FINAL TRANSCRIPT

Chorus Aviation Inc.

Fourth Quarter and Year-End 2016 Financial Results

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PRESENTATION

Operator

Good morning. My name is Lindsey, and I will be your conference operator today. At this time, I would like to welcome everyone to the Chorus Aviation Inc. Fourth Quarter and Year-End 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 star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

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

Nathalie Megann – Vice President, Investor Relations and Corporate Affairs, Chorus Aviation Inc.

Thank you, Lindsey. Hello and thank you for joining us today for our fourth quarter and year-end 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'll direct your attention to the caution regarding forward-looking statements and information which are subject to various risks, uncertainties, and assumptions that are included on Page 7 of our Management's Discussion and

Analysis of the Results and Operations of Chorus Aviation Inc, for the period ended December 31, 2016, the Outlook section and other sections of our MD&A where such statements appear.

In addition, some of the following discussion involves certain non-GAAP measures including references to EBITDA, Adjusted EBITDA, and adjusted net income. Please refer to Section 17 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.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Thank you, Nathalie, and good morning everyone. Thank you for joining us. Twenty sixteen was a pivotal year for Chorus. Our positive results reflect the ability of our team to execute on our strategic priorities. Twenty sixteen delivered net income of approximately $112 million or $0.91 per basic share. Year-over-year, we experienced increases in operating income and Adjusted EBITDA, excluding Other Items, of 1.3 percent and 8.7 percent, respectively. Further, we experienced a 44 percent increase in our aircraft leasing revenue under the CPA, generating $99 million in 2016. I'm very proud of our team's accomplishments and thank our employees for delivering another solid year of financial and operational performance.

Our achievements in 2016 significantly advanced our vision of delivering regional aviation to the world. Our overall fiscal results were in line with our expectations. The Jazz Capacity Purchase

Agreement with Air Canada continues to successfully deliver strong and stable cash flow, as we modernize our fleet and improve our cost competitiveness. Further, the creation of Jazz Technical Services and its success in securing third-party business provides operational efficiencies and potential for future growth.

Voyageur's new structure with renewed focus on its core businesses and the establishment of Voyageur Avparts generated positive returns. The renovations through our second hangar in North Bay are expected to be completed in the summer, and we'll essentially double the footprint for our Voyageur Aerotech business.

We finished 2016 with a significant milestone, the announcement of Chorus Aviation Capital or CAC, as a regional aircraft leasing company. We believe CAC has the potential to become one of the leading players in this growing industry on a global level. The private placement of convertible debt units with Fairfax Financial has provided us with cost-effective and flexible capital that will enable us to accelerate the execution of our regional aircraft leasing plan.

Our objective is to become a global aircraft lessor with a diverse customer base, and fleet of regional jet and turbo-prop aircraft in the 70 to 135 seat range. Chorus is targeting the regional aircraft leasing sector as accelerating global passenger growth and positive airline fundamentals have created strong regional aircraft demand. The regional aircraft leasing sector is currently underserved with few competitors, providing a significant opportunity for growth.

This sector currently enjoys strong yields and sector margins with good access to capital, and the regional aircraft market is characterized by historically stable aircraft deliveries with limited technical obsolescence risk. Over time, we expect that CAC will build a significant diversified portfolio of regional aircraft manufactured by ATR, Bombardier, and Embraer leased around the world and will benefit from support of its sister companies. We are making very good process in the launch of CAC, and have a number of exciting opportunities in the pipeline. We are being very methodical as we assess these opportunities, and are focused on making the right business decisions first and foremost.

Our combined unique capabilities in regional aviation provide us with the opportunity to deliver a full suite of services, including flying operations, maintenance, repair and overhaul, aircraft modifications, aircraft parts and provisioning, airport operations and leasing solutions to regional aircraft owners and operators around the world. This combination of strengths will grow our Company and differentiate us from the competition.

I've seen many examples where Chorus has been able to benefit from collaboration across our Company. For instance, as our older Dash 8-100 aircraft retired and removed from the Jazz operation with the CPA fleet modernization, economic benefits are being derived from these aircraft. Voyageur is either obtaining new contract line missions in Africa or elsewhere internationally, either disassemble and part of the aircraft to feed the parts business or Avparts, or leases these aircrafts to other operators.

Given the innovative in-house engineering of Voyageur, there may also be opportunities to convert or modify these aircrafts to fulfill the specialized missions of customers.

All of this leads to new customer relationships and opportunities. For instance, through one initiative we found a new source of pilots for Jazz. We've never been in a better position to execute on our business diversification strategy and we look forward to updating the market as we achieve material milestones in the development of our business. We remain committed to building additional shareholder value by strengthening the Jazz business, and our aircraft leasing revenues, pursuing growth opportunities for Voyageur, and of course, the further pursuit of other new opportunities.

So, this concludes my commentary, and with that I'll turn the call over to Jolene to take you through the fourth quarter 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 fourth quarter. Here's the breakdown of the fourth quarter financial performance as compared to the same period of 2015. We've reported revenue of $315 million, a decline of approximately 12 percent from the fourth quarter of 2015. The overall decrease in revenue is consistent with the simplification of the CPA whereby many costs, such as fuel, are no longer billed to Air Canada.

Approximately $29 million of the reduction in revenue resulted from this change to the CPA, and operating costs decreased by that same amount.

Further, controllable revenue decreased due to fewer CPA billable block hours and cost efficiencies in the quarter, which accounted for an additional reduction in revenue of approximately $21 million. When you take these reductions out of the equation, operating revenue increased by $7.6 million. This was due primarily to an increase in aircraft leasing under the CPA of $7.2 million.

Adjusted EBITDA, excluding Other Items, was $69.3 million, an increase of $3.7 million. The increase was primarily driven by the $7.6 million increase in operating revenue I just mentioned, partially offset by increased operating costs related to a $2 million reduction in the capitalized labour and maintenance costs on owned aircraft for major maintenance overhauls, and also increased stock-based compensation of $1.8 million which resulted from fluctuations in Chorus' stock price.

Adjusted net income, excluding Other Items of $31.2 million or $0.26 per basic share, declined quarter-over-quarter by $2.5 million. The $3.7 million increase in Adjusted EBITDA, excluding Other Items, was primarily offset by a $3.9 million increase in additional depreciation, mainly related to the new aircraft, and $1.7 million of additional net interest expense on long-term debt. Net income of $12.7 million or $0.10 per basic share was consistent with the fourth quarter of last year.

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 and '17 winter schedule, the 2017 summer schedule and updated planning assumptions from Air Canada, billable block hours for 2017 are expected to range between 360,000 and 374,000, and this is based on 117 covered aircrafts as at December 31, 2017. The actual number of billable block hours for 2017 may vary from this anticipated range due to a number of factors.

Our capital expenditure guidance for 2017, excluding those for the acquisition of aircraft and the extended service program on the Dash 8-300, and including capitalized heavy checks, is anticipated to range between $45 million and $55 million. For additional information supporting our projected guidance for the balance of the year, I'll refer you to Section 8, the 2017 Outlook section of our MD&A for the period ended December 31, 2016.

That concludes my commentary. Thank you for listening. Operator, we can open the call to questions from the analyst community when you are ready.

Q & A

Operator

At this time, ladies and gentlemen, if you would like to ask a question, please press the star, then the number one 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 Walter Spracklin with RBC. Your line is now open.

Walter Spracklin – Analyst, RBC

Thanks very much. Good morning everyone.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Good morning, Walter.

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

Good morning, Walter.

Walter Spracklin – Analyst, RBC

So, I guess, my first question is on your competition. I hear WestJet has announced fairly significant ramp-up in capacity and in Québec. Any comments around that? Was that unexpected, and how do you plan on responding to that ramp in capacity?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Well, our capacity purchase agreement with Air Canada, we have a defined fleet within that agreement and it is really Air Canada's decision as to where and how that aircraft is deployed. Obviously, WestJet has been growing in the domestic market in Canada. At the same time, of course, we’ve been modernizing the fleet as part of our agreement with Air Canada. We're seeing our costs decline (phon) very quickly as we bring in new employees, we’ve had the flow-through pilot agreement with Air Canada, etc. So, the gap is narrowing quickly, and we're in good shape to compete on behalf of Air Canada wherever Air Canada decides to deploy us.

So, I think this has happened in other areas of the country, and our utilization remains high. We see good passenger demand. Of course, we don’t see the yields and things of that nature; that’s really for Air Canada to comment on, or WestJet, but from what we see we are competing well in market.

Walter Spracklin – Analyst, RBC

You’ve generally matched aircraft-for-aircraft with WestJet in many of the routes that they service. With this expansion into those routes, can you comment on the aircraft that you're using that the WestJet Q400 will compete with? Will this be also mostly all Q400s, or could there be perhaps a change in strategy emanating, as you mentioned, from Air Canada with regards to the Q400 and the number of Q400s you're operating in your fleet?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Well, we have a more diversified fleet, certainly on the regional side, that gives more flexibility in terms of the aircraft size that can be put in a lot of these markets. As you know, through our CPA, we will continue to operate a large fleet of Dash 8-300s. These aircraft now, starting over the next—early this year, will be starting into the life extension program on those airplanes. We're going to be putting new interiors in these aircrafts and these aircrafts are very competitive, especially on routes that are under 300-miles, from a speed point of view, etc., and the trip cost on the older Dash 8s would be lower, because they're smaller and more fuel efficient, etc. I see these aircrafts continuing to be deployed. In some cases, when I look at our route structure today and the decisions that Air Canada would make on the deployment of aircraft, in some cases we operate CRJ900s against Q400s. In some cases, we operate Dash 8-300s or 100s against Q400s, and even, of course, a Q400 against a Q400. So, I think we've got a bigger toolkit in terms of the different size of the airplanes that we can operate, the different trip costs, because there are lot of markets in Canada that no matter how low you put your fare, you're not going to be able fill all of the seats, and this is where the Dash 8s—the Classics, as we call them—and especially now with the investment that we're making, I think it will be a very effective competitive tool for us and Air Canada in terms of competing in a lot of the markets in Canada.

Walter Spracklin – Analyst, RBC

On that topic of changing competitive landscape, Air Canada continues to have some aircraft out—some regional aircraft outside of your CPA. You've been successful wining some of that back. Are you aware of the lease terminations or the timing of agreements I should say, CPA agreements with other of their partners that you might be zeroing in on in terms of bidding for or winning over into your mandate?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Not specifically, in terms of that other than to say that we are clearly focused ourselves on improving our competitiveness by providing Air Canada with a very good, dependable, reliable service (inaudible) that is becoming more and more cost competitive as we move forward.

As I said earlier, we're seeing a lot of change in our organization within the last two years, and a lot of this has not been—this has not been growth, but we've actually hired about 1,400 new employees, which are all covered under new collective agreements, etc., which in some cases are lower than our competition in terms of the costs.

So, we are focused on improving ourselves, and by doing that we will be more competitive against WestJet's regional operations, against other regional carriers even that may fly for Air Canada. So, our focus is on our own competitiveness and on our operational performance, and by doing that we believe there will be opportunities for us going forward.

Walter Spracklin – Analyst, RBC

But no opportunities may be coming up this year in terms of potential contract renewals with competitors?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

We will continue to work with Air Canada in terms of providing suggestions, ways of improving and things like that; that's part of our role as a good partner with Air Canada. So, we're going to continue to be focused on improving and looking for opportunities.

Walter Spracklin – Analyst, RBC

Last question on Air Canada. They have the launch or rebranding, pretty sleek looking aircraft. Any of those costs come to you, or is that all Air Canada costs?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

No, that will be covered through our relationship with Air Canada. It's Air Canada's decision to change the color scheme.

Walter Spracklin – Analyst, RBC

Then last question, moving over to now the leasing side. Do you have any irons in the fire right now? Any regions that are peaking higher interest in others that you can share with us?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

We have a number irons in the fire, and I would characterize it as pretty much all of the above. We're looking for those right opportunities, which provide the right balance and risk and reward, and that's what we're focused on. In terms of aircraft leasing, we're looking at that from a worldwide perspective, clearly.

Walter Spracklin – Analyst, RBC

The most common question I get, and I'll throw it over to you just to answer it, is what makes you different? What makes your ability to achieve leasing any different from any of the major financial players that are in the market that could give you a competitive advantage? I'd just love to hear your thoughts on that?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Sure. Well, we are, as I said during my comments earlier, we're really focused on competing in that market but at the same time differentiating ourselves from others in the market. There're lot of people in the narrow-body side, fewer in the regional side, that are there in terms of providing the financing capabilities in terms of the leasing side. What we see is being able to provide a full other suite of services that can relate to support maintenance and aircraft transitions in terms of—which a lot of the leasing companies actually now contract out from one customer to another; parts training, operational knowhow, etc., and for a lot of regional operators in the world, this is very beneficial as we see a lot of growth in the regional side, especially outside of North America. Some of the greatest challenges that a lot of these operators have is really finding that type of expertise and support that can be very beneficial in terms of their operation. It's really through—I listed off a number of areas there where we know this business so well in terms of its different aspects operationally in support, parts, leasing, aircraft transitions, etc.

So, we see ourselves adding a value-added, which, in turn, can really be converted into additional and new revenue sources for us in our different units, Voyageur, Jazz, etc. So, it's very synergistic and we know of no regional—no company in the world that's focused on this market that's really focused on providing that full suite of services. That's what makes us different.

Walter Spracklin – Analyst, RBC

That’s great colour. Thanks very much.

Operator

Our next question comes from the line of Kevin Chiang with CIBC. Your line is now open.

Kevin Chiang – Analyst, CIBC

Hi. Thanks for taking my question; apologies if you went through this in your prepared remarks. Just a housekeeping question first off. With aircraft maintenance, it was down for the year, $30 million year-over-year. I think $20 million of that was due to lower engine overhauls. I'm just wondering if I should be thinking of that picking up in 2017, or how much of that aircraft maintenance line is pretty sustainable looking out into say '17 and '18?

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

The change there, Kevin, really is driven by the fleet transition as we migrate into newer aircraft, and into the Q400s. So, you'll see, I think in 2017 and '18, a bit of an increase just because we got quite a bit of the holiday there and CRJ200's exiting really drove a lot of that decline. I don't think they'll see it return to the full level because it'll be spread over the two-year period, but you'll see a bit of an uptake so you can't just take what we saw in 2016 and carry it over.

Kevin Chiang – Analyst, CIBC

That's helpful. Then I know you've talked about this already, and a little bit about this already; just around the $200 million and the deployment of that $200 million. It sounds like you have a lot balls in the air here. But I just wondered, do you have a timeline on the deployment of that capital, and it sounds like your pipeline is pretty robust but are there anything that's let's call it imminently close to closing here, or are you in the early stages across all your negotiations?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Well, first of all, we have not yet drawn on their capital, and we will have drawn on it by the end of March. So, we do have, as I mentioned, several irons in fire. We're not providing any set dates or milestones at this point because our focus is really just getting the right deals and we're not in a mad rush to put this capital out there unless it is for the type of deal that we really want to have, which is generally longer term nature, the right credit risk with the right returns. So, it's a work in progress, and I think that's all we can really say at this point in terms of the timing on the deployment of the capital.

Kevin Chiang – Analyst, CIBC

That's helpful. Just last one for me, when I think of the fact that you have $200 million earmarked for Chorus Aviation Capital, when I looked at your existing let's call it legacy free cash flow, just looking at 2016 generating $190 million of cash flow from ops, back out $60 million for your divi; it looks like you spent about $50 million on maintenance, that leaves you with a nice kind of $80 million of free cash flow. Given you have these funds earmarked for your leasing business, how should I think about that $80 million? Does that also get redeployed into your leasing operations, or do you look for another diversification opportunity? Just wondering how you think about that additional $80 million there.

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

Yes, I think for now our commitment on the equity side is the $200 million injection that we're putting in, and we'll lever up Chorus Aviation Capital with that. The excess cash flow that’s coming off, I take it when you ran your numbers there you factored in the additional financing associated with that convertible debt, that will be drawn down on. I guess that’s our discussion as we kind of move forward and we’ll watch to see how Chorus Aviation Capital unfolds here and what opportunities are available and make decisions based on that. But right now, what we're working with from a capital deployment perspective for the leasing business is the $200 million in equity.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

The good news is that we’ve got some good flexibility there, and you know, (inaudible) the right opportunity.

Kevin Chiang – Analyst, CIBC

Maybe another way, if I could ask it, is, when you look at your other diversification opportunities, either through Voyageur or just broadly speaking your MRO of growth plans, would they be relatively capital intensive as you look to grow those businesses, or should we expect that to be as we’ve seen recently, which is to have a kind of more of an organic growth and not necessarily too heavy on the balance sheet?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

More organic growth in the—no huge capital expenditures required. We have the ability to bring in more business with JTS here in Halifax, and also in North Bay. I think I mentioned that we own those facilities up there. We've done some renovations, but the capital draw is not on as we prepare to be able to bring in growth.

Kevin Chiang – Analyst, CIBC

Perfect. That's it for me. Thank you very much.

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

Thanks, Kevin.

Operator

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

Cameron Doerksen – Analyst, National Bank Financial

Thanks. Good morning. Just want to follow-up on the question that Walter asked just with regards to your competitive advantages in the leasing business. I think everything you outlined there make perfect sense. I'm just wondering what you think about your relative standing with regard to borrowing costs, I guess maybe there is potentially some other higher credit rated companies out there that are in the leasing business. Do you think that you have borrowing costs that are competitive? If not, is all the other advantages you outlined enough to more than offset that?

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

I think you can look at what we've done so far on the leasing structures that we set in place, whether it be through the CPA or with the Nostrum deal that we announced. I think you'll see, Cameron, that the costs of financing that we put together with those deals through EDC was actually very, very competitive, and so that's certainly on the mark and consistent with what our competitors have. Then when you add on top of that the additional items that we bring to the table that Joe had kind of taken you through there, we feel we'll be right in the right range. It's not just restricted to EDC financing Bombardier product; there is other export credit agencies available out there that support ATR and support Embraer that are available to us as well.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Generally, the leasing business, there's also a lot trading that goes on in the leasing business where one lessor may have a small orphan portfolio of regional aircraft that in some cases comes with financing attached. So, I think we're feeling pretty good about our competitiveness in terms of being able to put together competitive lease arrangements for our customers.

Cameron Doerksen – Analyst, National Bank Financial

Okay, great. Just a question on the leasing revenue that you're reporting, thinking about for the full year 2016, the CPA leasing revenue. I guess Q4, I think it was $27 million, close to $100 million for the full year. I'm just wondering if you can maybe give us some kind of indication of where you think that CPA leasing revenue is going to be in 2017. I mean, I guess we'll have the five additional CRJ900s. Is there anything else that may contribute to that number?

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

So yes, you can work into, Cameron—you're right. I mean all 34 Q400s that we'll have deployed in 2017 are now in the fleet and so, you can take that $99 million, I guess, and do you proration based on when the Q400s came in throughout the year. Then in addition to that, we'll have the five CRJ900s, as you pointed out. Those CRJ900s will be deployed in second quarter of 2017. So that, you wouldn't factor them in in the first quarter but start to roll them in in the second quarter, and pretty consistent with what you're seeing there as far as lease rate factors on the Q400s would be a good proxy for you to model.

Actually, Cameron, I think if you go to the Investor Presentation that's on our website, we do kind of layout there some slides. There is a slide in there that lays out on average what we're going to expect to see in lease revenue under the CPA for the time period 2016 out to 2020,and then beyond, and so you can pick it up from there as well to get you back in.

Cameron Doerksen – Analyst, National Bank Financial

Okay, I'll have a look at that. So, if I think about it, just the quarterly run rate in Q4 would probably be—that would have included I guess all the Q400s, so that would be a good run rate to go with plus the CRJ900s coming in in Q2?

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

Yes, and that quarterly run rate in Q4 pretty much had all 34 in there; a lot them came in throughout the last little bit of the quarter but that's a good base, for sure.

Cameron Doerksen – Analyst, National Bank Financial

Okay, and maybe just finally for me, just maybe you can comment on the charter and contract to revenue flying, just what your expectations are for 2017? I mean, I know you've won some new business there. Should we expect growth in that business for 2017?

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

Yes, you'll see a little bit there for sure. On the Voyageur side, we did see a bit of a decline I think in the middle of the year on contract flying revenue, and we're seeing that start to pick up again. That kind of just goes up and down just with the nature of the business. So, we have a number of bids out there and we landed a few new bids, and so you'll see that pick-up a little bit in comparison to what's there for '16.

The other piece, I mean on the Voyageur Aerotech side where we have a fair amount of in-house work for the first half of the year, and we did actually for the last half of the year as well, so a lot of our capacity was being chewed up internally, so that should be pretty even.

But the other piece, as you know, we've announced a couple of new contracts from a third-party side on the Jazz heavy maintenance side of things. That, we won the contracts for CRJs for Georgia and then we won another Dash 8 contract. So, we're going to see a number of third-party heavy maintenance activity events in 2017 that are related to those two contracts.

If you think about the aircraft, I think in general we have with those two operators, there's probably about 20-some events going to occur next year related to those two operators. So, I think it'll be a healthy little pick up. I mean, that's not the big line item anyway, but you should think about up-lifting it for that work.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

There was this past year a little softness in the domestic charter business, of course because of Western Canada and some of the changes that have occurred out there because of the oil prices.

Cameron Doerksen – Analyst, National Bank Financial

Right, right, okay. very good. That's all I had. Thanks very much.

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

Thank you.

Operator

Again, ladies and gentlemen, that is star, one on your telephone keypad if you would like to ask a question. Our next question comes from the line of Tim James from TD Securities. Your line is now open.

Tim James – Analyst, TD Securities

Thank you. Good morning. First question, and forgive me if you commented on this earlier in the call, but I was wondering if you could talk about the strategic advisory costs and the employee separation costs that occurred in the quarter, and if you expect those to continue into 2017? If so, if you can kind of roughly quantify what they might end up being?

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

Yes. So, the strategic advisory costs were more related to the launch of the leasing business, and some strategy planning around that, so that would be characterized, Tim, as more of a one-time item. I wouldn't expect that to occur on an ongoing basis.

The employee separation costs, so that relates to our continued effort to change the demographic of our work force and exit the more senior, higher-scaled work force, and so to some degree there will be continued costs related to that, just as we continue that effort. We're not going to stop that effort even though the majority of our collective agreements are actually tied up and complete. We're not going to stop that effort, and we're going to continue to look for opportunities that make business sense for us to exit that higher demographic and bring in new scale level employees.

Is it going to be huge numbers like it was a number of years ago? No, because the majority of the collective agreement heavy lifting is done, but we'll continue to see a little bit of expense there.

Tim James – Analyst, TD Securities

So, I mean, is Q4 the number a pretty good run rate for that then? I mean, is the turnover on that front from that initiative, what we saw in this quarter? Is that the kind of run rate to anticipate going forward, I mean for couple of more years potentially? (Inaudible) there's always a long-term benefits to this so you'll be pushing it almost indefinitely, I suppose.

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

Yes, we'll be pushing it indefinitely. I mean, that's $2 million in—hard to say, $2 million in one quarter, whether that's going to replicate itself and annualize; I think that's probably a little high. You might want to take that $2 million and maybe for two quarters, so maybe double it and take that, as far as kind getting a sense. I think a million dollars a quarter might be a good number to use.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

But as time goes on, as we exit the senior staff and that sort of thing, this basically should be declining, right? This is not something that’s going to continue at the same run rate forever. We're making a lot of progress here, so we're getting through it.

Tim James – Analyst, TD Securities

Okay. My second question, just looking at the regional aircraft leasing market, I’m wondering how we should think about it in terms of new aircraft opportunities versus pre-owned aircraft. What I'm trying to understand here is how much I should think about the opportunities based on what's arguably a weak or relatively weak new aircraft market that we’re seeing right now in regional aircraft, and how much can kind of pre-owned opportunities offset some of that weakness, or create a bigger pool of potential leases than what we would think about just by looking at new deliveries over the next couple of years?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Well, when you talk about the regional market itself, roughly 24 percent of the world's fleet are regional aircraft. We're continuing to see that the order book is basically full in the regional business for the next couple of years, and we're seeing good growth in various other regions of the world in the regional aircraft market, for sure. So, I think the market, from our point of view, is strong and we're seeing sale leaseback opportunities, we're seeing portfolios that are available out there, and we're seeing reasonably good demand.

When you look at the number of aircraft that has been produced within the regional area, it's generally, over the last number of years, been about 250 airplanes a year. We see that level continuing. As we've said before, there is no reason to believe that the operating lease requirement in the regional aircraft business shouldn't be close to where it is in the narrow-body side, which is about 40, up to 50 percent of new production as well.

Traffic is growing well. Traffic generally grows about twice whatever GMP (phon) is, and we're seeing a 6 percent growth roughly annually in airline passenger traffic around the world. I think 50 percent of passengers travel under 500 miles; 30 percent passengers travel under 300 miles and that's good for the regional business.

Tim James – Analyst, TD Securities

Okay, maybe if I can just ask the question or kind of build on it, slightly, and I am not sure you'll be able to answer this but I'll try anyway. If we look out, say three to five years of this business, and we think about the portfolio at that point in time, is it possible to provide some sense of your thinking on how much of the portfolio will have been built from new aircraft coming off the production line and being delivered and how much of the portfolio will be based on aircraft that are currently in the regional operating fleet today? It doesn't have to be exact, but just, you know, will it be 50/50? Will it be heavily skewered towards new aircraft coming off the production line over the next five years?

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Generally we like the new originations because the leases tend to be longer, which, of course, is beneficial. At a midlife, there are midlife opportunities out there of airplanes that are three to eight years of age; generally they're around five years and in some cases these airplanes are redeployed into other operators as well. Then as I mentioned earlier, we have opportunities for sale and leasebacks where regional airlines decide that rather than actually owning the airplanes themselves, even though they've negotiated the purchase, they would prefer to actually lease these aircraft.

So, our process is about balance. It's about balancing these off because having staggered returns in leasing, diversified midlife versus new aircraft, and generally the midlife aircraft can provide added benefits to other parts of Chorus as well, as these aircraft transition, etc. So no, we're not putting out any specific targets or mix but we see advantages in each of those areas, so we're focused on all of the above.

Tim James – Analyst, TD Securities

Okay, great. Thanks, Joe.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

You're welcome.

Operator

Again, ladies and gentlemen, that is star, one on your telephone keypad to ask a question. Our next question comes from the line of David Tyerman with Cormark Securities. Your line is now open.

David Tyerman – Analyst, Cormark Securities

Yes, good morning.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

Good morning.

David Tyerman – Analyst, Cormark Securities

My first question is on the block hours guidance. It looks like it's up about 7 percent this year at the midpoint. How should we think about that on the revenue and EBITDA, from a revenue and EBITDA standpoint?

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

I guess I would say take the past history, like the 2016, 2015 years and use the block-hour distribution that would have occurred in each of those years against kind of our operating expenses and the generation of EBITDA to kind of get your sense. I mean, that stuff, that’s model. There is some variation that occurs based on your unit production and stuff, but I think now having two years of run rate under the CPA and the distribution of the fixed fee comp over that timeframe, that's the best information to use.

David Tyerman – Analyst, Cormark Securities

(Inaudible). Just on that, on the revenue side, presumably the only one that would move under this would be the controllable or is that not right?

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

Yes. I mean the controllable, you're going to take out your fuel because that contaminated a bit of the results for 2016, but the controllable revenue will move a bit, and there’s two moving pieces to that, right? There’s the billable block-hour piece, but also there is the cost efficiency pieces and as we get more cost efficient and our costs reduced, given the nature of the annual resetting, that doesn't hit the bottom line; generally it gets passed to Air Canada but that's playing in there to a degree as well.

Joseph Randell – President and Chief Executive Officer, Chorus Aviation Inc.

The beauty of it is that the cost reductions, although they reduce our revenues and our costs, really don’t affect our bottom line.

David Tyerman – Analyst, Cormark Securities

Right, fair enough. Then just on the CAPEX, the $45 million to $50 million, is that a good number for a few years now do you think? Or, should we be thinking something different in the longer term?

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

Yes, I think that's fair. I mean, sometimes we have a little bit of fluctuation, as you know, in kind of the capitalized heavy checks and that number in there, because it varies depending on what aircraft are owned versus not owned from an accounting perspective, and what gets capitalized. So, there's some variation there, but that's a pretty good number. You know that for the 2017 year, that guidance excludes anything on the aircraft acquisition side. So, beyond what we have in hand for Air Nostrum, so that doesn't factor anything in related to that.

David Tyerman – Analyst, Cormark Securities

Right, right, and just related to that, it does look like it includes the Dash 8 lifecycle extension program.

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

Yes.

David Tyerman – Analyst, Cormark Securities

That piece, how big is that? That's going to go on for a number of years I believe, so how long (inaudible)?

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

Yes, sure. Yes, it goes on into 2019, and a little bit of trickle-over I think into 2020, as well. So, for 2017, we would have included $14.6 million in costs related to that in the outlook section, for CAPEX; 2018 we're going to hit $25.3 million, and 2019 $6.4 million. All that, David, it's in the capital commitment section of the MD&A, so and all of that, it's in the CAPEX, it'll roll into capital expenditures.

David Tyerman – Analyst, Cormark Securities

So, it sounds like I should logically expect 2018 CAPEX, the guidance number you give, the 45 to 50, maybe to tick-up a million, and then tick down $20 million in 2019 kind of thing?

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

Yes, you can lift it by that amount, for sure.

David Tyerman – Analyst, Cormark Securities

Okay. Then to the last question, just a clarification. The Voyageur revenues, do they—from the description you're giving, I got the sense that almost of it's going through the Charter and Other Contract. Is that correct?

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

It hits in two spots. It hits in both the Other Revenue section and the Contract Revenue section. Let me pull it up here. Charter and Other Contract revenue, that will include the contract flying portion of Voyageur, which is about 70 percent of their revenue, and the Other Revenue section would pick up the maintenance, repair and overhaul side of Voyageur which, that combined with the parts provisioning business is about 30 percent of revenue.

David Tyerman – Analyst, Cormark Securities

Is there much else in Other, other than Voyageur? (Inaudible). Other other.

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

Other other? No, that's—the Voyageur MROs will go there, and the Jazz MRO, the JTS contract, will go there as well.

David Tyerman – Analyst, Cormark Securities

Okay. Okay, perfect.

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

So, I guess when I spoke before, I was kind of grouping those two together as far as looking at Other revenue beyond the CPA and beyond the leasing business. I was looking at Charter and Other Contract flying revenue combined with the Other revenue together when I kind of encapsulated that response.

David Tyerman – Analyst, Cormark Securities

Right. Okay, that's very helpful. Thank you.

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

You're welcome.

Operator

There are no further questions in queue at this time. I'll turn the call back over to our presenters.

Nathalie Megann

Thanks very much, Lindsey, and thank you all for just sitting on the call. We wish you a pleasant day. Thank you.

Operator

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