Exchange Income Corporation

Exchange Income Corporation Reports Financial Results for First Quarter 2014
- Revenue grows 17% to $257.5 million; EBITDA increases 11% to $19.5 million -

WINNIPEG, Manitoba – May 14, 2014 – Exchange Income Corporation (TSX: EIF) ("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-month period ended March 31, 2014. All amounts are in Canadian currency.

Q1 2014 Highlights

- Consolidated revenue increased 17% to $257.5 million compared to Q1 2013.
- EBITDA increased 11% to $19.5 million compared to Q1 2013.
- Adjusted net income was $0.4 million or $0.02 per share.
- Free cash flow increased 6% to $14.3 million compared to Q1 2013.
- Raised $40 million through a convertible debenture financing offered on a bought deal basis.
- Introduced a new reporting segment, Infrastructure, consisting of WesTower Communications which is a manufacturer, installer, and maintenance service provider of communication towers and sites.
- Regional One, the Corporation's most recent acquisition, contributed $7.1 million of EBITDA.
- WesTower stabilized and began its recovery, improving EBITDA margin to 1.6% from 1.0% in Q4 2013.

Q1 2014 Results

Selected Financial Highlights

All amounts in thousands except % and share data	**Q1 2014**	**Q1 2013**	**% Change**
Revenue	$257,479	$219,572	+17%
EBITDA[1]	$19,457	$17,593	+11%
Net Earnings	$167	$1,586	-89%
Adjusted Net Earnings[2]	$385	$2,655	-85%
Earnings per Share[3]	$0.01	$0.08	-88%
Adjusted Earnings per Share	$0.02	$0.13	-85%
Dividends declared	$9,136	$8,717	+5%

"We generated double-digit revenue and EBITDA growth in Q1, demonstrating yet again the strength of our diversified business model and disciplined acquisition strategy," said Mike Pyle, President and CEO of Exchange. "Keys to our progress included the strong performance of Regional One, our most recent acquisition, and the organic revenue growth experienced by each of our segments in a period that is historically our weakest."

"Our profitability was impacted, however, by several factors. Firstly, it is important to understand that the first quarter is consistently the weakest quarter of the year for our operations, particularly in our Aviation segment. As expected, we began to experience recovery at our WesTower US operations but we are still in the early stages. Additionally, our Q1 profitability was impacted by extremely harsh winter conditions that affected most of North America for a prolonged period. Manitoba, in particular, which is the principal destination of our Aviation segment companies, had its coldest winter in almost 120 years. Adverse weather conditions also impacted our other segments, including the Infrastructure segment, which saw interruptions to WesTower's installation projects, particularly in Canada. With seasonality issues now largely behind us, we expect improved performance to each of our key financial metrics through the balance of 2014."

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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 and asset impairment, 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"). It is used by management to assess the performance of the Corporation and its operating segments.
[2] Adjusted net earnings exclude intangible amortization charges, acquisition costs, and contingent consideration liability fair value adjustments, less applicable taxes.
[3] Exchange had 21,813,973 shares outstanding at March 31, 2014. The average amount of shares outstanding for Q1 2014 was 5% higher than Q1 2013. The growth is due to an increase in the conversion of debentures, and the issuance of shares in support of and financing acquisition activities.

Consolidated revenue for Q1 2014 was $257.5 million, up 17% from $219.6 million for Q1 2013. The revenue increase was chiefly due to the organic growth experienced by WesTower Communications, which increased revenue by 16% to $156.4 million. Revenue growth was also attributable to the acquisition of Regional One, a provider of aircraft and engine aftermarket parts to regional carriers around the world, which generated $14.7 million of revenue and no comparable as that acquisition closed in the second quarter of 2013.

Effective with Q1 2014 results, the Corporation has 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 Aviation segment generated revenue in Q1 2014 of $78.3 million, an increase of $15.5 million or 25% over the comparative period. The Aviation segment's year-over-year revenue growth was largely due to the acquisition of Regional One. Excluding Regional One, the Aviation segment generated revenue of $63.6 million, relatively consistent with 2013 with a 1% increase. This was despite an extremely harsh winter, which negatively impacted operations especially in the northern Manitoba region. Cargo and charter operations improved, but were offset by declines in passenger services primarily within the Bearskin operation which continued to experience significant competition in the eastern markets. After an extensive review, the Corporation began a restructuring plan in the second quarter to realign Bearskin's operations, which represents 4% of the Corporation's overall revenue. This restructuring has resulted in a head-count reduction of approximately 30% and focuses on reestablishing profitability on all routes. In Q1 2014, the Aviation segment generated 30.5% of the Corporation's consolidated revenue as compared to 28.6% in the same period for 2013.

The Manufacturing segment generated revenue in Q1 2014 of $22.8 million, up 5% from 2013. The increase was principally due to organic growth opportunities experienced by the Corporation's Alberta operations. The increase in volume experienced in the Alberta operations was offset by a decrease at Stainless from a reduction in book sales in the comparative period for Stainless including above-normal field jobs being completed. In Q1 2014, the Manufacturing segment generated 8.8% of the Corporation's consolidated revenue as compared to 9.9% in the same period for 2013.

The Infrastructure segment generated revenue in Q1 2014 of $156.4 million, up 16% from $135.1 for 2013. The increase was largely due to further growth of WesTower's turfing contract with AT&T as well as to ongoing demand from wireless carriers across North America as they deploy LTE networks. In Q1 2014, the Infrastructure segment generated 60.7% of the Corporation's consolidated revenue as compared to 61.5% in the same period for 2013.

Consolidated EBITDA for Q1 2014 was $19.5 million, up 11% from $17.6 million generated in Q1 2013. The growth was principally due to the contributions of Regional One with no comparable and cost savings from Calm Air's fleet rationalization plan, offset by a decrease at WesTower. The other Aviation segment companies and the Manufacturing segment showed improvements in EBITDA with a small decline in head-office costs.

On a segmented basis, the Aviation segment generated EBITDA of $14.9 million in Q1 2014, up 109% from $7.1 million for 2013. Excluding the EBITDA contributions of Regional One, which totaled $7.1 million, the Aviation segment EBITDA grew by 10%. Aviation segment EBITDA margins for Q1 2014 were 19.0%. Excluding Regional One, EBITDA margins for the Aviation segment in Q1 2014 were 12.3% compared to 11.3% for 2013. As previously mentioned, the Aviation segment's EBITDA and margin performance in Q1, which traditionally is the Corporation's weakest, were impacted by seasonality factors and harsh weather conditions. In addition, since the first quarter is the slowest quarter of the year the Corporation schedules a disproportionate amount of its annual capital expenditures during this quarter. As well, the segment experienced increased fuel costs and labour costs, but these were offset by cost reductions, most significantly as a result of the implementation of Calm Air's fleet rationalization plan. The addition of Regional One, which is based in Miami, Florida and services an international customer base, has mitigated the impact of seasonality factors on the Aviation segment's performance. Regional One also generates relatively higher margins on its sales and leasing revenues.

The Manufacturing segment generated EBITDA of $4.2 million in Q1 2014, up 8% from $3.9 million for 2013. The increase was largely due to the growth experienced by the increased volume in the Alberta operations and the higher margins Stainless was able to generate on its revenues, resulting in a small increase in EBITDA even though its revenues were less than the comparative period. EBITDA margins for the Manufacturing segment in Q1 2014 were 18.4% as compared to 17.9% for the same period in 2013.

The Infrastructure segment generated EBITDA of $2.6 million in Q1 2014, down from $8.7 million for 2013. As has been discussed previously, WesTower's US operations are experiencing margin pressures due to inefficiencies and higher costs related to managing its massive growth. In Q1 2014 EBITDA margins for the Infrastructure segment were 1.6% as compared to 6.5% for the same period in 2013. As discussed in the 2013 third quarter results, the realized margins on the projects were lower than expected in the first and second quarter of 2013. This resulted in an adjustment to the estimated margins in the third quarter of 2013. When such adjustments are taken into account, the 2014 first quarter results are largely in line with the comparable period. Since the fourth quarter of 2013, the Corporation has implemented a number of measures to restore WesTower's margins to historical levels, including a new management team and new systems, operational procedures and business processes. Despite implementing many of these changes only recently, the US business realized a $3.5 million improvement in EBITDA over the fourth quarter of 2013.

Exchange reported net earnings for Q1 2014 of $0.2 million or $0.01 per share basic as compared to $1.6 million or $0.08 per share basic in Q1 2013. Net earnings were impacted by higher amounts of depreciation and amortization, and higher interest charges relating to higher debt levels. Depreciation expense increased with the addition of Regional One and from overall growth capital expenditures over the past year. Interest charges increased as a result of debenture financing activities and higher amounts outstanding under the Corporation's senior credit facility.

Excluding net expenses of $0.2 million incurred as a result of IFRS accounting related to intangible amortization, acquisition costs and consideration liability fair value adjustments, Exchange had adjusted net income of $0.4 million or $0.02 per basic share. In the comparative period of 2013, Exchange had adjusted net earnings of $2.7 million or $0.13 per basic share.

As at March 31, 2014, the Corporation had a net cash position of $26.8 million and net working capital of $280.1 million, which represents a current ratio of 2.16 to 1. These compare to a net cash position of $23.2 million and net working capital of $256.6 million, or a current ratio of 2.23 to 1, at December 31, 2013.

Selected Key Performance Indicators

All amounts in thousands except % and share data	Q1 2014	Q1 2013	% Change
Free Cash Flow[4]	$14,262	$13,412	+6%
Free Cash Flow per share	$0.65	$0.65	-
Total Maintenance Capex	$11,687	$7,955	+47%
Free Cash Flow less Maintenance Capex	$2,575	$5,457	-53%
Free Cash Flow less Maintenance Capex per share	$0.12	$0.26	-54%
Dividends/Distributions Declared	$9,136	$8,717	+5%
Free Cash Flow less Maintenance Capex Payout Ratio	350%	162%	

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 Q1 2014 totaled $14.3 million, up 6% from Q1 2013. Free Cash Flow on a per share basis in Q1 2014 was $0.65, consistent with Q1 2013. The growth in Free Cash Flow was a result of increased EBITDA and cash tax recovery, which was offset by an increase in cash interest charges and an insurance gain disposal which is treated outside of cash flow from operations.

Free Cash Flow less Maintenance Capex was $2.6 million, or $0.12 per share, for Q1 2014. This compares to $5.5 million, or $0.26 per share, for Q1 2013. Maintenance Capex grew by 47% over the comparative period mainly as a result of the scheduling of heavy maintenance events on its fleet of operating aircraft as well as the addition of Regional One with no comparable in 2013.

Outlook

"There are a number of reasons why we are confident about our prospects ahead and our ability to keep our monthly dividend distributions in effect," said Mr. Pyle. "With seasonality factors largely behind us, we expect that our Aviation segment will see sustained growth through the balance of the year. Second, we have experienced two consecutive quarters of margin improvement at WesTower, suggesting that the corrective measures we implemented are having the desired effect of gradual profitability improvement. Additionally, Regional One's access to after-market parts and equipment is growing, which is leading to more sales and a more diversified revenue stream."

Mr. Pyle added, "The plans are in place and being executed in the second quarter to make changes at Bearskin to realign its operations but will result in it having to incur restructuring costs in the second quarter. These changes will remove ongoing long term costs and lead to improved EBITDA margin in a relatively short period of time. Additionally, over the longer term, we see continued growth for WesTower, particularly as new wireless technology is already emerging that we expect will drive the need for new telecom infrastructure. Just as important, we are committed to growth via acquisitions, and are well positioned to capitalize on opportunities consistent with our track record given the Company's $140 million of deployable capital."

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

The Corporation's complete financial statements and management's discussion and analysis for the three months ended March 31, 2014 will be made available at www.ExchangeIncomeCorp.ca or at www.sedar.com

Conference Call Notice

Exchange will hold a conference call to discuss its 2014 first quarter financial results on Thursday, May 15 at 8:30 am ET. Mike Pyle, President and Chief Executive Officer, and Adam Terwin, Chief Financial Officer, will co-chair the call.

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 22, 2014 at midnight. To access the archived conference call, please dial 1-855-859-2056 and enter the encore code 31446613.

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 three sectors: aviation services and equipment, metal manufacturing, and infrastructure services. 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 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 operation 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).

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, and 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 Exchange Income Corporation with the securities regulatory authorities, available at www.sedar.com.

For further information, please contact:

Mike Pyle	Joe Racanelli
President and CEO	Investor Relations
Exchange Income Corporation	The Equicom Group Inc.
(204) 982-1850	(416) 815-0700 or 1-800-385-5451 ext. 243
MPyle@eig.ca	JRacanelli@tmxequicom.com