Exchange Income Corporation

Strong Fourth Quarter Pushes Exchange Income Corporation to Record Results in 2017
- Increases Annual Dividend 4.3% to $2.19 per Share -

WINNIPEG, Manitoba – February 21, 2018 – 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 twelve month periods ended December 31, 2017. All amounts are in Canadian currency.

CEO Commentary

"The fourth quarter of 2017 marked the third consecutive quarter, and the eleventh in the past twelve, that quarterly results have increased over the prior year," stated EIC CEO Mike Pyle. "This continuing improvement has driven EIC to new annual records for many of our major metrics, including EBITDA, Net Earnings and Adjusted Net Earnings, both in total dollars and on a per share basis. We made the decision to concentrate our maintenance capital investments in our airlines and incur some additional operating costs in the first half of the year and we were able to capitalize on opportunities that presented themselves in the latter half of the year because we had the necessary capacity to meet our customers' requirements."

Carmele Peter, EIC's President, stated, "The fourth quarter was an exceptionally busy and exciting one for EIC. In addition to seeing improvements in operations across the board, we executed on a number of strategic initiatives. In November, we expanded our footprint in the Manufacturing segment when we acquired Quest Window Systems Inc. During that month, PAL Aerospace also unveiled its "Force Multiplier" aircraft at the Dubai Air Show, generating immediate and substantial interest. In December, we closed a bought deal offering of convertible unsecured subordinated debentures that was originally $70 million but, due to investor demand, was increased to $100 million. We are heading into 2018 with tremendous momentum."

"We are extremely proud of the results that the Corporation generated in 2017 and we are excited by the outlook for 2018. We have a number of new initiatives planned for 2018 that we truly believe will generate both immediate and long term benefits for EIC," noted Mr. Pyle.

"On the heels of the acquisition of Quest, we are going to expand its capacity by investing in a new U.S. manufacturing facility. This plant, located nearer the markets with the highest growth potential, will provide Quest with double its capacity and enable it to grow beyond its current backlog."

"Earlier today we announced that EIC entered into an agreement to acquire Moncton Flight College, the largest flight college in Canada. With a purchase price of up to $55 million, this acquisition will be immediately accretive. More importantly, it provides EIC with a unique opportunity to help address the worldwide pilot shortage. I believe that this strategic acquisition will support our future growth and operational requirements of our airline and aerospace portfolio."

"These initiatives, combined with the improvement in our operations and lower taxes arising from decreasing US tax rates and increased global expansion will generate significant returns for the Corporation. As a result, EIC will be increasing its annual dividend from $2.10 to $2.19 per share, an increase of $0.0075 per month," Mr. Pyle announced. "This marks the 13th time the Corporation has raised its dividend since its inception, and the annual dividend is now more than double the Corporation's original dividend rate of $1.08. Sustainable, increasing dividends are a hallmark of EIC and even with this increase to the monthly dividend to $0.1825 per share, we fully anticipate that the annual payout ratio will decline in 2018."

Q4 2017 Financial and Operating Highlights

- Consolidated revenue was $263.9 million, up 19%
- Consolidated EBITDA increased 23% to $63.3 million
- Net Earnings were $16.9 million, up 22% from $13.8 million
- Net Earnings per basic share were $0.55, up 15% which takes into account an 8% increase in the weighted average number of shares

- Adjusted Net Earnings were $22.3 million, up 34% from $16.6 million
- Adjusted Net Earnings per basic share were $0.72, up 24%
- Adjusted Net Earnings payout ratio declined to 73% from 89%
- Free Cash Flow was $49.7 million, up 22%
- Free Cash Flow less Maintenance Capital Expenditures was $27.7 million, up 22%
- Free Cash Flow less Maintenance Capital Expenditures payout ratio declined to 58% from 65%

Review of Q4 Financial Results

Consolidated revenue for Q4 2017 was $263.9 million, up $42.3 million or 19% from Q4 2016. Consolidated EBITDA for Q4 2017 was $63.3 million, up $12.0 million or 23% from Q4 2016. Organic growth in the Aerospace & Aviation segment is the primary driver for these increases. Revenue in the Manufacturing segment grew both organically and as a result of the acquisition of Quest. For our US based subsidiaries, the strengthening of the Canadian dollar compared to the prior period impacted the Canadian converted value US denominated revenues. Had the average exchange rates from 2016 persisted into 2017, revenues would have been approximately $3.7 million higher.

Within the Aerospace & Aviation segment, which consists of Legacy Airlines, Regional One and Provincial, revenue increased by $26.6 million or 15% to $200.5 million in Q4 2017. EBITDA also increased by $13.9 million or 29% to $62.5 million. Previous investments in inventory and growth capital investments were the drivers for the 36% increase in revenue at Regional One. Increased volumes in the Kivalliq and Manitoba markets, the commencement of the Kitikmeot contract in December of 2017, targeted growth in Northwestern Ontario and increased volumes in Provincial's airline operations as a result of its partnership in Air Borealis also drove the increase in revenue. These increases were somewhat offset by lower revenue in Provincial's aerospace modifications programs as one program was completed in 2016 and some projects have shifted into future periods. The increase in revenue is responsible for generating the bulk of the increase in EBITDA. Improved weather conditions in the Manitoba and Northwestern Ontario markets led to improved efficiency, as there were fewer weather-related cancellations. Provincial's investment in Air Borealis has also contributed to improved yields.

The Manufacturing segment generated revenue of $63.4 million in Q4 2017, up $15.7 million or 33% from Q4 2016. EBITDA was also up in Q4 2017 compared to Q4 2016, increasing by $1.8 million or 30% to $8.1 million. The addition of Quest midway through the fourth quarter of 2017 increased revenue and contributed $2.9 million of EBITDA. Additionally, all entities within the segment, with the exception of WesTower, experienced strong growth in both revenue and EBITDA. Weak cyclical spending by telecommunications companies hurt the performance of WesTower and this partially offset the performance of the balance of the segment.

On a consolidated basis, the increase in EBITDA in Q4 2017 was the primary reason for the positive changes in the Corporation's highlighted results, including Net Earnings, Adjusted Net Earnings and Free Cash Flow.

Review of Q4 Key Performance Measures

Free Cash Flow for Q4 2017 was $49.7 million, up 22% from $40.8 million in Q4 2016. Free Cash Flow on a per share basis in Q4 2017 was $1.61 (basic), up 13% from $1.42 in Q4 2016 even with an 8% increase in the weighted average number of shares.

Maintenance Capital Expenditures were $22.0 million, up 23% from $17.9 million in Q4 2016. The increase is primarily due to higher maintenance capital expenditures at Regional One as a result of an increase in depreciation tied to its larger lease portfolio of aircraft.

Free Cash Flow less Maintenance Capital Expenditures in Q4 2017 was $27.7 million which is up from $22.8 million in Q4 2016. On a per share (basic) basis, Free Cash Flow less Maintenance Capital Expenditures was $0.90 per share in Q4 2017, up from $0.80 per share in Q4 2016.

The basic per share payout ratio based on Free Cash Flow less Maintenance Capital Expenditures decreased to 58% for Q4 2017 from 65% in Q4 2016 as the growth in Free Cash Flow outpaced the increases in dividends and Maintenance Capital Expenditures on a per share basis. The Adjusted Net Earnings payout ratio improved by an even greater degree, decreasing to 73% in Q4 2017 from 89% in Q4 2016.

FY2017 Financial and Operating Highlights

- Consolidated revenue was $1.0 billion, up 14%
- Consolidated EBITDA increased 17% to $248.7 million
- Net Earnings were $72.2 million, up 17% from $61.5 million
- Net Earnings per basic share were $2.33, up 7% which takes into account a 10% increase in the weighted average number of shares
- Adjusted Net Earnings were $79.7 million, up 10% from $72.2 million
- Adjusted Net Earnings per basic share were $2.58, up 1%
- Adjusted Net Earnings payout ratio increased to 81% from 78%
- Free Cash Flow was $191.1 million, up 16%
- Free Cash Flow less Maintenance Capital Expenditures was $91.9 million, essentially unchanged from $91.6 million last year
- Free Cash Flow less Maintenance Capital Expenditures payout ratio increased to 71% from 61%

EBITDA, Net Earnings, Net Earnings per Share, Adjusted Net Earnings, Adjusted Net Earnings per basic share and Free Cash Flow set new all time annual records

- Closed a bought deal equity offering with net proceeds of $93 million from the issuance of 2,303,450 shares at $42.45 per share
- Expanded the Corporation's syndicated credit facility by $200 million to $750 million
- Keewatin was awarded a five year medevac contract in the Kitikmeot region of Nunavut
- PAL Airlines expanded its Labrador indigenous partnership to include both the Innu and Inuit under the Air Borealis brand
- Regional One took delivery of the final CRJ 900 aircraft from the previously announced re-marketing agreement with Bombardier
- Acquired Quest Window Systems Inc., a leading manufacturer of an advanced window wall system used primarily in high-rise multi-family residential projects in Canada and the United States, for up to $100 million
- Closed a $100 million bought deal offering of 5 year, 5.25% Unsecured Subordinated Debentures convertible at $51.50 per share due December 31, 2022

Highlights Subsequent to Year End

- EIC funded the previously announced redemption of its 7 year, 5.50% convertible debentures due September 30, 2019, redeeming outstanding debentures in the principal amount of $56.8 million
- EIC entered into an agreement with Wasaya Group and its shareholders whereby EIC will acquire an ownership interest in Wasaya Group. EIC expects to invest $25 million in Wasaya through a combination of debt and equity.
- Announced an agreement to acquire Moncton Flight College, the largest flight training college in Canada, which offers domestic Canadian pilot training as well as a foreign pilot program, for up to $55 million
- Increased annual dividend by 4.3% to $2.19 per share from $2.10 per share

Selected Financial Highlights

(All amounts in thousands except % and share data)

	FY 2017	FY 2016	% Change	Q4 2017	Q4 2016	% Change
Revenue	$1,012,950	$891,026	+14%	$263,910	$221,657	+19%
EBITDA[1]	$248,698	$212,575	+17%	$63,315	$51,304	+23%
Net Earnings	$72,160	$61,490	+17%	$16,920	$13,822	+22%
per share (basic)	$2.33	$2.18	+7%	$0.55	$0.48	+15%
Adjusted Net Earnings[2]	$79,727	$72,202	+10%	$22,260	$16,631	+34%
per share (basic)	$2.58	$2.56	+1%	$0.72	$0.58	+24%
Adjusted Net Earnings Payout Ratio (basic)	81%	78%		73%	89%	
Free Cash Flow[3]	$191,114	$164,211	+16%	$49,745	$40,765	+22%
per share (basic)	$6.17	$5.83	+6%	$1.61	$1.42	+13%
Maintenance Capital Expenditures[4]	$99,168	$72,627	+37%	$21,997	$17,942	+23%
Free Cash Flow less Maintenance Capital Expenditures	$91,946	$91,584	0%	$27,748	$22,823	+22%
per share (basic)	$2.97	$3.25	-9%	$0.90	$0.80	+13%
Free Cash Flow less Maintenance Capital Expenditures Payout Ratio (basic)	71%	61%		58%	65%	
Dividends declared	$65,087	$56,331	+16%	$16,290	$14,868	+10%

Review of FY2017 Financial Results

Consolidated revenue for FY2017 was $1,013.0 million, up $121.9 million or 14% from FY2016. Consolidated EBITDA for FY2017 was $248.7 million, up $36.1 million or 17% from FY2016. Organic growth in the Aerospace & Aviation segment is the primary driver for these increases. Revenue in the Manufacturing segment also grew organically and as a result of the Q4 acquisition of Quest. For our US based subsidiaries, the strengthening of the Canadian dollar compared to the prior period impacted the Canadian converted value US denominated revenues. Had the average exchange rates from 2016 persisted into 2017, revenues would have been approximately $6.5 million higher.

Within the Aerospace & Aviation segment, revenue increased by $105.2 million or 15% to $808.6 million in FY2017. EBITDA also increased by $43.7 million or 21% to $247.9 million. Previous investments in inventory and growth capital investments were the drivers behind a 52% increase in revenue at Regional One. Increased volumes in the Kivalliq region, targeted growth in Northwestern Ontario, higher activity levels for fixed wing and rotary aircraft related to fire suppression, evacuation and related services and increased volumes in Provincial's airline operations as a result of its partnership in Air Borealis also drove the increase in revenue. These increases were somewhat offset by lower revenue in Provincial's aerospace modifications programs as one program was completed in 2016 and some projects have shifted into future periods. The increase in revenue is responsible for generating the bulk of the increase in EBITDA. Previous investments in the northern cargo operations led to operational efficiencies and positively impacted margins

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[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 expensed, 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.

[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 and long-term deferred revenue, acquisition costs 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.

as well. Improved yields at Provincial, largely as a result of the investment in Air Borealis, have also led to an improvement in EBITDA.

The Manufacturing segment generated revenue of $204.4 million in FY2017, up $16.7 million or 9% from FY2016. EBITDA was down slightly in FY2017 compared to FY2016, decreasing by $0.7 million or 3% to $23.1 million. The addition of Quest midway through the fourth quarter of FY2017 increased both revenue and EBITDA and all entities within the segment with the exception of WesTower experienced growth in both revenue and EBITDA. WesTower continues to be negatively impacted by reduced capital spending by cellular carriers in WesTower's traditional services as they prepare for the next generation of technology. WesTower has implemented a number of measures to increase revenue, reduce costs and generate efficiencies which has mitigated the declines in its revenue and EBITDA.

On a consolidated basis, EIC generated Net Earnings of $72.2 million, or $2.33 per share (basic) for FY2017. These compare to $61.5 million, or $2.18 per share (basic), for FY2016. The growth was driven by the factors already discussed and by a gain of $3.9 million (after tax) on the disposal of the Corporation's partnership interest in Innu Mikun. These increases were partially offset by increased depreciation, interest and acquisition costs. In addition, income tax expense decreased by $2.4 million and the effective tax rate decreased to 24.3% from 29.3% in FY2017 compared to FY2016 as a result of the revaluation of the Corporation's deferred tax liabilities from the passing of decreasing tax rates in the US prior to December 31, 2017 and a shift in the proportion of earnings being generated in lower tax rate jurisdictions. Net Earnings per share improved by 7% or $0.15 over FY2016, even with a 10% year-over-year increase in the weighted average number of shares.

Adjusted Net Earnings for the period were $79.7 million, or $2.58 per share (basic) compared to $72.2 million or $2.56 per share (basic) for the comparative period. The growth was driven by the factors impacting Net Earnings, excluding the impact of the gain from disposal of the partnership interest in Innu Mikun and the increase in acquisition costs. Adjusted Net Earnings per share improved by 1% or $0.02 despite a 10% increase in the weighted average number of shares.

Review of Key Performance Measures for FY2017

Free Cash Flow for FY2017 totaled $191.1 million, up 16% from $164.2 million in FY2016. Free Cash Flow on a per share basis in FY2017 was $6.17 (basic), up 6% from $5.83 in FY2016 even with a 10% increase in the weighted average number of shares.

Maintenance Capital Expenditures were $99.2 million, up 37% from $72.6 million in FY2016. The increase is due to higher maintenance capital expenditures at Regional One as a result of an increase in depreciation tied to its larger lease portfolio of aircraft and higher maintenance capital expenditures within the Legacy Airlines and Provincial due to the higher number of large aircraft overhauls in FY2017 compared to FY2016.

Free Cash Flow less Maintenance Capital Expenditures in FY2017 was $91.9 million which is up from $91.6 million in FY2016. On a per share (basic) basis, Free Cash Flow less Maintenance Capital Expenditures was $2.97 per share in FY2017, down from $3.25 per share in FY2016.

The basic per share payout ratio based on Free Cash Flow less Maintenance Capital Expenditures increased to 71% for FY2017 from 61% in FY2016. The increase is a direct result of the higher Maintenance Capital Expenditures during the year. The Adjusted Net Earnings payout ratio was relatively stable, increasing to 81% in FY2017 from 78% in FY2016 as it is not impacted by the timing of the Maintenance Capital Expenditures.

EIC's complete financial statements and management's discussion and analysis for the three- and twelve-month periods ended December 31, 2017 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

Conference Call Notice

The Corporation will hold a conference call on February 22, 2018 at 8:30 a.m. ET with Mr. Mike Pyle, Chief Executive Officer, Ms. Carmele Peter, President, and Ms. Tamara Schock, Chief Financial Officer, to discuss its fourth quarter and fiscal 2017 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, March 1, 2018 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 5299476.

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 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 (including Bearskin Airlines), Keewatin Air, Calm Air International, Custom Helicopters, Regional One and Provincial Aerospace. 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 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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