Exchange Income Corporation Reports First Quarter 2017 Results

WINNIPEG, Manitoba – May 9, 2017 – Exchange Income Corporation (TSX:EIF) (the "Corporation" or "EIC"), a diversified, acquisition-oriented company focused on opportunities in the aerospace, aviation and manufacturing sectors, reported its financial results for the three-month period ended March 31, 2017. All amounts are in Canadian currency.

CEO Commentary

"We have established a long track record of revenue, earnings and dividend growth and in the first quarter we have executed on a plan that will facilitate extending that track record in 2017. While our financial results are essentially flat to last year with revenue up 2% and EBITDA down 2%, they are ahead of internal plan and we laid the ground work which will allow us to grow significantly in the balance of the year," stated Mike Pyle, CEO of Exchange Income Corporation.

"We operate our airlines in harsh environments in Canada's north, and the ability to maintain our aircraft on a timely and cost effective basis is fundamental to our success. We have always performed the overhaul of our smaller aircraft internally, while outsourcing the work on our ATR and Dash 8 aircraft. With the purchase of Provincial Aerospace in 2015 we acquired the ability to do this for all of our aircraft internally. In the first quarter of 2017 we executed on a plan to internalize all of these overhauls and did so very successfully. Not only did this reduce the costs of these overhauls as we don't have to pay a profit margin to a third party, but more importantly it allowed us to control the timing of the overhauls and schedule them during the slower winter season when winter roads provide an alternate means of transportation to our customers. This plan was not without cost, as we contracted third party carriers at a cost of over $3 million to help us ensure that customer service was maintained at a high level during this period. Had we chosen to spread these overhauls over the busier summer months, the cost of third party charters would have been much higher and service levels would have been at significant risk. The third party aircraft were returned in early April and the overhaul program for 2017 will be largely complete in the second quarter. This will free up our fleet for the busy period in the last two-thirds of the year."

Mr. Pyle added, "Although we always encounter adverse weather conditions in the first quarter, this year was particularly challenging in both Central and Atlantic Canada with 735 more cancelled flights than in the first quarter of 2016. This had an EBITDA impact of approximately $1 million in the quarter.

"Regional One continued its significant growth with EBITDA up 27% as it monetized the impact of its growing lease and parts portfolios. Prior investments in aircraft in 2016 together with a further net purchase of four aircraft in 2017 will not only allow the continuation of this trend, but accelerate it. We are also pleased to see growth in our Manufacturing segment at Stainless and Alberta Operations in particular, as the US economy and the oil and gas segment begin to recover. Keewatin was awarded the medevac contract for the Kitikmeot region of Nunavut giving it all three regions in Nunavut. Work is expected to begin on this contract in the fourth quarter.

"In short, while the first quarter results did not match the unique circumstances that drove exceptional results in the first quarter of 2016, we exceeded our internal plan. More importantly the quarter was very significant from a strategic point of view which will be evident in our results for the balance of 2017."

Q1 2017 Financial and Operating Highlights

- Consolidated revenue was $222.5 million, up 2%.
- Consolidated EBITDA declined 2% to $43.3 million largely due to the impact of one-time third party charter costs, adverse weather conditions across Canada, and the strong Canadian dollar during the first quarter.
- Depreciation expense is $27.5 million, up 27%, as a result of previous growth capital investments at Regional One.
- Adjusted net earnings were $7.8 million or $0.25 per share.
- Net earnings were $5.6 million or $0.18 per share.

- Free Cash Flow was $33.8 million.
- Free Cash Flow less maintenance capital expenditures was $6.4 million, or $0.21 per share.
- Growth capital investments totaling $59 million were made largely to expand Regional One's portfolio of operating aircraft as well as to increase Perimeter and Calm Air's fleet of aircraft.
- Closed a bought deal equity offering with gross proceeds of $98 million from the issuance of 2,303,450 shares priced at $42.45 per share. The net proceeds were used to make a repayment against the Corporation's credit facility.
- Expanded the Corporation's syndicated credit facility by $200 million to $750 million and extended the maturity to 2021.
- Keewatin was awarded a five-year medevac contract in the Kitikmeot region of Nunavut.

Selected Financial Highlights
(All amounts in thousands except % and share data)

	Q1 2017	Q1 2016	Net Change	% Change
Revenue	$222,528	$217,898	$4,630	2%
EBITDA[1]	$43,348	$44,331	($983)	-2%
Net Earnings	$5,559	$9,873	($4,314)	-44%
per share (basic)[2]	$0.18	$0.36	($0.18)	-50%
Adjusted Net Earnings[3]	$7,808	$12,008	($4,200)	-35%
per share (basic)	$0.25	$0.43	($0.18)	-42%
Free Cash Flow[4]	$33,789	$34,890	($1,101)	-3%
per share (basic)	$1.09	$1.26	($0.17)	-13%
Maintenance Capital Expenditures	$27,409	$18,089	$9,320	52%
Free Cash Flow less Maintenance Capex	$6,380	$16,801	($10,421)	-62%
per share (basic)	$0.21	$0.61	($0.40)	-66%
Payout Ratio (basic)	250%	79%	n/a	n/a
Dividends declared	$16,335	13,258	$3,077	23%

Review of Q1 Financial Results
Consolidated revenue for Q1 2017 was $222.5 million, up 2% from $217.9 million for Q1 2016. The increase was due to a number of factors, including the strong performance by Regional One, which continued to monetize its recently expanded portfolio of assets, growth within Legacy airlines, and modest recovery within the Manufacturing segment, particularly at Stainless and at the Alberta Operations. Consolidated revenue growth was tempered, however, by declines experienced by Provincial due to the completion of an aerospace modification contract at the end of 2016, and by WesTower, which was impacted by delays in customer capital spending due to the timing of the rollout of new wireless technology.

[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 Company and its segments.

[2] The Corporation had 31.1 million common shares outstanding at March 31, 2017, up from 27.6 million at March 31, 2016. The growth is mainly due to the $98 million equity offering completed on January 4, 2017 and convertible debenture conversions throughout 2016. See the Corporation's Management Discussion & Analysis, Section 6 – *Liquidity and Capital Resources* for additional information relating all changes in the common shares outstanding.

[3] 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 one-time non-cash accelerated accretion charges as a result of convertible debenture redemptions.

[4]Free Cash Flow is a financial metric used by Management to assess the Company'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 long-term deferred revenue, and any unusual non-operating one-time items. It is not a recognized measure under IFRS.

On a segmented basis, the Aerospace & Aviation segment, which consists of Legacy Airlines[5], Regional One and Provincial Aerospace, generated revenue in Q1 2017 of $177.0 million, up $3.5 million, or 2%, from last year.

The Manufacturing segment generated revenue of $45.5 million in Q1 2017, up $1.1 million, or 2%, from Q1 2016. The year-over-year revenue gain was largely as a result of improving conditions within the Alberta Operations and the strengthening of the US economy.

Consolidated EBITDA for Q1 2017 was $43.3 million, down $1.0 million, or 2%, from Q1 2016. The modest decline was driven by a number of factors, including the impact of inclement winter conditions that resulted in the highest number of flight cancellations in the Corporation's history, third party charter costs associated with the Corporation's strategic decision to perform as much overhaul work on its own aircraft during the seasonally slow first quarter, higher fuel costs for the aviation companies and the impact of the stronger Canadian dollar. EBITDA declines were largely offset by the gains experienced by Regional One, which continued to have strong growth in revenue and EBITDA margins due to the ongoing monetization of its expanded portfolio of aircraft, engines and parts.

On a segmented basis, the Aerospace & Aviation segment generated EBITDA of $42.8 million in Q1 2017, relatively flat when compared to the $43.6 million generated in the same period last year. The Aerospace & Aviation segment's EBITDA margin for Q1 2017 was 24.2%, down from 25.1% last year when Legacy airlines enjoyed an extremely strong quarter due to increased demand for medevac transportation services and relatively mild weather conditions.

The Manufacturing segment generated EBITDA of $4.7 million in Q1 2017, up 3% from $4.5 million in Q1 2016. The Manufacturing segment's EBITDA margin for Q1 2017 was 10.3% compared to 10.2% for Q1 2016. Growth was particularly strong within Stainless from field services projects, and partially offset by WesTower, which continues to be impacted by customer delays in capital spending.

On a consolidated basis, EIC generated net earnings of $5.6 million, or $0.18 per share (basic) for Q1 2017. This compares to $9.9 million, or $0.36 per share (basic) for Q1 2016. The year-over-year decline was due to a number of factors, including lower EBITDA already cited and a $5.8 million increase in depreciation expense as a result of previous growth capital investments made largely in Regional One to expand its portfolio of operating aircraft available for lease. The year-over-year decline in net earnings on a per share basis was also impacted by the 12% increase in the number of shares following the successful completion of the Corporation's bought deal financing early in 2017 and the impact of convertible debenture conversions throughout 2016.

Excluding the net impact of acquisition costs and the amortization of asset intangibles, EIC generated adjusted net earnings of $7.8 million, or $0.25 per share (basic) for Q1 2017. These compare to $12.0 million and $0.43, respectively, for Q1 2016.

Review of Key Financial Metrics

Free Cash Flow for Q1 2017 totaled $33.8 million, down from $34.9 million for Q1 2016. The decline was due to lower EBITDA and higher interest costs, though partially offset by lower taxes. Free Cash Flow on a per share basis in Q1 2017 was $1.09 (basic), down 13% from $1.26 (basic) from last year.

Maintenance Capex[6] was $27.4 million, up 52% from $18.1 million. The Corporation made a strategic decision to perform as much maintenance as possible during the seasonally slow first quarter to prepare its fleet for the busy period in the last two-thirds of the year. As discussed in the 2016 annual report, 2017 is expected to be a higher year for maintenance capital expenditures. This is expected to persist in the second quarter and then return to or below historical levels for the Corporation's operating airlines.

[5] The Legacy Airlines include the operations of Calm Air, Perimeter, Keewatin, Bearskin, Custom Helicopters and other aviation supporting businesses within the Aerospace & Aviation segment.

[6] 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 Company at its current level and includes principal payments made on finance leases.

Free Cash Flow less Maintenance Capex[7] was $6.4 million, or $0.21 per share (basic), for Q1 2017. These compare to $16.8 million and $0.61, respectively, for Q1 2016.

In Q1, EIC invested $58.8 million in growth capital expenditures, up $30.9 million from last year. The investments were made within the Aerospace & Aviation segment largely to grow Regional One's portfolio of CRJ900 aircraft, continue the construction of a maritime surveillance capability demonstrator aircraft for Provincial and add aircraft to Legacy Airlines' capacity aimed at supporting the expansion of service in northwestern Ontario.

EIC's payout ratio for Q1 2017 was 250% based on Free Cash Flow less maintenance capital expenditures per share. EIC's profitability and payout ratio are weakest in the first quarter given the impact that weather conditions and winter roads have on demand for Legacy Airlines' passenger and cargo transportation services. EIC's payout ratio on a trailing 12-month basis was 73%, which is consistent with the Corporation's historic norms and is expected to decline in the balance of 2017.

Working Capital

As at March 31, 2017, EIC had a net cash position of $21.1 million and net working capital of $198.6 million, which represents a current ratio of 2.27 to 1. These compare to a net cash position of $26.5 million and net working capital of $178.5 million, or a current ratio 2.05 to 1, at December 31, 2016. This increase was driven by Regional One as it made significant investments in its inventory of parts for resale, including aircraft that are scheduled for part out.

Outlook

"Our outlook for organic growth continues to be favorable for both of our segments in the near term," said Mr. Pyle. "We expect that Regional One will continue its established track record of profitable growth in the balance of 2017, taking advantage of investments made in 2016 and to date in 2017. The internalization of our aircraft maintenance, the addition of new aircraft and the elimination of third-party costs will also benefit our Legacy airlines, particularly as we continue to expand into northwestern Ontario.

"Within our Manufacturing segment, the ongoing upturn in activity levels in the oil and gas industry is expected to result in higher demand for products and services for our Alberta Operations, while improving economic conditions in the US are expected to be favorable for our Stainless operations. This will be tempered by weak demand in the telecommunications industry."

Mr. Pyle concluded, "We remain very committed to growth through disciplined acquisitions and continued investment in our existing operations. Our strong balance sheet and the financial capacity resulting from our equity raise and the expansion of our credit facility leave us well positioned to benefit from the strategic decisions made in the first quarter with over $325 million of available capital. We continue to expect that our performance for 2017 will materially exceed that of the prior year."

The Company's complete interim financial statements and management's discussion and analysis for the three month period ended March 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 May 10, 2017 at 9:00 a.m. ET with Mike Pyle, CEO, Ms. Carmele Peter, President, and Ms. Tamara Schock, CFO to discuss its 2017 first 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, May 18, 2017 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 7913686.

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.

[7] Free Cash Flow less Maintenance Capex is not an IFRS measure.

About Exchange Income Corporation

Exchange Income Corporation is a diversified acquisition-oriented company, focused in two sectors: aerospace and 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 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 of Overlanders, Water Blast, Stainless Fabrication, WesTower Communications in Canada and Ben Machine. 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).

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