FINAL TRANSCRIPT

Chorus Aviation Inc.

First Quarter 2020 Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Chorus Aviation Inc. First Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode.

After the speakers' presentation, there will be a question-and-answer session. To ask a question during this session, you will need to press *, 1 on your telephone.

Please be advised that today's conference is being recorded.

If you require any further assistance, please press *, 0.

I would now like to hand the conference over to your speaker today, Nathalie Megann, Vice President, Investor Relations.

Thank you. Please go ahead.

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

Thank you, Operator. Hello, and thank you for joining us today for our first quarter 2020 conference call and audio webcast.

With me from today from Chorus are Joe Randell, President and Chief Executive Officer; and Gary Osborne, Chief Financial Officer.

We'll start by giving a brief overview of the results and then discuss the impact of COVID-19 to our business and what we're doing about it, and then go on to questions from the analyst community.

Because some of the discussion in this call may be forward looking, I direct your attention to the caution regarding forward-looking information and statements, which are subject to various risks, uncertainties, and assumptions that are included or referenced on Page 45 of our Management's

Discussion and Analysis of the results and operations of Chorus Aviation Inc. for the period ended March 31, 2020, 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 financial measures, including references to EBITDA, adjusted EBITDA, adjusted EBT, and adjusted net income. Please refer to section 18 of our MD&A for a discussion related 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, Natalie, and good morning, everyone. It's difficult to know where to begin. We are in unchartered territory.

We entered this pandemic from the strongest position in our history, having a solid balance sheet, customer base, and growth prospects. Our growth trajectory generated increases in adjusted net income and adjusted EBITDA of approximately 31 and 18 percent, respectively, quarter over quarter.

We won't spend much time discussing the first quarter, as most interest is in the near future. Our efforts remain focused on ensuring the well-being of our employees and passengers, reducing costs, and bolstering our liquidity as we prepare for the lifting of travel restrictions.

We've been prudently and responsibly managing our financial resources and have eliminated all discretionary cash flows, including our dividend, as announced last month.

We have reduced our workforce to match our operational demand; reduced compensation for management, administrative employees, and our Board of Directors; and deferred capital spending. Gary will take you through the specifics of these measures in a few minutes.

No one can predict how long this crisis will last, or what the ultimate impact will be on the aviation industry. Most airlines are downsizing the number and size of aircraft in their fleet and accelerating the retirement of older aircraft.

There have also been deferrals of new aircraft acquisitions, causing an associated decline in production rates by aircraft manufacturers. However, airlines will still need to improve operating efficiencies and replace existing aged aircraft over time. As the recovery unfolds, we believe there will be new opportunities for aircraft leasing, as several carriers opt to lease versus purchase aircraft.

We are seeing promising airline activity in Asia and in some parts of Europe, where capacity is starting to ramp up as travel restrictions start to ease. As such, and as history has shown in times of economic downturn, it's regional capacity that comes back first since most carriers are starting with building domestic operations utilizing smaller-gauged aircraft.

There are a few examples of this with some of our airline leasing customers. We understand Croatia Airlines resumed some domestic service utilizing Dash 8-400s, KLM has started to gradually restore its European network by flying Embraer jets, and Lion Air has started to resume limited domestic operations.

This crisis has affected our business in various ways. We've been working closely with Air Canada and have reduced our Air Canada Express capacity by 90 percent for April and May, resulting in over 70 aircraft being parked and approximately 65 percent of the Jazz workforce being placed on inactive status.

We have temporarily shut down our Jazz Technical Services operation, and the associated employee reductions are included in the 65 percent.

Our focus has been on ensuring the health and safety of our active employees and implementing the necessary policies and processes to ensure business continuity. In conjunction with Air Canada, we are implementing the customer Clean+ (sic) [CleanCare+] program and working on flying resumption plans.

At this point, we believe the CRJ900 aircraft will be an important part of the recovery schedule, given its size and economics. With Bombardier restarting its production line, we now anticipate commencing the delivery of new CRJ900s later this year.

In April, Jazz became the launch customer for the Dash 8-400 simplified package freighter developed by De Havilland Canada. Jazz ordered the service bulletin and conversion kits for up to 13 aircraft to commence cargo flying under the CPA. This simplified package freighter allows us to redeploy aircraft while contributing to the collective fight against COVID-19 by supporting our customer, Air Canada, and the delivery of essential cargo.

On the leasing front, except for UK-based Flybe, our portfolio of leasing customers remains intact.

CityJet and Virgin Australia have voluntarily entered a restructuring process. We have a total of five aircraft with these two carriers. Both carriers continue to operate, and we hold security deposits in respect of the aircraft we have under lease. We also have a 24-month remarketing period available under our loan agreements, should the need arrive.

We are working cooperatively with our lessees as we try to manage through these difficult circumstances. We've provided temporary rent deferrals to substantially all our lessees for a period of between three and six months, with repayment terms between 6 and 24 months. Given our lease portfolio is geographically diverse, we expect to see a variation in the ramp-up speed and financial stability of these airlines. Our approach with our customers is to work with them to our mutual benefit.

Consistent with market norms, our leases are for a fixed term, contain an absolute payment obligation on the part of the lessee, and cannot be terminated for convenience.

While we do expect our industry, and especially the regional aviation sector to recover in time, we are pausing our growth plan of adding up to 20 aircraft per year to preserve liquidity.

At Voyageur, we've been fortunate that the impact on our contract flying has been mitigated by the essential nature of the humanitarian and peacekeeping operations, as well as our air ambulance operation in New Brunswick. However, our part sales and our specialty maintenance, repair, and overhaul work are showing declines related to reduced airline operations and this is being somewhat positively offset by several government customers and contractors.

Prior to this crisis, we were flying over 700 daily flights to 90 North American destinations, many of them being remote communities and eight of which we were the sole air operator. Today, we're operating fewer than 60 daily flights and have ceased operations at 36 airports.

Billions in government assistance has been announced for airlines around the world in recognition of their role as critical infrastructure. The Government of Canada announced this week the creation of the Large Employer Emergency Financing Facility, which we will review to determine our next steps.

We believe air service to regional communities is a critical component to stimulating the return of the Canadian economy. We remain hopeful that the Government of Canada will spearhead a collaborative effort amongst all stakeholders in aviation to address the many additional measures required beyond financial support to ensure the safe and timely reopening of air travel in Canada.

As Gary will explain, we have a strong liquidity position with combined cash and committed facilities of over 265 million, providing us with the ability to navigate through this period and emerge positively on the other side.

In these times of great stress and uncertainty, I'm inspired by and thankful for the energy, resilience, and commitment of our employees. Our employees are amongst the most talented in the industry, and I'm deeply troubled by the uncertainty and anxiety this is causing them and their families.

Together, our team has overcome significant challenges, and I'm confident this crisis will be no different. We want to be ready to capitalize on opportunities that will inevitably arise.

Thank you, and now I'll pass the line over to Gary.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Joe, and good morning. I echo Joe's sentiments on the resiliency and strength of our employees. We truly have an incredible team, and I am confident we'll get through this period together.

Our financial performance in the first quarter had adjusted EBITDA at 88.7 million, a $14 million increase over first quarter 2019. We also saw an adjusted net income of 25 million in the quarter, a $6 million increase over last year which led to an increase in adjusted EPS at $0.16 versus $0.13 last year.

Net unrealized foreign exchange losses on long-term debt of 55 million drove the net loss of 17.3 million over first quarter 2019. As noted in our MD&A, the losses do not materially affect current or future cash flows, as we bill the revenue in the same currency as the debt payment.

Overall, the growth in our Q1 earnings was driven by our regional aircraft leasing segment, which increased by 24 aircraft and resultant adjusted EBITDA by 16.5 million and adjusted EBT by 4.8 million over the same period last year.

The Regional Aviation Services segment had a reduction in adjusted EBITDA of 2.6 million, but a small increase in adjusted EBT of 0.3 million.

The CPA financial results were within our expectations, but we had some headwinds in the aircraft parts sales and MRO side of the business, given the slowdown with COVID-19, along with an increase in other general administrative expenses.

As we have seen, COVID-19 has disrupted our daily lives and with it the economy. Like most businesses, we have taken and continue to take numerous substantial measures to protect our company. These protective measures include initiatives for the physical well-being of our employees, passengers, and customers, along with significant steps to enhance our liquidity, including reducing costs and capital spending as we resize our operations to meet current demand.

As Joe mentioned, we currently have over 265 million in committed liquidity. In addition, we expect to raise financing of between 30 million and US$50 million on four unencumbered aircraft, bringing the total anticipated liquidity to approximately 310 million.

During the quarter, we saw our restricted cash position increase by 21.3 million, given some of our regional aircraft leasing customers were no longer current in their rent payments to Chorus. Once we have completed finalizing rent deferral agreements with our lessees, we expect most of the restricted cash increase we saw in Q1 will be released back into our unrestricted cash balance and remain there, provided our lessees remain compliant with their rent deferral agreements.

As previously announced, we suspended future dividend payments and the dividend reinvestment plan until further notice. This is estimated to save approximately 55 million in annual cash dividend payments when taken into account a DRIP participation rate of 29 percent.

Our growth plans have been delayed, and we're no longer projecting the addition of up to 20 aircraft to our leasing portfolio. Our current aircraft and ESP growth CapEx forecast has been reduced by approximately 95 million and only includes the nine committed CRJ900s for the CPA operation; two aircraft to an undisclosed customer; and three ESPs of which one was completed in the first quarter, with another currently undergoing the program.

Last month, we did collect approximately 25 percent of our contractual revenue for the Regional Aircraft Leasing segment. The deferral of rents by most of our lessees are estimated to increase trade receivables to an aggregate amount of between 40 million and 60 million at its peak over the next two quarters.

On the Regional Aviation Services side of the business, we have seen a significant reduction in flying at Jazz due to COVID-19, particularly in Q2. With this reduction in flying, we are estimating the Controllable Cost Guardrail receivable from Air Canada could increase between 20 million and 40 million by the end of the year as compared to 2019. This is due to the unpredictability in the flying levels and its impact on our rates. Under the CPA contract, this amount will be subsequently paid by Air Canada in Q1 2021.

In addition to the employee reductions, we've enacted several cost reduction initiatives, including employee salary and board fee reductions. We've also reduced our nongrowth CapEx and other capital expenditures by approximately 15 million versus our Q4 2019 outlook.

Capital expenditures in 2020, including capitalized major maintenance overhauls, but excluding expenditures for the acquisition of aircraft and the ESP, are expected to be between 23 million and 29 million. Aircraft-related acquisitions and ESP capital expenditures in 2020 are expected to be between 349 million and 355 million.

For additional information supporting our outlook for the balance of this year, I'll refer you to Section 4 of the 2020 Outlook section of our MD&A for the period ended March 31, 2020.

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

Thank you. As a reminder, to ask a question you will need to press *, 1 on your telephone. To withdraw your question, press the # or hash key. Please stand by while we compile the Q&A roster.

Your first question comes from Konark Gupta with Scotiabank. Your line is open.

Joe Randell

Morning.

Konark Gupta — Scotiabank

Morning. Just a few questions maybe just on receivables. So you mention in the MD&A that you have about 300 million in current portion of contracted lease receivables. Does that include the 53 aircraft that are currently under lease with Air Canada?

And then secondly, when you said 40 million to 60 million increase in receivables over the next two quarters, were you referring to the lease payment deferrals for three to six months?

Gary Osborne

So the lease receivables in the financial statements that you're talking about, the 300-and-some million, yes, I do believe it includes the Air Canada piece.

On the 40 million to 60 million, that relates to the third-party non-Air Canada-related receivables on rentals.

Konark Gupta

Okay. So the increase in receivables, the current receivables, will reflect in that receivable amount? And apparently that receivable does not show up in working capital. Is that correct?

Gary Osborne

No. It does show up in the working capital side of the accounts receivable. And—

Konark Gupta

Actually—okay.

Gary Osborne

Yeah.

Konark Gupta

Yeah. No, I was actually more referring to I think there was commentary in the MD&A that says that the working capital is not a good measure of liquidity because the current assets do not include the current portion of lease receivable.

Gary Osborne

Right.

Konark Gupta

So I was just kind of, yeah, making sure. What does that mean with respect with this amount?

Gary Osborne

Yeah. Yeah. No, that was put in, I think, in Q4. It just reflects the fact that you put in a current portion of the future payment obligations, but yet we have all those lease amounts coming in, so.

Konark Gupta

I see. Okay. Thanks. And then secondly with respect to your leases with Air Canada and other customers, even if you agree to collect payments after 6 to 24 months, will you keep recognizing revenue and EBITDA from those leases at rates similar to pre-COVID levels?

Gary Osborne

If we're into a situation, as we are now, where it's a deferral of the rentals paid back over a period of time, yes, we would continue to recognize our revenue at the same rate that we see. So as long as it's deferral on the receivable, that's what we would do.

Konark Gupta

I see. So it's just the cash that's being delayed?

Gary Osborne

That's—

Konark Gupta

Not the revenue—

Gary Osborne

Yeah. That's a cash on hand issue. So hence—

Konark Gupta

All right. Okay.

Gary Osborne

—why we put the disclosure in on the receivables side so you would be able to model and understand where that could go.

Konark Gupta

Okay. No, that makes sense. And lastly for me, you still have the nine CRJ900s in the CapEx schedule. I was just curious because somebody just announced that they're closing the sale of their CRJ business to Mitsubishi on June 1st, what do you anticipate in terms of timing of those nine CRJ900s? And will they be coming from Bombardier or from Mitsubishi?

Joe Randell

Yeah. We're still working through the exact timing of the delivery of those aircraft, but we do anticipate a commencement around midyear.

Gary Osborne

Yeah. And in our CapEx forecast, we left them in for the full year until we know more where Bombardier sits as far as that production line. They were attempting to close it by the end of the year, hence why we left the CapEx as it is.

Once we get an update from Bombardier, we'll go back at that appropriately.

Joe Randell

Yeah. We're working to have the delivery schedule updated, and there is a possibility that you may have some of that flow into next year. But we're uncertain on that at the moment until we get firm delivery schedules from Bombardier.

Konark Gupta

Okay. Thanks. I'll turn it over. Thank you so much.

Operator

Your next question comes from Walter Spracklin with RBC Capital Markets. Your line is open.

Walter Spracklin — RBC Capital Markets

Yeah. Thanks very much. Good morning, everyone.

Joe Randell

Morning, Walter.

Walter Spracklin

So I'd like to start with a few questions just on the post-COVID-19 environment to the extent that you can see it. So not asking you when it's going to happen, but just moving into the future and it's in our rearview mirror.

Joe Randell

Mm-hmm.

Walter Spracklin

How would you describe the early ramp-up in airline capacity? When I asked that to Calin in his call, he indicated that domestic would be the first—

Joe Randell

Mm-hmm.

Walter Spracklin

—to come out. And if that's the case, would you see a bit of an overservicing of regional aircraft during that early phase of ramp-up where that you'll ramp up a lot quicker than, call it, your overall airline that would have international, leisure, domestic, transport (phon), and all that included? Would you expect to see that kind of more rapid ramp up in your business?

Joe Randell

Well, we are seeing that. First of all, when you look at the fleets around the world, the percentage of regional fleet actually grounded as a percentage of total fleet is less than narrow-body and wide-body. I think if you look at it, the largest percentage of fleet grounded is our wide-body aircraft. So you're sort of starting from there.

Number two is we are seeing short-haul domestic markets come back first in Asia; I think I mentioned that now with KLM in Europe. And so we're seeing those markets showing some green shoots, I guess, earlier on, certainly before any of the long-haul or international services. I think domestic markets are the ones that countries will generally feel most comfortable opening first. And there are a lot of domestic markets that as they ramp back up will require services in terms of remote communities and et cetera. And the loads, I think, initially will probably be somewhat lighter.

So some routes that originally would have had, for instance, a 320 on may be better suited to a CRJ900 because the trip costs are lower, et cetera.

So I think of the segments of the business, we're in the one that, I think, is showing the earliest sign of return. But again, it depends on the speed of these travel restrictions being lifted. In Canada right now, we're seeing travel restrictions between provinces, and that's not particularly helpful in terms of getting travel back up in the air. But there at least, I think, is increasing pressure on governments and as the curve starts to flatten, an increased interest in getting back up in regional and some of the domestic markets.

Walter Spracklin

Keeping with the post-COVID environment, I guess. When these airlines, the ones that come through this, when they come out they're going to be in a much more debt-laden situation; a lot more focus on liquidity. Do you expect that leasing, therefore, as opposed to outright ownership will be more prevalent than would have been the case prior to COVID-19 at least in the maybe early months and years?

Joe Randell

Yes. We do believe that. And I think we're seeing some evidence of that, actually, because some of the airlines that were previously stronger credits—and I think most airlines in the world have decreased in terms of their credit ratings—these airlines are more and more focused on their own liquidity. So we're seeing opportunities in the business, for instance, in terms of sale and leasebacks both of new fleet because we still see aircraft like A220s and aircraft like that actually being in good demand.

So I think that some of the carriers that may have financed those themselves previously will now look at sale and leaseback opportunities, sale and leaseback of existing fleets because it's all going to be about liquidity.

But we're not acting on those because for us, it's about preserving our own liquidity. But we're keeping a very keen outlook on how the leasing business ultimately comes out of this. And we believe that there will be good demand.

Walter Spracklin

So on that, if there is good demand coming out and taking your experience in the current environment into consideration, are there any major changes you would put into the lease terms that you didn't have before? I know, Joe, you mentioned security deposits and so on. Would you require higher security deposits? Would you—is there anything that you would change with regard to the lease term? And is your, let's call it, the price of a lease going up as a result of the higher demand and the arguably more risk that is out there that perhaps we didn't consider before?

Joe Randell

Well, certainly, security is so important here in term of lease, but also things like deposits, maintenance reserves, things of that nature, and those are the things that give you comfort as a lessor. So we'll certainly be looking for a lot of those things. And so there's that.

And also looking more closely on business plans because how the industry evolves from this and the travel patterns, et cetera, will influence this. But as well, we are seeing a lot of instances where governments are actually supporting their carriers through both capital injections and loan supports and things of that nature, and that gives us some comfort there.

But on the lease rates themselves, I think it'll be a function of the cost of debt and what the cost of debt will be, I think, coming out of this. And as we've said before, generally, the leases—then the lease amounts will float with whatever that cost of debt is. So it's early on to tell exactly what it's going to look like.

But those are just a few thoughts right now in terms of the types of credits that we're interested in, the types of deals, and where some opportunities may lie.

Walter Spracklin

Just two quick questions here to wrap up for me. We had Air Canada at our conference yesterday, and there were a lot of questions being asked about Air Canada's CPA with you. Do you know, or can you shed any light on whether Air Canada has sought to revise their CPA? And if they were to, even if they haven't, is there accommodations that could be made, much like you did, I think, it was maybe 10, 15 years ago where Air Canada requested changes, but in return you were able to achieve lengthening the contract and so forth?

Joe Randell

Well, we're working very closely with Air Canada, probably more closely than we've ever worked in terms of responding to this crisis, to the situation. And Air Canada, as you know, is believing that it will take some time to recover from this. In terms of the industry, the shape of the industry will be somewhat different. And, therefore, our communication with Air Canada will be around how this evolves and how things happen.

Up to this point, our work with Air Canada, though, has been more on removing operational costs. And perhaps going forward, there may be some opportunities to reduce some fixed costs. And we always speak with them. We're always willing to work with them as a partner. I believe the CRJs will play a pretty critical role in the Air Canada network, et cetera. And we do provide a lot of very unique services.

So we're going to work with them, but as always, we will work to satisfy their requirements, but always on a win-win basis. And that's the way we've done it time and time again. And the industry keeps changing and evolving, and we always have to be open to change, absolutely, and something that works for our partner. But whatever it is, it has to work for us as well.

So again, it's in the early stages. How it all comes back, the time frame, the whole network is from our perspective right now a to-be-determined.

Walter Spracklin

Okay. Last question for me. I noted you had a shareholder rights plan amendment there. Can you—I get this question a lot. So anything that that prompted that? Any colour around that? And I'll leave it there.

Joe Randell

Yeah. No, I think in this environment where share prices are very, very volatile and we saw such a dramatic drop in our share price, et cetera, we just thought that it would be prudent in this environment to do whatever we can to protect the rights of our existing shareholders to ensure that nothing untoward happens. And that we, again, look to bring back maximum value to our shareholders.

So there was no particular action that have caused us to do that, none that we know of, and we just did it simply as a precautionary measure.

Walter Spracklin

Okay. That's it for me. Thanks very much, and hope everyone's keeping well and safe.

Joe Randell

You too.

Gary Osborne

Thank you.

Operator

Your next question comes from Kevin Chiang with CIBC. Your line is open.

Kevin Chiang — CIBC

Hi. Good morning, and thanks for taking my question. Maybe first off just on the trade receivable disclosure, the 40 million to 60 million of, I guess, peak trade receivables over the next two quarters. If I look at—I guess the question is is this the right way to look at it—if I think of the quarterly revenue run rate for Chorus Aviation Capital, looks like about 40 million a quarter, so over two quarters that's about 80 million. That suggests, I guess, a cash conversion rate of anywhere from kind of 25 to 50 percent, and you're seeing a 25 percent collection rate now, I guess. So I guess does that suggest that April's kind of the low point or you see that kind of being the low point for cash collection on lease deferral requests and it can only improve from here? Is that the underlying assumption you're making with that trade receivable guidance?

Gary Osborne

Yeah. I guess the way we calculate that, I think you're right, it's around 42 million we had in the quarter for revenue. You take 20—so you're collecting about 25 percent of that, you get into to the 30 million to $60 million range. And that's based on our current agreements that we have our leasees, and we're hoping that's where we're going to end up. So based on three- to six-month deferral and paid back over 6 to 24 months, that is the peak range, somewhere between 40 and 60.

Kevin Chiang

Okay.

Gary Osborne

And—yeah.

Kevin Chiang

And maybe just a follow-up on Walter's question there on, I guess, there's the constant concern around the CPA. Maybe if you can just highlight the opportunities. I think a lot of people worry about the fixed fee coming in, but maybe what you're doing on the controllable cost side and how that might be a bigger opportunity to pass through cost savings to Air Canada versus them just trying to squeeze your fixed fee that they've agreed to?

Joe Randell

Well the fixed fee is a small amount of what has been the cost of the CPA. And the greatest cost reductions obviously come from the reduction of the operational costs. And unfortunately, we've had to lay off employees in all the various areas, et cetera, and reduce discretionary spend. And so I think that's where the greatest benefit is being delivered to Air Canada.

I think the other thing that you have to remember is that when we reset this agreement it's at market, and we established market rates. And in the long-term agreement Air Canada came in, as you know, as a shareholder, so I think that puts us in a very good position.

We will continue to talk about how we can take down costs for Air Canada because in this environment costs are so important. But at the same time, we work for a fixed fee, that's how we're compensated, and we do have leasing agreements with Air Canada that are of a long-term nature on the larger turbo props and some of the older Dash 8-300s, and those obligations remain in place.

So we will, though, continue to work with them to find ways of reducing their costs.

Kevin Chiang

And maybe just two more for me. I appreciate it's obviously tough to forecast the future here but, Joe, I'd be interested in your thoughts on what you think COVID-19 means for pilot scope clause relief, maybe especially within the US where I think there was a lot of pushback on that idea, given the US airlines were in a strong financial position. Obviously much has changed over the past month or so. Do you see potential relief on pilot scope clause and that potentially being an opportunity for more outsourced flying or bigger regional jets?

Joe Randell

Well I think generally scope clauses only happen when there are actual bankruptcies or restructurings. I've not seen a lot of changes in scope clauses outside of that. I think the environment's changed significantly from there being a pilot shortage to there being a pilot surplus, especially as you look at, I think, some of the longer-haul and leisure routes being perhaps longer coming back.

So I don't really see a big change in that regard right now. But again, I've been in the business long enough to know that anything can happen. But I don't see anything in the near future in that regard, especially if there are surplus pilots at the larger operations.

Kevin Chiang

That's helpful. And just maybe last one for me. When you look at your portfolio of leased aircraft you did take an impairment on the ATR from Flybe; you didn't take one on the Dash 8. Just within that Regional Aircraft portfolio, is there a change in how you'd like that mix to be coming out of COVID-19, whenever that is, just based on how you're seeing residual values holding here through the crisis? Would you want to be less exposed to turboprops and more exposed to regional jets or certain brands? Anything that changes from that perspective?

Joe Randell

Well, I think we've said before going in to this that we were becoming more focused on larger regional jets, and I think that's exactly where we are still right now. We still think there's a solid base demand for turboprops. Although we are seeing some surpluses in some areas, but we're seeing maybe some opportunities in some of those areas as well.

But in terms of newer equipment, new customers, and where we see growth opportunities, I would have to say it would be in the larger, newer regional jets. And I mentioned earlier the A220 as an example. And it'll be interesting to see what happens with Embraer and the E2s as a result of all this because, as you know, there's uncertainty there.

But I think we're going to see good demand for those types of airplanes, especially—

Kevin Chiang

That's it for me.

Joe Randell

—especially when you have lower demand levels anyway. And I think keeping trip cost down is important. And even I see some of the financial support that's being given in some of these countries also has certain environmental requirements being placed on airlines, which I think will help in terms of newer technology and new airplanes.

Kevin Chiang

That's super helpful colour. Thank you very much.

Operator

And your next question comes from Doug Taylor with Canaccord Genuity. Your line is open.

Doug Taylor — Canaccord Genuity

Thank you. Good morning. I'm going to build—

Joe Randell

Morning.

Doug Taylor

—on Kevin's questions about residual value. I mean, I understand that the market for re-leasing or remarketing aircraft is not going to be strong here and unprecedented. But I mean, you've had the Flybe aircraft now, I guess, on the shelf for a couple months here. Can you give us any additional colour as to what the realistic prospects or range of potential scenarios is for re-leasing those aircraft?

Joe Randell

So we do have prospects for some of those airplanes and we're actively pursuing them right now. It is a tough environment. There are a lot of aircraft available out there. I don't think anybody knows exactly what's going to happen with residual values as a result of this, but we are seeing some signs of demand.

And when people go bankrupt, a lot of their routes and services have to be replaced. And you may see some carriers as they enter into some sort of liquidation—I'm not talking about any of ours in particular or anything like that—but generally what happens is there are new entrants that come in through the leasing level and the aircraft are utilized.

So we're seeing some signs, but again I can't hold out a lot of opportunities right now. It is a very difficult situation, but it's not dead. But there's a bit of a heartbeat, put it that way.

Doug Taylor

And a related question. Perhaps you can educate us a little bit on the intricacies of voluntary versus involuntary administration and maybe how you would approach those situations differently with respect to how you start, thinking about your options with respect to those aircraft, like Virgin Australia and CityJet seem to be right now?

Joe Randell

I think when carriers go through a restructuring everything is looked at in terms of their network, their fleet, et cetera, and everything is reviewed. I think as with a lot of lessors, we're no different. It's always desirable to keep your aircraft and your assets placed in a restructured environment than—that's what we—I think that would be a first preference, as long as it works economically and you have comfort in that regard.

So that becomes the prime focus right now in any of these is to see whether these aircraft can be utilized in a similar environment.

Doug Taylor

And then with the lease payment deferrals that you guys … or these agreements that you guys have put in place over the last couple months into the pandemic really hit in earnest, I mean, are you receiving any other either qualitative or quantitative consideration back for, I mean, really offering up your balance sheet and your liquidity to these airlines?

Gary Osborne

I guess in the short term we're going through deferral agreements. In the long run as we come out of this there could be some other opportunities that come up, but right now it's deferral agreements, given the situation has been so volatile so quickly.

Joe Randell

And also—

Doug Taylor

So perhaps—

Joe Randell

—as well we're hopeful that as a result of this we'll be in a position to withstand leases, et cetera, and so there maybe some opportunities there. But we don't know yet.

Doug Taylor

Perhaps to use a sports analogy, kind of trading for future considerations sort of thing.

Gary Osborne

Yeah. That's a good one.

Joe Randell

For us, we're looking to work cooperatively with these customers. We do believe that this too shall pass and we want to ensure that we have good relationships, that we're seen as being a trusted partner and a solid partner.

And at the same time, of course, our liquidity is what's most important. But we look to preserve relationships and build on them, and to take advantage of opportunities as we come out of this.

Doug Taylor

Okay. Last one for me. Just a clarification because I think I might have missed it here, but perhaps for everyone. Is Air Canada specifically receiving rent deferral? And can you maybe describe what that particular situation looks like with respect to their rent payments, given it is such a meaningful proportion of your cash flow and revenue?

Joe Randell

Yeah. Air Canada's current on all payments, and essentially we have not deferred any rental or lease payments with Air Canada.

Doug Taylor

That's what I understood. Okay. Great. Thank you. I'll pass the line.

Operator

Your next question comes from Cameron Doerksen with National Bank Financial. Your line is open.

Cameron Doerksen — National Bank Financial

Thanks. Good morning.

Joe Randell

Morning.

Gary Osborne

Morning.

Cameron Doerksen

Just want to follow up on, I guess, the Virgin Australia/CityJet situations. As of this point they have not rejected the leases during their restructuring. Is that correct?

Joe Randell

They have not yet.

Cameron Doerksen

Okay. And—

Joe Randell

And we're working to see whether, of course, we can keep those leases at Virgin Australia. They are some of the newer assets and the newer ATR 72-600s, so. And we're hearing, as many have in the media, that Virgin will as, it emerges, be most likely a purely domestic operation. And I think that's good for regional service.

But again, who knows? Australia itself has had a tough time with all of this and even Qantas is suffering, I think, so. But we think we're in a reasonably good position.

Cameron Doerksen

Okay. And it seems as though, I mean, maybe the Flybe, I don't know if this is the exception that, I guess, the repayment terms of the debt associated with the Q400s is September, but it seems like most of the other ones you've described here are 24 months in the event of that amount of time to remarket the aircraft before you'd have to pay the debt principal. Is that pretty typical for most of your leases that you would have up to two years to remarket the planes before having to repay the principal?

Gary Osborne

A lot of our debt does have currently a two-year remarketing in there and then others are around six to nine months, as you noted with those five Q400s with Flybe. And we're actively looking to pushing that out further.

And the other thing is it's an option, it's not a given that it will be paid out at that point in time. As long as we're paying our debt payments with the bank, which we are, they may just leave it sit, so.

Joe Randell

And as noted in our MD&A, some of the leases that have been deferred we've been able to achieve for a number of months here deferral on payment on interest and principal on those assets. So that's helpful.

Cameron Doerksen

Okay. And that actually leads me to my next question, which was just on the, I guess, the totality of principal debt repayments over the next 12 months. I mean, if I look at the current long-term debt it's around 180 million or so. Is that a good sort of proxy for what you would expect to have to pay in principal repayments? And does that include, I guess, the deferral of some of those through September?

Gary Osborne

Yes. That's what we would expect over the next 12 months, so it's a good proxy. It would include the September deferrals.

So if you're modelling, that's a pretty good number of the current debt number.

Cameron Doerksen

Okay. And maybe just final one for me and it's just looking at the leasing portfolio, or the portfolio of airlines there. Obviously, the situation is pretty dire for a lot of airlines out there. I'm just wondering if there's—if you have any other sort of near-term concerns for any of your other leasing customers? I mean, have any sort of highlighted to you—I mean, other than obviously coming to you and asking for a rent deferral—but are there any other, I guess, airlines out there in your portfolio that you're particularly worried about without necessarily mentioning them? I'm just wondering what sort of the risk is for additional aircraft being returned to you?

Joe Randell

Yeah. We watch them all very closely. We've executed a number of these agreements now in terms of the new arrangements, et cetera. And we don't get into talking about individual accounts for customer confidentiality purposes, unless it's disclosed on the part of the customer in terms of where they are.

But we are watching it very closely, so steady as it goes. But you never know.

Gary Osborne

Yeah.

Cameron Doerksen

Okay. Fair enough. Thanks very much for your time.

Joe Randell

You're welcome.

Gary Osborne

Thank you.

Operator

As a reminder, it is *, 1 on your telephone keypad if you would like to ask a question.

Your next question comes from Tim James with TD Securities. Your line is open.

Tim James — TD Securities

Thanks. Good morning. Just one last question here. The cost of capital across the airline industry will obviously go up as a result of this through certainly the short to medium term at least. The leasing business is largely dependent on its relative cost of capital versus the airline. So to the extent that Chorus can improve or limit the upward pressure on its own cost of capital, and I'm thinking both debt cost and equity cost, it certainly creates a real growth opportunity, I would think.

How do you previously think about your cost of capital getting it as low as possible? And how do you think about it going forward, if it changes at all as a result of this?

Gary Osborne

Well, good question. I mean, cost of capital is obviously very important to the leasing side, and we continue to try to get that as low as possible, as you alluded to. And I think when we move ahead here, obviously, how we're able to raise the funds on the secured side in particular for the assets and the equity portion we put in there will play a big factor, along with the risk profile within the industry and within the airline itself and the security packages, as Joe alluded to.

So I think as we move ahead we'll continue to keep our cost of capital low. I think you're going to see us, as we approach each leasee and each deal once we come out of this a bit, I think you're going to see a very—a little bit different anyway, shall we say, than what you've seen in the past as far as that goes because of the volatility and that we've seen.

So as far as our capital goes and our situation, we've got what we've got at this juncture, and we'll continue to monitor going ahead and see if there's opportunities to keep our cost of capital lower than a lot of others.

Tim James

And if I could just kind of build on that and specifically thinking about the equity cost, which is still an important component, albeit smaller than debt. Longer term, obviously the quality of the balance sheet, liquidity, et cetera, affects your cost of equity. What about the dividend? Do you view that returning? Or the size of that as helping reduce your cost of equity? Or how does that factor into the equation?

Joe Randell

Well, we know the dividend is important and it does affect the cost of equity for sure. So like everything, it's going to be a consideration for us going forward as things start to emerge.

But at this point we've not put out any particular view on it. It's all about hunkering down here, getting through it, but we do recognize what you're saying and the impact that the dividend can have on the cost of your equity.

Gary Osborne

Yeah.

Tim James

Great. Thank you very much. That's the only question I have.

Operator

Your next question comes from Konark Gupta with Scotiabank. Your line is open.

Konark Gupta

Thanks. Just a quick follow-up on that dividend question. So like you have the operating credit facility and the EDC facility debt that you just got, so it looks like you have some restrictions on dividend in that, but you can still pay a dividend that you had before. So just curious as to any other changes with respect to your lending agreements that restrict the amount of dividend below the previous dividend you paid?

Gary Osborne

No. There is nothing. That is the only restriction that you see there.

Konark Gupta

Thanks.

Operator

Your next question comes from David Ocampo with Cormark Securities. Your line is open.

David Ocampo — Cormark Securities

Morning, everyone. Two quick—

Joe Randell

Morning.

David Ocampo

—questions for me. First on the Air Canada CPA, in your release you noted that the Cost Guardrail receivable might be 20 million to 40 million for this year. So are we behind plan right now? Or is that order of magnitude expected to hit in Q2 and Q3—

Joe Randell

Right.

David Ocampo

—with a true-up payment in Q4?

Gary Osborne

Yeah. You'll probably see it in Q2 and Q3, and it's really just a laggard on the cost, you know, with getting our costs out, but the rates are really—they're set right now based on 2019. And it just takes time to get the cost out to kind of match the environment we're in.

All that being said, under the way things have been moving with the activity in the CPA, we estimate around 20 million to 40 million higher, and then it will get paid in Q1 next year, so.

David Ocampo

That's great. And my last one is sort of building on the receivable question everyone was asking. Kind of when you put everything together, your leniency on principal payments and maybe even on the interest portion, are you guys burning cash in this environment on, say, a monthly or quarterly basis?

Gary Osborne

No. I don't feel it at all. We've been doing quite well holding our own as far as the cash and liquidity side. It is something we monitor daily, as everybody is in this environment.

And if you look, Air Canada, the CPA side of the equation is performing as expected, as we noted. And then on the leasing side we still had 25 percent of the revenues come in. So we feel very good about our liquidity and where we're at, so.

David Ocampo

That's great. Thanks, guys.

Gary Osborne

Thank you.

Operator

There are no further questions at this time. I will now turn the call back over to the presenters.

Nathalie Megann

Thank you very much, Operator, and thank you, everyone, for joining us today. We hope you all stay well.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.