, the Province of Manitoba and the Territory of Nunavut. EIC will also continue to build its relationship with SkyWest. These investments will not have a material impact on the current year but will yield positive results in the future."

"As we look ahead to the balance of 2019, our strong EBITDA performance in the first quarter has us tracking well against the guidance we provided to the market for the year," stated Mr. Pyle. "As we said last quarter, we expect fiscal 2019 EBITDA and Adjusted Net Earnings per share to grow between 10 to 15% and 8 to 12%, respectively. It is important to reiterate that these increases are not driven by new acquisitions, the RFP awards previously discussed or major capital investments in 2019."

"The Canadian aviation industry faces a significant challenge with regard to the current and projected pilot shortage, as the need for experienced talent quickly outpaces the national supply. EIC has developed our Life in Flight program to meet this industry challenge head on. The program will provide unique and mutually beneficial pathways for future aviation talent and EIC air operators. Key to the strategy was the acquisition of Moncton Flight College with its strong and successful history in training the next generation of pilots. We are excited to offer this program and will provide additional information at our Annual General Meeting on May 8th where the program will be officially unveiled."

Conference Call Notice

Management will hold a conference call to discuss the Corporation's 2019 first quarter financial results on May 8, 2019 at 8:30 a.m. ET. To join the conference call, dial 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 May 15, 2019 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 1487494.

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.

The Corporation currently operates two segments: Aerospace & Aviation and Manufacturing. The Aerospace & Aviation segment consists of the operations of Perimeter Aviation, Keewatin Air, Calm Air International, Bearskin Lake Air Service (operating as a division of Perimeter Aviation), Custom Helicopters, Regional One, Provincial Aerospace and Moncton Flight College, and an investment in Wasaya Group. The Manufacturing segment consists of the operations of Overlanders Manufacturing, Water Blast, Stainless Fabrication, WesTower Communications, Ben Machine and Quest Window Systems. 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 several 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. Further information about these and other risks and uncertainties can be found in the disclosure documents filed by the Corporation with the securities regulatory authorities, available at www.sedar.com.

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