Exchange Income Corporation

Exchange Income Corporation Reports Record EBITDA, Higher Dividends and Lower Payout Ratio in Second Quarter

WINNIPEG, Manitoba – August 8, 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 six-month periods ended June 30, 2018. All amounts are in Canadian currency.

CEO Commentary

"The benefits of our diversification strategy proved instrumental in EIC continuing our strong track record of profitable growth in the second quarter," remarked Mike Pyle, the CEO of EIC. "Our Manufacturing segment propelled us to record quarterly highs for revenue and EBITDA. At the same time, our Free Cash Flow less Maintenance Capital Expenditures payout ratio improved to 58% for the quarter from 75% and to 64% from 80% for the trailing twelve months."

"While the big story for the quarter was Quest continuing to generate returns that are above our expectations, we experienced strong organic growth in the remainder of the Manufacturing segment. The Aerospace & Aviation segment also had modest growth over Q2 2017's record performance, overcoming higher fuel costs and a very tight labour market."

"The capital markets continue to recognize EIC's strength, as the Corporation successfully closed a bought deal offering of $80.5 million of convertible unsecured subordinated debentures during the quarter, which included the exercise of the full $10.5 million over-allotment option granted to the underwriters," stated Tamara Schock, EIC's CFO. "The proceeds from this offering were used to redeem our 7 year convertible unsecured subordinated debentures that were set to expire on March 31, 2020. We also increased the size of our credit facility and extended its term. The result of these transactions is that we now have no refinancing requirements until 2021, we have reduced the potential dilution from debenture conversions and we have approximately $350 million in available capital."

Q2 2018 Financial and Operating Highlights

- Consolidated revenue was $313.4 million, up 15%
- Consolidated EBITDA increased 7% to $75.1 million
- Adjusted Net Earnings increased by 5% to $25.2 million
- Adjusted Net Earnings per basic share was $0.80, an increase of 4%
- Declared dividends of $17.4 million, an increase of 6%
- Trailing Twelve Month Adjusted Net Earnings payout ratio strengthened to 77% from 87% at Q2 2017
- Quarterly Adjusted Net Earnings payout ratio remained constant at 68%, the same as in Q2 2017
- Free Cash Flow was $58.8 million, up 14%
- Free Cash Flow less Maintenance Capital Expenditures was $29.7 million, up 36%
- Trailing Twelve Month Free Cash Flow less Maintenance Capital Expenditures payout ratio strengthened to 64% from 80% at Q2 2017
- Quarterly Free Cash Flow less Maintenance Capital Expenditures payout ratio improved to 58% from 75% in Q2 2017
- Completed the previously-announced partnership with Wasaya Group
- Amended the Corporation's credit facility to increase its size and extend its term
- Closed an $80.5 million bought deal offering of 7 year, 5.35% unsecured subordinated debentures convertible at $49.00 per share due June 30, 2025

Highlights Subsequent to Quarter End

- Redeemed its 7 year 5.35% convertible unsecured debentures which were to mature on March 31, 2020
- Entered into a five year medevac contract with the Nunavut government to service the Kivalliq region, resulting in Keewatin providing medevac services to all three Nunavut regions under long term contracts

Selected Financial Highlights

(All amounts in thousands except % and share data)

	Q2 2018	Q2 2017	% Change	YTD 2018	YTD 2017	% Change
Revenue	$313,449	$273,145	+ 15%	$579,476	$495,673	+ 17%
EBITDA[1]	$75,071	$70,071	+ 7%	$129,084	$113,419	+ 14%
Net Earnings	$19,547	$25,779	- 24%	$28,161	$31,338	- 10%
per share (basic)	$0.62	$0.83	- 25%	$0.89	$1.01	- 12%
Adjusted Net Earnings[2]	$25,208	$23,943	+ 5%	$38,140	$31,751	+ 20%
per share (basic)	$0.80	$0.77	+ 4%	$1.21	$1.02	+ 19%
Trailing Twelve Month Adjusted Net Earnings Payout Ratio (basic)	77%	87%				
Free Cash Flow[3]	$58,785	$51,731	+ 14%	$99,381	$85,520	+ 16%
per share (basic)	$1.86	$1.66	+ 12%	$3.15	$2.75	+ 15%
Maintenance Capital Expenditures[4]	$29,106	$29,889	- 3%	$59,860	$57,298	+ 4%
Free Cash Flow less Maintenance Capital Expenditures	$29,679	$21,842	+ 36%	$39,521	$28,222	+ 40%
per share (basic)	$0.94	$0.70	+ 34%	$1.25	$0.91	+ 37%
Trailing Twelve Month Free Cash Flow less Maintenance Capital Expenditures Payout Ratio (basic)	64%	80%				
Dividends declared	$17,357	$16,310	+ 6%	$34,090	$32,645	+ 4%

Review of Q2 Financial Results

Consolidated revenue for Q2 2018 was $313.4 million, an increase of $40.3 million or 15% over Q2 2017. Consolidated EBITDA for the same period was $75.1 million, up $5.0 million or 7%. The gains were driven by increases in the Manufacturing segment arising from both acquisitions and organic growth.

Within the Aerospace & Aviation segment, revenue increased by $6.4 million or 3% to $233.4 million. The segment's EBITDA declined by $3.0 million, which was the result of the impact of the stronger Canadian dollar, higher fuel prices, tight labour markets and a labour dispute at a key customer. Results at Regional One declined marginally in US dollars from the record level of Q2 2017.

[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.

The Manufacturing segment generated revenue of $80.0 million in Q2 2018, up $33.9 million or 73%. EBITDA also increased during the second quarter of 2018 compared to the second quarter of 2017, up $9.8 million or 204% to $14.5 million. While the addition of Quest is the single largest contributor to these increases, the remainder of the Manufacturing segment also experienced growth in revenue, which led to a 49% increase in EBITDA in these subsidiaries.

Adjusted Net Earnings for the period was $25.2 million, or $0.80 per share (basic) compared to $23.9 million or $0.77 per share (basic) for the comparative period. The growth was driven by stronger operating performance.

On a consolidated basis, EIC generated Net Earnings of $19.5 million, or $0.62 per share (basic) for the three month period ended June 30, 2018. These compare to $25.8 million, or $0.83 per share (basic), for the second quarter in 2017. The decline is due to a one-time after tax $3.9 million gain on disposal of the Corporation's partnership interest in Innu Mikun in the comparative period, higher non-cash intangible asset amortization as a result of the acquisitions of Quest and Moncton Flight College and $2.2 million of accelerated, non-cash accretion expense relating to the early redemption of the Corporation's 2020 unsecured convertible debentures

Review of Financial Results for the 6 Month Period

On a year-to-date basis, EIC's consolidated revenue for the first six months of 2018 was $579.5 million, up 17% from $495.7 million in the first six months of 2017. Consolidated EBITDA for the first six months of 2018 was $129.1 million, up 14% from $113.4 million in the first six months of 2017. Net Earnings for the first six months of 2018 was $28.2 million, or $0.89 per share (basic), down from $31.3 million, or $1.01 per share (basic), for the first six months of 2017. Adjusted Net Earnings for the first six months of 2018 was $38.1 million, up 20% from $31.8 million in the first six months of 2017. Adjusted Net Earnings per share (basic) for the period was $1.21, up 19% from $1.02 per share in 2017.

Review of Key Performance Measures for Q2

Free Cash Flow for Q2 2018 totaled $58.8 million, up 14% from $51.7 million in Q2 2017. Free Cash Flow on a per share basis was $1.86 (basic), up 12% from $1.66.

Maintenance Capital Expenditures was $29.1 million during the three months ended June 30, 2018, down 3% from $29.9 million during the comparative period. The decrease is consistent with our expectations and is related to the timing of maintenance events.

Free Cash Flow less Maintenance Capital Expenditures in the second quarter of 2018 was $29.7 million, which is up 36% from $21.8 million in the second quarter of 2017. On a per share (basic) basis, Free Cash Flow less Maintenance Capital Expenditures was $0.94 per share, up 34% from $0.70 per share.

The basic per share payout ratio based on trailing twelve month Adjusted Net Earnings improved during the quarter, from 87% at June 30, 2017 to 77% at June 30, 2018. The trailing twelve month Free Cash Flow less Maintenance Capital Expenditures payout ratio also improved to 64% at June 30, 2018 from 80% at June 30, 2017. 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.

Outlook

"The latter half of the year promises to be a very busy and exciting period for the Corporation," stated Mr. Pyle. "The business continues to perform in accordance with our expectations and I do not see that changing over the next six months. We are not without challenges, however. Fuel price escalation and aviation labour shortages are creating some headwinds for our aviation businesses. We are therefore implementing initiatives and strategies to address both of these items. The pilot pathway strategy with the addition of Moncton Flight College gives us a unique competitive advantage within the industry. We also have opportunities, with Quest and our other manufacturing companies performing strongly. From a longer term perspective, the completion of the new US facility for Quest and the ongoing process of implementing the pilot recruitment and retention strategy will be key priorities for us."

EIC's complete interim financial statements and management's discussion and analysis for the three- and six-month period ended June 30, 2018 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

Conference Call Notice
The Corporation will hold a conference call to on August 9, 2018 at 8:30 a.m. ET with Mike Pyle, CEO, Ms. Carmele Peter, President, and Ms. Tamara Schock, CFO to discuss its second quarter 2018 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 August 16, 2018 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 7590307.

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 by 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 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.

For further information, please contact:

Mike Pyle	Trevor Heisler
Chief Executive Officer	Investor Relations
Exchange Income Corporation	NATIONAL Equicom
(204) 982-1850	(416) 848-1434
MPyle@eig.ca	theisler@national.ca