Exchange Income Corporation

Exchange Income Corporation Reports Financial Results for Q2 2014
EBITDA grows 11% to $27.8 million; WesTower's EBITDA margins improve to 4.9%

WINNIPEG, Manitoba – August 12, 2014 – Exchange Income Corporation (TSX: EIF) (the "Corporation" or "Exchange"), a diversified, acquisition-oriented company focused on opportunities in three sectors (aviation services and equipment, metal manufacturing, and infrastructure services), reported its financial results for the three and six month periods ended June 30, 2014. All amounts are in Canadian currency.

"The purpose of Exchange has always been to build a diversified dividend paying company," said Mike Pyle, CEO of Exchange Income Corporation. "The recent acquisition of many turfing contracts by WesTower US has resulted in explosive revenue growth, which has rendered us no longer effectively diversified since WesTower US now dominates our revenue base. As a result, we have devoted a great deal of time and resources in the past 18 months managing this growth in a way that also contributes to increased profitability. Our second quarter results demonstrate that we are well on track to meeting our goal of restoring margins at WesTower US to historical levels."

Mr. Pyle added, "The revenues at WesTower were relatively stable but the improvements in EBITDA and EBITDA margin show the benefits continuing to be realized from the investments made into that business. EBITDA generated by WesTower increased by almost 150% over the comparative period and approximately 220% over the previous quarter's results of 2014. In addition, EBITDA margins climbed to 4.9% from 1.6% generated in the previous quarter. Given the Canadian operations are a consistent performer, the increases are attributed to the improvements in WesTower's US operations."

"Cash flows generated by WesTower allowed it to return invested capital of approximately US$15 million to the parent company in the second quarter," said Ms. Carmele Peter, President of the Corporation. "In addition to WesTower's improvements, recent investments made in other businesses, including Regional One and Calm Air, have shown marked increases in both revenue and EBITDA over the comparative period."

Ms. Peter added, "The success enjoyed by WesTower, Regional One and Calm Air allowed us to offset very unseasonable weather faced by our other subsidiaries, illustrating the benefits of a diversification model. To address challenges specifically impacting Bearskin, we advanced the implementation of a restructuring plan, incurring a restructuring charge of $1.3 million and additional depreciation of $0.7 million. The plan, which is designed to eliminate unprofitable routes and identify new growth opportunities, is expected to yield improved Aviation segment results in the quarters ahead."

Q2 2014 Highlights

- While consolidated revenue was $274.5 million, flat from Q2 2013, consolidated EBITDA was $28.4 million[1], up 14%.
- WesTower increased EBITDA by 169% to $8.8 million[1].
- Regional One contributed EBITDA of $5.8 million, up 60%.
- Calm Air contributed EBITDA of $4.9 million, up 46%
- Implemented a restructuring plan at Bearskin aimed at improving profitability resulting in a restructuring charge of $1.3 million and $0.7 million of additional depreciation.
- Net income was $4.1 million, down from $5.7 million, largely as a result of the Bearskin restructuring.
- WesTower signed a new services contract with a major North American telecommunications provider valued at up to US$100 million to support this multi-year initiative.
- Received full repayment of loan made to First Nations economic partner.

Subsequent to quarter-end, the Corporation strengthened its executive management team to position it for continued growth and diversification. The changes included appointing Ms. Carmele Peter as President, naming Mr. Edward Mahood as the new Chief Financial Officer, Mr. Darwin Sparrow added the

[1] Excludes a $0.6 million of insurance deductible costs associated with a destroyed building from a tornado.

title of Executive Vice President to his Chief Operating Officer title in Manufacturing, and Mr. Adam Terwin moved into the role of Chief Corporate Development Officer overseeing acquisitions and strategic growth initiatives.

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

	Q2 2014	Q2 2013	Change	FY2014 YTD	FY2013 YTD	Change
Revenue	$274,500	$275,680	0%	$531,979	$495,252	+7%
EBITDA[2]	$27,812	$24,968	+11%	$47,269	$42,561	+11%
Net Earnings	$4,122	$5,732	-28%	$4,289	$7,318	-41%
Adjusted Net Earnings[3]	$5,866	$6,579	-11%	$6,251	$9,234	-32%
Earnings per Share[4] (fully diluted)	$0.19	$0.27	-30%	$0.19	$0.35	-46%
Adjusted Earnings per Share (fully diluted)	$0.26	$0.31	-16%	$0.28	$0.44	-36%
Dividends declared	$9,277	$9,012	+3%	$18,413	$17,729	+4%

Review of Financial Results

Consolidated revenue for Q2 2014 was $274.5 million, consistent with Q2 2013. In prior quarters, Calm Air has invested in infrastructure and fleet rationalization. These investments are now showing significant improvements to both volume and profitability. Regional One's revenue and profitability experienced significant increases in the quarter as it continues to grow its business through strategic investment. Bearskin was restructured in order to improve profitability by removing certain routes in the highly competitive eastern Canadian market. The route cancellation reduced revenues this quarter, but will ultimately improve profitability going forward. Although WesTower's revenues were slightly behind the comparative period, it was still its second highest quarter ever. The operational changes at WesTower have resulted in a significant improvement in profitability.

Effective January 1, 2014, the Corporation introduced a new reporting segment to its operations called Infrastructure. The Infrastructure segment currently consists of WesTower Communications, which previously was part of the Manufacturing segment. The Aviation segment remains unaffected by the changes to segment composition. The segment changes, which were aimed at providing greater visibility into the performance at WesTower and the remaining subsidiaries within the Manufacturing segment, have no impact on the Corporation's consolidated financial results.

On a segmented basis, the Infrastructure segment generated revenue in Q2 2014 of $167.6 million, down 3% from Q2 2013. The current period's revenue is the second highest quarterly revenue generated by this segment since inception, only slightly trailing the comparative Q2 2013. The revenue generated from both the Canadian and US markets continued to grow from Q1 2014, with an increase of 7%. In Q2 2014, the Infrastructure segment generated 61.1% of the consolidated revenue compared to 62.6% in Q2 2013.

The Aviation segment generated revenue in Q2 2014 of $83.3 million, up 3% from Q2 2013. The growth was partially due to strong sales by Regional One, which contributed revenue of $16.1 million, up 85% from Q2 2013 when it was acquired. Calm Air also contributed strong revenue growth, up 17% from Q2 2013 as a result of the investments made by the Corporation into its infrastructure and aircraft fleet over the last several quarters. These positive contributions were offset by a number of contributing factors, including Bearskin's restructuring and the cancellation of certain unprofitable routes, and unfavorable weather. The decline for services for the mining sector continued from previous periods but the lack of fire

[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. This includes $0.6 million of insurance deductible costs associated with a destroyed building from a tornado.

[3] Q2 2014 adjusted net earnings excludes acquisition costs expensed, asset impairment and restructuring costs, contingent consideration liability fair value adjustments, less applicable taxes.

[4] Exchange had 22.1 million common shares outstanding at June 30, 2014, up from 21.5 million at June 30, 2013. The growth is due to an increase in the conversion of debentures, shares issued under the dividend reinvestment plan, and the issuance of shares in support of financing acquisition activities.

related evacuation and support services was a more significant factor. The 2014 period has seen the slowest start of fire season in decades. Manitoba's long winter and wet spring and summer have significantly reduced demand for the fire related services provided by our Aviation segment. In Q2 2014, the Aviation segment generated 30.3% of the consolidated revenue compared to 29.4% in Q2 2013.

The Manufacturing segment generated revenue of $23.5 million in Q2 2014, up 6% from Q2 2013. The increase came from all three areas within the segment and was a result of an increase in demand for those companies' products and services. The Stainless operations experienced higher shop volumes and lower field volumes, which impacted its margins. The backlog for field work has been soft since the end of 2013 but has shown improvement in late Q2 2014. They still lack any large scale field projects which Stainless has had in previous years. In Q2 2014, the Manufacturing segment generated 8.6% of the consolidated revenue compared to 8.0% in Q2 2013.

Consolidated EBITDA for Q2 2014 was $27.8 million, up 11% from Q2 2013. This includes $0.6 million of insurance deductible costs associated with a building destroyed by a tornado. Excluding these costs EBITDA would have increased to $28.4 million (up 14% from Q2 2013). The improvement was largely due to the success of initiatives implemented at WesTower to restore profitability to historical margin levels, improvements at Calm Air, and further growth at Regional One. These EBITDA gains were partially offset by the impact of inclement weather faced by the other Aviation segment subsidiaries. Higher foreign exchange charges due to the fluctuation of the Canadian currency and increased head office expenses also impacted consolidated EBITDA performance.

On a segmented basis, the Infrastructure segment generated EBITDA of $8.2 million in Q2 2014, up 149% from Q2 2013. The second quarter marked the third consecutive quarter of margin improvement at WesTower since a series of initiatives and senior management changes were implemented aimed at increasing profitability. In Q2 2014 EBITDA margins for the Infrastructure segment were 4.9% as compared to 1.6% in the previous quarter (1.9% in Q2 2013). The current period included $0.6 million of insurance deductible expenses associated with the destruction of a WesTower building by a tornado. Without this cost, the segment's EBITDA margin would increase by another 0.4%. Consistent with previous guidance, the Corporation expects WesTower to continue to build on these improved margins throughout the remainder of 2014 to bring the business to historical EBITDA margin ranges.

The Aviation segment generated EBITDA of $18.8 million in Q2 2014, down 3% from Q2 2013. Strong contributions by Regional One and Calm Air were offset by weather related issues experienced throughout the first and second quarter. A long winter resulted in a decreased demand for freight, as a greater portion was moved over the winter roads than in a typical year. In addition to the long winter, our markets experienced a wet spring and summer eliminating the need for fire suppression and evacuation services. Combined, these weather related factors reduced EBITDA by approximately $3 million Q2 2014. Aviation segment EBITDA margins for Q2 2014 were 22.6% compared to 23.9% in Q2 2013.

The Manufacturing segment generated EBITDA of $3.9 million in Q2 2014, down 5% from Q2 2013. The modest decline is largely due to the softer market continuing for Stainless' customized steel products manufactured in its field operations. EBITDA margins for the Manufacturing segment in Q2 2014 were 16.5% as compared to 18.4% in Q2 2013.

During Q2 2014, the Company implemented a restructuring plan at Bearskin that saw the elimination of certain routes as well as a reduction in personnel and other costs. The restructuring plan, which resulted in a restructuring charge of $1.3 million and $0.7 million of additional depreciation, was designed to enable Bearskin to focus on more profitable markets. It is expected that Bearskin's restructuring plan will result in improved profitability for the Aviation segment in periods ahead.

The Corporation reported net earnings for Q2 2014 of $4.1 million or $0.19 per basic share. This compares to $5.7 million or $0.27 per basic share in Q2 2013. Consistent with earlier discussion, the decline was largely due to the Bearskin restructuring related costs, higher head office related costs and margin pressures faced by Aviation segment companies due to inclement weather in select markets.

Adjusted net income for Q2 2014 was $5.9 million or $0.27 per basic share. In the comparative period of 2013, Exchange had adjusted net earnings of $6.6 million or $0.31 per basic share.

On a year-to-date ("YTD") basis, the Corporation's consolidated revenue for FY2014 YTD was $532.0 million, up 7% from FY2013 YTD. Consolidated EBITDA for FY2014 YTD was $47.3 million, up 11% from FY2013 YTD. Net earnings for FY2014 YTD were $4.3 million, down 41% from FY2013 YTD. Year-to-date performance for 2014 was significantly impacted by adverse winter conditions in Q1 2014 that impacted each of the Corporation's segments, particularly the Aviation segment companies. Adjusted net earnings for FY2014 YTD of $6.3 million is down by 32% from FY2013 YTD.

At June 30, 2014, the Corporation had working capital of $267.2 million, including cash and cash equivalents of $16.4 million, which represents a current ratio of 2.11 to 1. These compare to net working capital of $256.6 million, a net cash position of $23.2 million, and a current ratio of 2.23 to 1, at December 31, 2013.

Selected Key Performance Indicators (All amounts in thousands except % and share data)

	Q2 2014	Q2 2013	Change	FY2014 YTD	FY2013 YTD	Change
Free Cash Flow[5]	$21,530	$19,636	+10%	$35,792	$33,048	+8%
Free Cash Flow per basic share	$0.98	$0.92	+7%	$1.63	$1.56	+4%
Total Maintenance Capex[6]	$10,175	$8,575	+19%	$21,862	$16,530	+32%
Free Cash Flow less Maintenance Capex[7]	$11,355	$11,061	+3%	$13,930	$16,518	-16%
Free Cash Flow less Maintenance Capex (per basic share)	$0.52	$0.52	0%	$0.64	$0.78	-18%
Dividends Declared	$9,277	$9,012	+3%	$18,413	$17,729	+4%
Free Cash Flow less Maintenance Capex Payout Ratio	81%	81%		131%	108%	

Given its operations and commitment to stable dividend payments to shareholders, Exchange currently uses a number of key performance indicators, most notably Free Cash Flow and Free Cash Flow less maintenance capital expenditures, to evaluate its progress and assess its ability to sustain its dividend policy. As detailed previously, it is important to understand that there is substantial seasonality to the Company's business with the first quarter having lower revenues and profitability and as a result of reporting under IFRS, maintenance capital expenditures fluctuate from period to period. As a result of the variability in the maintenance capital expenditures under IFRS, Free Cash Flow is a better metric than Free Cash Flow less maintenance capital expenditures as a measure to compare quarterly changes of ongoing operating performance. This metric will not have the variability of the lumpy capital expenditures and therefore will give a better indication of the performance of the underlying operations and the trend in performance. Maintenance capital expenditures are variable under IFRS because overhaul maintenance for aircraft engines and airframe heavy checks that were previously accrued in advance are treated as capital expenditures when the event takes place under IFRS. Free Cash Flow less maintenance capital expenditures is still an important operating metric; however, it will be subject to lumpy quarterly and annual changes as a result of the maintenance capital expenditures and therefore needs to be evaluated over longer operating periods.

Free Cash Flow for Q2 2014 totaled $21.5 million, up 10% from Q2 2013. Free Cash Flow on a basic per share basis in Q2 2014 was $0.98 per share basic, up from $0.92 from Q2 2013. The increase in Free Cash Flow was largely due to improved EBITDA generated at WesTower and Regional One.

[5] Free Cash Flow is a financial metric used by Management to assess the Corporation's performance and assess its ability to sustain its dividend policy. 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.

[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.

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

Free Cash Flow less Maintenance Capex was $11.4 million or $0.52 per basic share in Q2 2014. This compares to $11.1 million, or $0.52 per basic share, for Q2 2013. Maintenance Capex increased in Q2 2014 by 19% to $10.2 million mainly as a result of the increase in Regional One which represents the replenishment of its lease portfolio and the growth in that business.

Outlook

"Our recent focus has been to more effectively manage our growth opportunities and increase profitability, particularly at WesTower," said Mr. Pyle. "While we anticipated that our efforts would take time to materialize, we are now seeing strong evidence that the measures we implemented are working. Through continued effort, we expect this steady progress to continue through 2014 and beyond. Although further improvement will be required before we can consider an increase to our dividend, we are confident in our ability to maintain it at its current level."

Mr. Pyle added, "We are very bullish on organic growth prospects and believe that our expanded management team positions us to capitalize on emerging opportunities. In particular, demand within the wireless industry for cell phone towers and equipment shows no signs of slowing down over the longer term, including the recent award of a contract for WesTower US with a value of up to US$100 million over multiple years. We are also seeing opportunities to expand Regional One's portfolio of assets since its business has been able to produce approximately $24 million of EBITDA in the trailing twelve months on an original investment of under $90 million. Challenges in the airlines from the weather are short term in nature and do not reflect a change to the basic profitability of these businesses or our competitive position."

"We have always proudly and strategically partnered with our First Nation customers. The Company's subsidiaries currently work with the Tribal Council Investment Group ("TCIG") on a contract servicing Hydro One in northwestern Ontario. As a result of this contract, the Company made an advance to TCIG which totaled $5.8 million at December 31, 2013. TCIG retired this advance in full during the second quarter. Exchange is proud of our relationship with our First Nation customers and it is a substantial value add component to our northern aviation brands."

"The recent appointment of Adam Terwin to head up our corporate development activities means that we have re-energized our commitment to grow by acquisitions. With approximately $140 million in deployable funds available in our credit facility, we continue to seek quality companies that match our acquisition criteria, including the ability to generate steady cash flow and operate in niche markets."

"The dividend payout ratio was 81% for the current period, which is consistent with the comparative period. While further improvement will be required before we can consider an increase to our dividend, we are very confident in our ability to maintain the dividend at its current level."

The Corporation's complete financial statements and management's discussion and analysis for the three and six months ended June 30, 2014 can be found at www.ExchangeIncomeCorp.ca or at www.sedar.com.

Conference Call Notice

Exchange Income Corporation will hold a conference call on August 13, at 10:00 a.m. ET with key members of senior management to discuss 2014 second 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 Wednesday, August 20, 2014 at midnight. To access the archived conference call, please dial 1-855-859-2056 or 416-849-0833 and enter the reservation code 67413513.

A live audio webcast of the Q2 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 on opportunities in the industrial products, transportation sectors and Infrastructure services which are ideally suited for public markets except for their size. The strategy of the Corporation is to invest in profitable, well-established companies with strong cash flows operating in niche markets in Canada and/or the United States.

The Corporation currently operates three segments: Aviation, Manufacturing and Infrastructure. The Aviation segment consists of the operations by Perimeter Aviation, Keewatin Air, Calm Air International, Bearskin Lake Air Service, Custom Helicopters and Regional One. The Manufacturing segment consists of the operations by Jasper Tank, Overlanders Manufacturing, Water Blast Manufacturing, and Stainless Fabrication. The Infrastructure segment consists of the operations of WesTower Communications. 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).

For further information, please contact:

Mike Pyle
CEO
Exchange Income Corporation
(204) 982-1850
MPyle@eig.ca

Joe Racanelli
Investor Relations
TMX Equicom
(416) 815-0700 Ext. 243
JRacanelli@tmexequicom.com