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# FINAL TRANSCRIPT

## Chorus Aviation Inc.

## Second Quarter Results Conference Call

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## PRESENTATION

**Operator**

Good morning. My name is Lindsay (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Chorus Aviation Inc. Second Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question press the # key. Thank you.

Ms. Nathalie Megann, VP Investor Relations, you may begin your conference.

**Nathalie Megann** — Vice President, Investor Relations, Chorus Aviation Inc.

Thank you, Lindsay. Hello, and thank you for joining us today for our second quarter 2016 conference call and audio webcast. With me today from Chorus are Joe Randell, President and Chief Executive Officer, and Jolene Mahody, Executive Vice President and Chief Financial Officer.

We'll start by giving a brief overview of the results, and then go on to questions from the analyst community.

Because some of the discussion on this call may be forward looking, I direct your attention to the caution regarding forward-looking statements and information, which are subject to various risks, uncertainties, and assumptions. These are included on Pages 3 and 4 of our Management's

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Discussion and Analysis of the results and operations of Chorus Aviation Inc. for the period ending June 30, 2016, the Outlook section, and other sections of our MD&A were such statements appear.

In addition, some of the following discussion involves certain non-GAAP measures, including reference to the EBITDA, adjusted EBITDA, and adjusted net income. Please refer to Section 19 of our MD&A for a discussion relating to the use of such non-GAAP measures.

I'll now turn the call over to Joe Randell.

**Joe Randell** — President and Chief Executive Officer, Chorus Aviation Inc.

Thank you, Nathalie, and good morning, everyone. Thank you for joining us.

I'm pleased with the performance of the Chorus team in the second quarter. The Chorus subsidiaries are performing well and within our expectations.

The quarter delivered adjusted EBITDA of 57.8 million, excluding employee separation programs, and it was an increase of 4.1 million from the second quarter of 2015.

Our aircraft leasing business under the CPA continues to grow. Year to date, we've experienced a 45 percent increase in leasing revenue. By the end of September, we will have the planned complement of 34 Q400s leased under the CPA, and plan to add a minimum of five CRJ900 aircraft next year.

From a Jazz point of view, a number of developments in the second quarter improved its cost competitiveness and further strengthened the organization. The modernization of the Jazz fleet is progressing as planned. In the second quarter, 14 aircrafts transitioned in and out of the operation,

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and 26 aircraft have transitioned so far this year. Year to date, we've exited seven CRJ-200s and nine Dash 8-100s from the CPA fleet and inducted 10 Q400s.

I commend the Jazz team for supporting this important initiative in a safe and efficient manner, and for maintaining strong operational performance throughout these transitions.

The delivery dates for three incremental Q400 aircraft, originally expected in 2016, have been changed to early 2017. As a result, we are now projecting to have 39 versus 42 Q400s in the CPA fleet by the end of this year. These aircraft will be transferred from another Air Canada Express carrier.

Air Canada's decision to consolidate the Air Canada Express Q400 aircraft operation and Jazz in early 2017 demonstrates the strength of our relationship. As a result of this aircraft consolidation, the Montreal-Toronto city centre route will be operated by Jazz in the new year. This does not impact the anticipated CPA fixed-fee compensation.

Jazz's operational performance remained amongst the highest in the North American airline industry in the second quarter and generated 5.7 million, or 96.7 percent of the available performance incentive payments under the CPA.

In the quarter, we signed a firm purchase order agreement with Bombardier for five CRJ900 aircraft with options for an additional five. These aircraft are expected to enter CPA service by the second quarter of 2017.

The existing CRJ-705s will be modified to have 76 seats by the end of 2017 so as to standardize this aircraft type to a CRJ900 configuration. At Air Canada's request, we'll also be

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increasing the seat capacity on the Q400s from 74 economy seats to 68 economy and 10 preferred seats. This work will be conducted in-house by Jazz Technical Services.

The pilot mobility program with Air Canada, whereby Jazz pilots flow to Air Canada, is progressing very well, and a number of senior pilots have also opted for early retirement. Since January of last year when the new pilot collective agreement and the amended CPA were established, we've had over 280 pilots exit Jazz.

This accounts for almost 25 percent of the pilot group when compared to January of last year. Replacement pilots are being hired at industry-competitive rates as we successfully transition Jazz's cost base.

In the second quarter we invested 3.6 million in employee separation programs to change our work force demographic and to reduce ongoing costs. We also undertook overhead reductions to better align our administrative functions to our changing operation.

The transition of Jazz Technical Services to a separate division of Jazz is progressing as planned. Work has begun under its new five-year contract to conduct heavy maintenance on Air Georgian's 14 CRJ-100, -200 aircraft. The first CRJ was completed on July 8th and returned to service three days ahead of schedule. This is a great start to this new line of business.

On the Voyageur front, the Aerotech division continues to perform. It recently added the capability to conduct MRO work on Q400 aircraft. As such, it has begun a new contract to perform inspections and lease transition work on two Q400s.

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This specialized certification provides Aerotech with the opportunity to reconfigure a new aircraft type as it transitions from one customer to another.

Voyageur Avparts, the parts sale division of Voyageur, will soon undertake the part-out of a second former CPA Dash 8-100. We see good potential to this new division to grow the part sales business for Chorus by focusing on Bombardier products, consignment inventories, aircraft part-outs, and through the purchase and sale of bulk or surplus inventories from third parties.

We view Avparts as a natural expansion to our business, given the synergies with the suite of services the Chorus group of companies provide. This new concentrated focus should provide attractive returns.

We remain committed to building additional shareholder value by strengthening our foundational business with Jazz, growing our leasing revenues, and pursuing growth opportunities with the Voyageur operation and advancing towards further business diversification.

That concludes my introductory commentary. And with that, I'll turn the call over to Jolene, and Jolene will take you through the second quarter financial results.

**Jolene Mahody** — Executive Vice President and Chief Financial Officer, Chorus Aviation Inc.

Thank you, Joe, and good morning. The Chorus group of companies generated strong financial results in the second quarter and delivered adjusted EBITDA, excluding other items, of 57.8 million.

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Here’s the breakdown of the second quarter financial performance as compared to the same period of 2015.

Operating revenue decreased by 90 million to just over 310 million, primarily because Jazz no longer bills Air Canada for fuel. Controllable revenue decreased by 17.6 million to 182.5 million.

Controllable revenue refers to the compensation paid by Air Canada to Chorus on certain controllable costs under the CPA. This reduction was primarily driven by rate reductions in controllable costs, such as flight crew salaries, wages, and benefits and fleet modernization-related costs, which accounted for 7.8 million of the decrease.

This reduction in controllable revenue is consistent with the increased focus on controllable cost reductions to improve market competitiveness under the CPA.

A further decrease of approximately 12.5 million resulted from fewer billable block hours being generated in the second quarter compared to the same period last year. These decreases were offset by a change in the US dollar exchange rate that resulted in a 2.7 million increase in the quarter.

Aircraft leasing revenue under the CPA of 23.1 million increased by 7.2 million, or 45.3 percent quarter over quarter. Of this increase, 6.4 million was generated from the addition of 10 new Q400 aircraft to the CPA fleet, and 0.8 million was related to a change in the US dollar exchange rate. Annually, these aircraft and engines generate a cash margin of approximately 20 percent after consideration of debt servicing charges.

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Further, under the CPA, Chorus was compensated by fixed fees that provide the minimum level of compensation for the term of the CPA. Combined, compensation from the fixed fees for covered aircraft and infrastructure fees were contractually set for the quarter of 2016 at 27.5 million.

In the second quarter Chorus earned 5.7 million in performance incentives, or 96.7 percent of the maximum incentive payment available under the CPA for meeting or exceeding certain targets. This is continued great performance by the Jazz team.

CPA pass-through revenue decreased by 80.7 million to 53.6 million. Aircraft fuel, deicing, and certain other services provided to Chorus by Air Canada are no longer billed.

Effective January 1, 2016, Air Canada entered into a new commercial agreement with the Vancouver Airport Authority in connection with Jazz's CPA operation. Costs at this airport related to airport fees and certain terminal handling services are now also paid directly by Air Canada. These changes accounted for a 76.2 million decrease in CPA pass-through revenue.

Charter and other contract flying revenue increased by 1.8 million to 11.6 million. Other revenue decreased by 0.9 million to 6.1 million. Decreased sale of consignment inventory and ancillary revenue accounted for the majority of the change quarter over quarter.

And now I'll turn to the expenses. Operating expenses decreased by 86.3 million to 275.7 million.

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Adjusted salaries, wages, and benefits decreased by 0.9 million, mainly as a result of decreased flight-crew costs. Stock-based compensation decreased primarily as a result of fluctuations in Chorus' share price.

Employee separation program costs incurred in the second quarter were 3.6 million compared to 1.6 million in the same period of 2015. Salaries and wages were also affected by fewer labour costs being capitalized on owned aircraft for major maintenance overhauls of 1.2 million.

Depreciation and amortization expense increased by 5.8 million to 19.8 million. The increase in depreciation expense related to Voyageur was 1.5 million, and the purchase of additional aircraft during the second half of 2015 and the first quarter of 2016 accounted for 2.6 million. Further, depreciation associated with capital major maintenance overhauls increased depreciation expense by 1 million, and new finance leases accounted for 0.7 million.

Aircraft maintenance expense decreased by 8 million to 43 million. Compared to second quarter 2015, fewer block hours and engine overhaul events accounted for 4.8 million and 2.8 million decreases, respectively.

Cost of sales of consignment inventory decreased by 0.9 million and other maintenance costs decreased by 0.7 million. And the Voyageur operation contributed a decrease of 0.4 million.

Decreasing maintenance costs in the Jazz operation is consistent with the fleet-modernization initiative.

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These decreases were offset by a change in the US dollar exchange rate on certain maintenance material purchases, which accounted for a 1.6 million increase.

Aircraft rents decreased by 3.2 million to 22.1 million. This, again, is consistent with Chorus's planned fleet-modernization initiative. The decrease was mainly due to the return of five CRJ-200s in the second half of 2015 and seven CRJ-200s in the first half of 2016. And this was partially offset by a change in the US dollar exchange rate.

Nonoperating expenses increased by 5.7 million from an income of 2.8 million in the second quarter of 2015 to a nonoperating expense of 2.8 million.

Net interest expense increased by 1.8 million. Interest expense related to long-term debt increased by 1.5 million as a result of a change in the US dollar exchange rate and new Q400 long-term debt; 0.1 million related to interest on consideration payable and decreased interest revenues of 0.2 million.

The strengthening of the Canadian dollar in the quarter contributed to a foreign exchange gain of 1.8 million compared to a foreign exchange gain of 5.7 million in the previous year.

And this brings us to an operating income of 34.4 million, a decrease of 3.6 million, and adjusted EBITDA of 54.3 million, which is an increase of 2.2 million over the same period last year.

Adjusted net income for the second quarter 2016 was 18.2 million, or $0.15 per basic share compared to 23.8 million, or $0.20 per basic share for the same period in 2015. Net income in the

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quarter was 23.7 million, or $0.19 per basic share compared to 2015's net income of 31.4 million, or $0.26 per basic share.

While billable block hours no longer directly affect our compensation, they are relevant to the rate-setting process on controllable costs and in determining controllable revenue. Based on the 2016 winter schedule, the summer 2016 schedule, and the updated planning assumptions from Air Canada, we are changing our projected 2016 billable block hour guidance from a range of 345,000 to 355,000 hours based on 116 covered aircraft as at December 31, 2016, to a new range of 340,000 to 347,000 block hours based on 113 covered aircraft as at December 31, 2016.

The actual number of billable block hours for 2016 may vary from this anticipated range due to a number of factors.

We have updated our capital expenditure guidance for 2016, excluding those for the acquisition of finance leases, aircraft acquisitions, and the extended service program on the Dash 8-300, and including capitalized heavy checks from a range of 35 million to 41 million to a range of 37 million to 47 million. The increase in 2016 reflects additional spend for Voyageur and anticipated—and higher anticipated major maintenance overhaul.

For additional information supporting our projected guidance for the balance of this year, I'll refer you to Section 17 of the 2016 Outlook section of our MD&A for the period ended June 30, 2016.

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And that concludes my commentary. Thank you for listening and, Operator, we can now open the call to questions from the analyst community.

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## Q&A

**Operator**

And at this time, ladies and gentlemen, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from the line of Cameron Doerksen with National Bank Financial. Your line is now open.

**Cameron Doerksen** — National Bank Financial

Thanks. Good morning.

**Joe Randell**

Good morning.

**Jolene Mahody**

Good morning

**Cameron Doerksen**

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Just, I guess, a few questions on the fleet. First, maybe just a clarification; you were taking over the, I guess, the operation on Toronto Island. The aircraft that are coming in from that that doesn't affect your overall fleet plans over the next couple years. Am I correct in saying that?

**Joe Randell**

No, it does not. The only impact it has is there’s a slight timing change. We anticipated originally three Q400s late this year that now those with this plan have moved into the first quarter of 2017. But in terms of fleet totals, you're right. There's no change overall.

**Cameron Doerksen**

Okay. And in the MD&A you give a breakdown of the fleet by type. But you don't break down the covered fleet. So I guess there's a total of 109 aircraft in there. Is there—are you able to break that down by fleet type? That 109 under the covered aircraft?

**Jolene Mahody**

Yeah. And actually I think it's 111 on the covered aircraft.

**Cameron Doerksen**

Okay. Yeah.

**Jolene Mahody**

So, yeah—so I can give you a rundown of that 111 now. So 16 of those are CRJ-705s…

**Cameron Doerksen**

Yup.

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**Jolene Mahody**

Thirteen are CRJ-200s. So we have 19 Dash 8-100s, 26 Dash 8-300s, and 37 Dash 8-400s.

**Cameron Doerksen**

Okay. Perfect. And the new CRJ900s that are going to be coming in in 2017, is there anything that you can say about the timing of those? Is that early in the year? Or would that be sort of later in the year?

**Joe Randell**

They're planned to be introduced into service in the second quarter of 2017.

**Cameron Doerksen**

Okay. And just on the—you mentioned the parting out of a couple of Dash 8-100s. Maybe you can talk a little bit more about that business? I mean do you have additional excess aircraft that are kind of sitting around that could be parted out? And is it becoming more evident that some of the Dash 8-100s that are coming out, the CPA, that they're more likely to be parted out versus leased? Maybe just any kind of discussion around—

**Joe Randell**

Sure.

**Cameron Doerksen**

—that business line.

**Joe Randell**

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Yeah. I can give you a little colour on that. Of course, we've taken out a number of airplanes now in terms of the Dash 8-100s, and we've said all the way along we're prepared to sell, lease, part out, redeploy the aircraft, but generally through the Voyageur operation.

We recently had deployed one of them with Voyageur Airways to execute on a new flying contract in Africa. Now we've already parted out one; we'll be doing the second. So we're also pursuing the possibility of converting some of the Dash 8s into freighters.

We also have a nonbinding agreement for a Dash 8 lease to a third party, and we're finalizing documentation, et cetera. So it's a combination of things that we're looking at doing with these aircraft, but part out is generally always a fallback. If there is nothing better then I think the part-out itself looks quite reasonable to us.

So we're taking our time, but we're keeping the pipeline busy with parting out airplanes that we've not yet redeployed.

**Cameron Doerksen**

Okay. And maybe just final question from me on the business development side just on the leasing business. I mean you've talked a bit about the Dash 8 opportunity, but looking at the bigger picture, have you sort of advanced your plans on doing something larger in the aircraft leasing business? And is there potential here for you to acquire a fleet of regional aircraft that would accelerate that growth?

**Joe Randell**

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We're making good progress. We see a lot of potential. The closer we look at the business, the happier we are, actually. There are some good opportunities there, and we're pursuing them.

And in terms of timing, I don't want to put a specific date out or anything like this, but it's certainly a focus for us at this time.

**Cameron Doerksen**

Okay. Thanks very much.

**Joe Randell**

You're welcome.

**Jolene Mahody**

Thank you.

**Operator**

Our next question comes from the line of Derek Spronck with RBC. Your line is now open.

**Derek Spronck** — RBC

Okay. Thanks. Good morning.

**Joe Randell**

Good morning.

**Derek Spronck**

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It sounds like coming directly from Air Canada that the CPA is working out very well and providing for nice cost reductions. As you continue to work down your unit costs, how much have you closed the cost gap against your competitors?

**Jolene Mahody**

So I think the biggest area that we've seen a change in so far, Derek, has been on the pilot side. And if you look at kind of the labour bill for the airline, pilots are clearly the majority of the cost of the labour bill, and that area was certainly one where we feel we were off-market.

So with the new wage rates and the new rules that we have in place, their entry level rates are below our competitors; below Encore's, for certain. And the number and the turnover that we're seeing on the pilot ranks is really quite significant. It's actually proceeding along even better than we would have anticipated, given that we've actually turned 25 percent of our pilot roster over to these new entry rates in the past 18 months in signing this new agreement; it's very positive.

And we expect as we move forward for that to continue. And I think from a cost-competitive side and Air Canada's stated and we're very comfortable that if we march along this with our new labour agreements in place by 2020, we will be in a very, very good position with our labour costs.

And the other piece, I think, on the fleet modernization—and you're seeing that flow through on our results as well—and part of the transition to transition the fleet to the new larger-gauge equipment, and we're seeing considerable changes in our aircraft maintenance cost with that transition as well.

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**Joe Randell**

If I could just add to what Jolene has said, I think the single largest change that we're really seeing overall in terms of our controllable costs would be the labour side, which is primarily driven by the pilots and the changes there. But of course, we've continued to do new collective agreements with our maintenance folks, our flight attendants, whereby entry rates are very, very competitive.

We're seeing changes in the demographics of the work force. In the maintenance side now we're starting to really get some momentum there. And of course, now we've separated the heavy maintenance division in its own collective agreement. And these are all very positive in terms of reducing cost.

Aside from the fleet modernization as well, you'll note that we've been working with Air Canada to reduce duplication in terms of services and taking out some of the costs so that Air Canada directly pays them, but also streamlining the administrative and overhead side of the business. And we're making some good traction with that as well.

So it really is generally on all fronts. And while we don't have a specific date, the slope is clearly downward in terms of our costs. And that's the way we've set up the CPA, that's the way we negotiated these collective agreements, and we see ourselves being very cost competitive with really anyone over the next few years.

**Derek Spronck**

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That's great. And do you get to capture or keep any of these cost-reduction benefits? Or is it more like a second derivative benefit where your lower cost, perhaps, was one of the primary reasons why Air Canada switched the Montreal-Billy Bishop routes from Sky Regional over to you?

**Jolene Mahody**

I think as far as keeping the cost, the way we designed the agreement is to deliver the costs benefits back to Air Canada so that they are getting the benefits of any cost reductions that we make. And that really comes from setting the rates—the majority of the rates on an annualized basis.

And that piece is delivering for them as far as the decision to convert the Q400s over into Jazz.

**Joe Randell**

Well, I think the other carriers, the other regional carriers are changing their fleets, and there's some growth there as well, in fairness. But the consolidation of the Q400 fleet, that just makes overall rather than having the same fleet and two different operators.

So I think Air Canada itself will see some cost reductions and benefits as a result of that because if you only have one Operator then you eliminate potential duplication and you get better economies of the scale. So—and as Jolene said, the benefit in terms of these cost reductions would rest with Air Canada, but by the nature of our agreement with Air Canada, we look to not only maintain, but potentially grow our business. And that’s where we could see some potential benefits for us by being a cost competitive, reliable, high-quality partner.

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**Jolene Mahody**

And I'd just add one other thing just on the front. Even in passing those costs along to Air Canada, the design of the CPA that way with the rates being reset on an annual basis, that prevents us from having a lot of downside risk associated with cost escalation as well that we would miss if we had missed our estimates of the rates. So it's designed to be cost-neutral.

**Joe Randell**

Yeah. And the bottom line is is that we are aligned with Air Canada, which is the great feature of this new agreement that we have with Air Canada is we're focused on the same things.

**Derek Spronck**

That's great. Just last one for me. Any chance then—you're doing some of the maintenance work now for Air Georgian's CRJs, I believe, the 100s and 200s—any chance of perhaps seeing some CRJ aircraft consolidation and routes, maybe US transborder routes? Or some of the ERJs that Sky Regional are flying, could those potentially flow back into Chorus?

**Joe Randell**

No. I guess it's an Air Canada decision, but we're interested in new business. And anything that would, I think, improve and grow our increasingly competitive heavy maintenance business at Jazz Technical Services would absolutely be of interest to us, and we do have some capacity to add growth.

**Derek Spronck**

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Okay. Great. Thanks, Joe. Thanks, Jolene.

**Joe Randell**

You're welcome.

**Jolene Mahody**

You're welcome.

**Operator**

Our next question comes from the line of David Tyerman with Cormark Securities. Your line is now open.

**David Tyerman** — Cormark Securities

Yes. I just wanted to clarify the fleet question or comment. So if I understood correctly, you said the fleet size is not going to change, even though you're taking on the additional five Q400s. Is that correct?

**Joe Randell**

Yeah. We had originally in our original fleet plan anticipated taking on five Q400s this fall and early next year. The only difference is is that now these airplanes are actually being sourced from Sky Regional. In this case they'll be coming over, and it does not have an effect on the total fleet count, but rather than taking three this fall just prior to Christmas in a very busy period, I think overall it's more orderly done and better done after the holidays, and we do a reasonably quick transition of the fleet over to Jazz.

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**Jolene Mahody**

And that change has no impact on our fixed-fee compensation at all.

**David Tyerman**

Right. So was there any anticipation of those other five having an impact on the fixed fee? Or no?

**Jolene Mahody**

No. No. It was never—the fixed fee was established with those five aircraft in there.

**David Tyerman**

Right.

**Jolene Mahody**

And so all that's happened is really a deferral of induction by about three months.

**David Tyerman**

Right. But it sounds like the five that you would have been getting would have been deployed on routes other than the Billy Bishop routes, presumably.

**Joe Randell**

Yeah. The deployment of the aircraft…

**David Tyerman**

(unintelligible)

**Joe Randell**

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Yeah. The deployment of the aircraft is always up to Air Canada, and although we agreed on fleet numbers, there was no associated route network that was established. So, as you know, that is really determined by Air Canada.

**David Tyerman**

Okay. So effectively they've reduced their capacity regionally, but that's not your decision, as you say. Okay. Just on the employee separation, that continues, which is obviously helping you lower your costs. Do you expect a lot more of that in the next year or two?

**Jolene Mahody**

So I guess this tranche of employee separation costs in the second quarter really related to the maintenance and engineering collective agreements that we come to terms with in the first quarter. And with that collective agreement being complete, we are very comfortable that all of our labour agreements are now at-market.

While you know I can't say that there will never be any other employee separation costs, I think in the foreseeable future we don't expect anything of that magnitude

**David Tyerman**

Okay. That's helpful. Thank you. And then the other question I had—just some of the other questioners have hit at this a little bit—other growth opportunities. So I'm just trying to get a sense of what kind of magnitude—like I don't know what kind of additional growth Voyageur is adding right now. Is it material? Are there material opportunities? Or are these just little tiny bits of revenue here

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and there with minimal EBITDA? Or is there something out there, whether it's in leasing or whatever, that could actually move the needle materially with what you've got?

**Joe Randell**

Well, I guess, put it this way, we will continue to incrementally look to improve the businesses of Jazz, of Voyageur, and the aircraft leasing side as well where we see the potential for the most material impact. And it's certainly our aim to find something which is significant to add shareholder value.

But with some of the initiatives and the other initiatives we've talked about today they are incremental, but they're not of a heavy big magnitude.

**Jolene Mahody**

But I will say, the aircraft leasing business that we have established is growing quite nicely. And we've seen a 45 percent increase in lease revenue in our results here, and all 34 Q400s that we're leasing to Air Canada under the CPA will be inducted by the end of the summer.

And so the latter half of the year as it relates to the leasing revenue side of the business will have all 34 producing lease revenue at over 100 million annually.

**Joe Randell**

Plus the five CRJ900s that we'll be operating next spring.

**David Tyerman**

Right.

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**Joe Randell**

(unintelligible)

**David Tyerman**

And on the non-CPA leasing, I know you didn't want to put a time frame on it, which is fine, but I'm wondering is this like a two-year or five-year type of thing or sooner?

**Joe Randell**

Yeah. We're not going to put a time frame on it right now, but we're certainly focused on this and we're making progress.

**David Tyerman**

Okay. And is M&A still a—or is it another way that you feel you could grow the business?

**Joe Randell**

Well, absolutely. If there are the right opportunities for us, we would certainly look at those.

**David Tyerman**

Is there—do you have M&A targets in mind? Or is this if it comes up type of thing?

**Joe Randell**

No, we are not putting out any targets, per se. It's more about the right opportunity than it is setting a target.

**David Tyerman**

Okay. But are there things that you've identified, Joe? Or is it very much when things…

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**Joe Randell**

No, we're still working away. As I said, our primary focus has been on the leasing side, to be honest.

**David Tyerman**

Right.

**Joe Randell**

But we will opportunistically look at other things. And I think we've said before that the three pillars of our business are really the contract flying side and the MRO, and especially MRO is certainly the second. And I would include with that aircraft parts now with Voyageur moving into the parts business more heavily. And then the third area is the regional aircraft leasing side.

So those are the three primary focuses. And we continue to evaluate opportunities, and we're optimistic that we will find those.

**David Tyerman**

Okay. Very good then. Thank you.

**Jolene Mahody**

Thank you.

**Operator**

Our next question comes from the line of George Trapkov with Beacon Securities. Your line is now open.

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**George Trapkov**

Good morning. Thank you very much for taking my question. Can you explain further on the MRO opportunities? You're adding some capacity on the Q400 for Aerotech; you have already with Jazz, but in terms of working with Bombardier on getting some of the newer contracts or whatever they're selling it (phon) or existing customers, how's that looking?

**Joe Randell**

We're continuing to focus on growing that business. And we're optimistic that there will be growth there.

**George Trapkov**

If you look at who is doing the work for, let's say, all the Bombardier customers, is there any opportunity for M&A for you to get a quicker foothold into that market?

**Joe Randell**

Well, I guess you always have to look at M&A versus organic growth. And in the case of Voyageur there is a significant capacity to grow capabilities and to grow volumes at the Voyageur facility. And it was one of the reasons why we were quite interested in Voyageur. They have significant hangar space; great expertise. It's a very good location, we feel, for the business.

So that's certainly—so rather than M&A—again, if the right opportunity is there for the right capabilities and skills, we would certainly look at that.

**Jolene Mahody**

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And I'd just to add on the Jazz side as well, we have a facility that has capacity. We have a 24/7 operation, which is a very competitive advantage to a lot of the other MRO facilities in that commercial airlines don't want their aircraft in a hanger, they want them flying. And so to get them in and out faster is always a mission.

And I think Jazz has shown that through the recent Air Georgian contract in delivering that aircraft back to the schedule early, so there's opportunity that we'll pursue along the Jazz front MRO as well.

**George Trapkov**

Perfect. Thank you very much.

**Joe Randell**

Thank you.

**Operator**

Our next question comes from the line of Tim James with TD Securities. Your line is now open.

**Tim James** — TD Securities

Thank you. I just want to return to the Voyageur operation for a minute and just see if you could kind of characterize the profitability of the business relative to Q1? And then just talk about the drivers of profitability for that business and kind of your—and I'm thinking more on the cost side of things, I guess, through the rest of 2016 and beyond?

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**Jolene Mahody**

So, Tim, I think rather than kind of getting into detailed numbers on sharing with you kind of what returned on the Voyageur piece, it is performing as we expected. When we originally acquired Voyageur we had indicated about a $17 million EBITDA, and we're now—these results would have us almost, I guess, comparable year over year, given that we had two months of actuals in our 2015 numbers for Voyageur.

But given Joe's comments on the MRO side, we are satisfied and happy with how it's performing. We are seeing increases over and above where we were when acquired the company, so it is contributing over and above on an EBITDA basis.

And I guess your second part of that question, I can't recall.

**Tim James**

Well, just the sort of key drivers of growth in the business, and not so much from maybe a top-line basis, but a margin expansion basis as we go forward just if you can talk in general about that business and how you grow margins, given kind of some of the revenue opportunities you see. Are there areas for cost reduction? Synergies? Anything worth noting?

**Joe Randell**

Well, we did send a Dash 8-100 over to Africa because Voyageur had not been operating that aircraft size, which expands its capability. The nature of the contracts over there is they are shorter term, and some of them are extended quite often, et cetera.

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If there is any variation in terms of demand for those aircraft, Voyageur is very quickly able to adjust its costs accordingly. So we've not seen a big increase in demand, but it is stable and we're working to find increased deployment opportunities.

**Jolene Mahody**

I think, too, Tim, we talked in our remarks about Avparts and Voyageur's parts division organization, and we see that as a great vehicle for some growth, and it complements the MRO business that they have in North Bay. And even if you look to the Jazz operation, and Jazz itself is constantly renewing its inventory and has some excess of inventory that in earlier days before we had Avparts in place we used to pay a third party to sell some of that surplus inventory and pay consignment.

So already by establishing Voyageur and using that Avparts as a vehicle to whether it's parting out Dash 8s, or dealing with some excess inventory at Jazz, we're already seeing increased return.

**Tim James**

Okay. Thank you. And my second question—and forgive me if this was commented on earlier; I had to tune out of the call for a minute—I'm just thinking about the balance sheet here and the leverage levels. And I would like to know what level of financial leverage the Company is comfortable? I know you feel good about future CapEx plans, given your budgeted cash flow. But

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what metrics should we look at as outsiders? And what should we expect that that metric will not exceed going forward?

**Jolene Mahody**

So yeah, the debt that we have today is, as you know, it's all EDC asset backed debt, with the exception, I think, of our vendor takeback back loan. It's US-denominated debt supported by the US revenue stream that we have under the CPA that matches up to the debt. And we do have to mark-to-market that debt on the balance sheet on a quarterly basis as we adjust it to Canadian dollars.

So we end up seeing some artificial increase in that number as we mark-to-market and bring it up to the Canadian dollar. And when we initially brought in a lot of these Q400s the dollar was actually closer to par, so when we look at our debt on the balance sheet and assess kind of any type of ratios, we actually strip out that US to Canadian conversion to get back to something that's more comparable, given that we have the US revenue stream to offset that.

And I think that debt that we have there now is certainly productive debt earning a 20 percent return after servicing it, so highly productive.

The one thing I'll say is the EDC debt that's on the balance sheet there applies to the Jazz group of companies, so it's related to the Jazz operations to fortify those leases. It has no recourse, Tim, to Chorus at all.

So as we look to grow and expand and diversify with the leasing strategy, we're not restricted in any way by those covenants that we have related to that EDC debt. And when you look

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at leasing businesses and the nature of leasing businesses and their debt to equity or other ratios, they're certainly more highly levered than airlines. And so I think you have to start to separate that out when we assess what CAFD we have as we go forward.

I'm not going to establish a range or a target here right now because a lot of this depends on how we structure and unfold the next chapter and step here, but we certainly do have capacity.

**Tim James**

Okay. Great. Thank you.

**Operator**

And again, ladies and gentlemen, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

Our next question comes from the line of Walter Spracklin with RBC Capital. Your line is now open.

**Walter Spracklin** — RBC Capital

Yeah. Thanks. Good morning everyone.

**Joe Randell**

Good morning.

**Walter Spracklin**

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So I just want to come back to this consolidation with the Q400s and the opportunity it might present for further consolidation. Looking at Sky Regional's current fleet, do I have it right they have 20 E175s right now that they're operating now that we exclude out the Q400s?

**Joe Randell**

I believe so.

**Walter Spracklin**

Now your argument with regards to why those Q400s came over, you said that there was some significant or meaningful enough cost advantages to Air Canada by consolidating with one carrier. Wouldn't that same logic apply on the E175s as well?

**Joe Randell**

Well, generally speaking, I think the larger the fleet, the more economies of scale you achieve. So I would say that would be the case rather than having multiple operators of the same aircraft.

**Walter Spracklin**

Yeah.

**Joe Randell**

Unless there is a cost advantage to Air Canada, that would be…

**Walter Spracklin**

Any cost advantage that you're aware of?

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**Jolene Mahody**

Although we don't operate the E175.

**Joe Randell**

No.

**Walter Spracklin**

Okay. So there won't be—okay. So it might not be as big a cost advantage as when you consolidated with a Q400 fleet of which you already operate.

**Jolene Mahody**

Yes.

**Walter Spracklin**

Okay.

**Jolene Mahody**

Aircraft are very different than the Embraers.

**Joe Randell**

Yeah. So we are not an Embraer Operator.

**Walter Spracklin**

Right. But I guess there's still some savings with regards to dealing with one supplier of regional services as opposed to two? Even it's…

**Joe Randell**

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We've generally found that to be the case, yeah.

**Walter Spracklin**

Yeah. Now if I were to use the metrics on your current CPA and applied those to the E175, is there anything that I should in a hypothetical basis that should Air Canada wish to further consolidate, is there anything I should bear in mind? Or is there any guidance you can give as to what I should adjust for if I were to look at that potential opportunity for Chorus?

**Joe Randell**

I'd have no idea, Walter.

**Walter Spracklin**

Yeah. But as a base case, I mean it seems reasonable you just use your current CPA terms to apply to the same block hours that would come with an E175 operation. Is that correct?

**Joe Randell**

Well, our fixed fee is established. And it didn't matter for us whether the aircraft were consolidated under one Operator or continued under two.

**Walter Spracklin**

Yeah.

**Joe Randell**

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It’s Air Canada's decision in terms of the fleet deployment, and I guess, really who operates what. We know what our contract is. We know how many airplanes we will be operating of what type up to 2025, and that's really the total visibility we have on it.

**Walter Spracklin**

And that's probably some work that we should be doing on our end and not be asking you, but I'll ask you anyway. Have you looked at what the upside opportunity would be if you got the E175s over on your fleet?

**Joe Randell**

No. We're focused on the business that we have and continuing to provide Air Canada with cost-competitive service. So that's simply our goal.

**Walter Spracklin**

Got it. Okay. Well, thanks very much. That's all my questions. Appreciate it.

**Joe Randell**

Yeah.

**Operator**

Our next question comes from the line of Turan Quettawala with Scotiabank. And your line is now open.

**Turan Quettawala** — Scotiabank

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Yes. Hi. Good morning. I guess just as a quick follow-on there on those E175s. Joe, is your cost—like is the cost that you charge to Air Canada substantially different from what Sky is charging them? One would presume that that wouldn't be the case, correct?

**Joe Randell**

Yeah. We have no information with respect to that. So we're focused on our own costs. We generally benchmark costs on publicly available information, et cetera, but in terms of the comparison and that sort of thing, we really have no comment on that.

**Turan Quettawala**

Okay. Fair enough. Thank you. And I guess just one more question on the leasing side. With the aerospace business kind of seeing a bit of a slowdown here, I know you won't comment specifically, but maybe you can help us understand a little bit in terms of maybe which parts of the world you're thinking about where some of these opportunities might come on the leasing side for you guys?

**Joe Randell**

Generally, it's certainly outside of Canada and maybe even North America is where some of the more significant growth opportunities are in the regional business.

**Turan Quettawala**

Okay. That's helpful. Thank you very much. That's all for me.

**Operator**

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And again, if you would like to ask a question, that is *, then the number 1 on your telephone keypad to ask a question.

And there are no further questions at this time. I'll turn the call back over to the presenters for closing comments.

**Nathalie Megann**

Thank you, Lindsay. We'll now conclude our call, and we thank you all for participating.

**Operator**

This concludes today's conference call. You may now disconnect.

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