FINAL TRANSCRIPT

Chorus Aviation Inc.

Third Quarter 2019 Earnings Analyst Call

Event Date/Time: November 14, 2019 — 9:00 a.m. E.T.

Length: 41 minutes

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Chorus Aviation Inc. Third Quarter 2019 Earnings Analyst Call. At this time, all participants are in a listen-mode.

After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press *, 1 on your telephone. 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 of Investor Relations and Corporate Affairs. Please go ahead.

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

Thank you, Kensie (phon). Hello, and thank you for joining us today for our third quarter 2019 conference call and audio webcast. With me 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 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 statements and information, which are subject to various risks, uncertainties, and assumptions that are included or referenced on page 44 of our Management Discussion and Analysis of the results and operations of Chorus Aviation Inc. for the period ended September 30, 2019, 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 17 of our MD&A for a discussion related to the use of non-GAAP measures.

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

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

Thank you, Nathalie, and good morning, everyone. Since becoming publicly traded in 2006, we've reported 54 consecutive profitable quarters, and today I'm pleased to share with you yet another.

With over 90 percent of our revenues secured through long-term contracts, our business is predictable and transparent. We currently have a minimum of approximately US$2.5 billion in future contracted revenue, inclusive of the US$0.6 billion of CPA fixed margin. As such, our business delivered results that once again met our expectations, and we made advancements in growing our leasing business.

We've been extremely busy since our last quarter report out, having acquired or delivered 17 aircraft in our Regional Aircraft Leasing segment. This was a tremendous accomplishment by our team and a clear demonstration of our technical and transactional bench strength. I commend our employees for their professionalism. These recent deliveries account for approximately 22 percent of our non-CPA committed fleet to date.

Our revenues are starting to reflect the new leases we've added to our portfolio. This trend is expected to continue as our leasing business grows and aircraft are delivered.

Our diversification strategy is taking hold, as evidenced by the 76 percent increase in adjusted earnings before tax, or EBT, generated by this segment over the same period in 2018 accounting now for approximately 22 percent of overall adjusted EBT. I'm very encouraged by this growth and the strength of our team.

We further demonstrated the capabilities of our maturing aircraft leasing business when we completed our first sale of leased assets with the divestiture of three Dash 8–400s that had been on lease since July of 2017. We're very pleased with this transaction, as it not only provided a positive return on our investment, it generated capital to reinvest in future aircraft acquisitions, an indication of our disciplined approach to maximize returns.

Finally, the growth momentum in our leasing business continued as we welcomed a new customer, Malindo Air, a member of the Lion Air Group, for the lease of two ATR 72–600s and the acquisition of two existing ATR 72–600s already on lease from another lessor. These aircraft further extend our reach into the rapidly growing Southeast Asia market.

We have a healthy pipeline, and expect to have news of additional lease transactions soon.

As relayed in the last quarter, we also have the capacity to grow our leasing portfolio by up to 20 aircraft per year through a combination of new debt and internally generated cash flows to fund the equity portion of future aircraft acquisitions. Gary will have more to say about this in his comments.

We take a process-driven, conservative approach to building our leasing business. Our objective is to maintain a diversified customer base with good prospects, seek geographic diversification, and limit aircraft type concentration.

As has been proven in the past, regional aviation is a resilient sector of the aviation industry. As a CPA operator, we do not bear the commercial risks or exposure to fluctuations in fuel price, as these are managed by Air Canada. Further, our CPA has provisions for minimum guarantees related to fleet size and fixed fees.

Due to the predictable nature of our contracted revenues, the quality of our customers, and our resilient market sector, we are well positioned to seize new opportunities to profitably grow and diversify.

I'll conclude my remarks by extending congratulations to the team at Voyageur for winning Business of the Year Award from the North Bay Chamber of Commerce and to the Jazz team for being named amongst Canada's Safest Employers 2019, taking gold in the transportation category. These are wonderful acknowledgements of our professionalism. And many thanks to the Chorus team for delivering another safe and solid quarter.

Thank you. And I'll now pass the line over to Gary to take you through the third quarter financial results.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Joe, and good morning. Our group of companies had strong performance in the third quarter.

Period-over-period adjusted EBITDA grew by 5.8 million, in large part due to a 78 percent increase in adjusted EBITDA in the Regional Aircraft Leasing segment, with 12 leasing transactions closing in the quarter.

Adjusted earnings per share grew by 12.5 percent from the second quarter of this year, in large part due to a 76 percent increase in earnings before tax in the Regional Aircraft Leasing segment.

We continue to have solid operating results at Voyageur and Jazz, which includes the completion of two ESPs on the Dash 8–300s that now generate revenue under the CPA.

Here's how the third quarter compares to the same period last year. We reported adjusted EBITDA of 92.6 million, an increase of 5.8 million, or 6.7 percent relative to the third quarter of 2018. The Regional Aircraft Leasing segment's adjust EBITDA increased by 13.2 million related to the growth in the number of aircraft on lease.

In addition to the aircraft deliveries in the quarter, we also completed our first sale of leased assets on October 25th, being three Dash 8–400s that were on lease since 2017 for net proceeds of approximately US$25 million after debt repayment.

The Regional Aircraft Services segment adjusted EBITDA decreased 7.4 million, partially offsetting the previously described increase. The Regional Aviation Services segment results were in line with expectations, and reflect the 2019 CPA amendments which reduced the fixed margin and performance incentive revenue when Chorus moved to market-based compensation rates.

These reductions were partially offset by the implementation of the Controllable Cost Guardrail that mitigated the expected third quarter CPA margin shortfall related to reduced fees.

Beyond the changes related to the amended CPA, the third quarter results were impacted by a decreased stock-based compensation of 2.1 million due to the change in share price and increased aircraft leasing under the CPA.

Adjusted net income of the quarter was 29.2 million, or $0.18 per basic share, a decrease from 2018 of 1.6 million, or 5.2 percent. And that was due to an increase in depreciation of 4.6 million primarily related to the additional aircraft in the Regional Aircraft Leasing segment; an increase of net interest costs of 3.8 million primarily related to aircraft debt in the Regional Aircraft Leasing segment; and an increase in nonoperating costs of 0.2 million related to a loss on disposal of property and equipment, offset by foreign exchange losses on working capital, offset by the 5.8 million increase in adjusted EBITDA previously described, and 1.2 million decrease in income tax expense related to lower adjusted EBT.

Net income was 24.2 million, or $0.15 per basic share, a decrease of 0.6 million over the 2018 period, excluding the quarter-over-quarter change in net unrealized foreign exchange losses on long-term debt of 18.9 million. The decrease was due to the previously noted 1.6 million decrease in adjusted net income, offset by decreased employee separation costs of 1 million.

We ended the third quarter with a solid cash position of 82 million. As mentioned last quarter, we have the capacity to grow our Regional Aircraft Leasing segment by up to 20 aircraft per year through a combination of new debt and internally generated cash flows. We will use these resources to fund the equity portion of future aircraft acquisitions in addition to the delivery of nine CRJ900s in 2020 and eight remaining ESPs to be completed by the year 2022. We will bolster our cash position through new debt raises, as required, to fund this growth.

As been our practice, we manage costs against the objectives, remaining within market acceptable ranges of leverage and maintaining adequate financial flexibility.

With the addition of the aircraft under both the Regional Aircraft Leasing segment and the aircraft leasing revenue under the CPA, Chorus's estimated future contracted lease revenue is approximately 1.9 billion US. When the CPA margin revenue of 0.6 million US is included with the total future contracted revenue, Chorus's future revenue approximates 2.5 billion US.

Capital expenditures for 2019, including capitalized major maintenance overhaul and excluding expenditures for the acquisition of aircraft in the ESP, are expected to be between 41 million and 47 million. Aircraft-related acquisitions and the ESP capital expenditures in 2019 are expected to be between 660 million and 670 million related to the previously announced transactions.

For additional information supporting our outlook for the balance of this year, I'll refer you to Section 4, the 2019 Outlook section of our MD&A for the period ended September 30, 2019.

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

Q&A

Operator

At this time, I would like to remind everyone, in order to ask a question, please press *, then the number 1 on your telephone keypad. Again, that is *, then the number 1 on your telephone keypad.

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

Konark Gupta — Scotiabank

Thanks, and good morning, everyone. I just wanted to start with the sale of three Q400 aircraft that I think took place in October. So you mentioned there's US 25 million net proceeds after that repayment. But would there be any EBITDA impact in Q4? And what do you plan to do with the proceeds? Is it going to be deployed into new aircraft purchase?

Gary Osborne

Hi. It's Gary Osborne here. As far as the transaction, it will have a minor impact to our overall EBITDA and results in Q4. We're still working through those numbers due to the structure of that transaction. And as far as the funds go, they'll be redeployed back into future leasing transactions. So we're going to plough that right back into the business.

Joe Randell

Yeah.

Konark Gupta

Okay.

Joe Randell

And if I could just add a little colour to that as well, the business is really a trading business. It's an integral part of the business. And our customer was interested in acquiring the aircraft. And at the end, we achieved a better return with the combination of the sale and the opportunity to reinvest the proceeds in the business in terms of future aircraft acquisitions. So overall, we were very pleased with the transaction.

Konark Gupta

Okay. Thank you. Thanks for that. And then following up just on the leasing side, so you mentioned there's six aircraft transaction since the end of the third quarter, of which five have been received prior to November 13th. Just wanted to clarify, the table that you have in the MD&A, it has numbers which show, I think, two transactions in Q4 and one in Q1. So how do you reconcile all this? Like do we see more leasing transactions happening beyond what you have suggested in MD&A?

Gary Osborne

Yeah. So I guess if you look at that table, it includes the reduction due to Falcon, three, so essentially if you take that into account, there would have been five in Q4 that are listed there. And then, as far as the future transactions go, one with Wings Air. That's what we have announced to date, and I think we're certainly continuing to work through the pipeline. And we expect that we'll have future announcements in the near future.

Joe Randell

Yeah. So essentially the five that are pending that are shown in Q4, four of those five now have been delivered.

Gary Osborne

Yup.

Konark Gupta

Okay. Thanks. And lastly for me on the customer side of things, so have you seen any deterioration due to either economic conditions or some other issues? Any changes in customers' credit quality or ratings, be it in Europe or elsewhere?

Joe Randell

No. We've not seen any significant changes. We're still very much the same as when we entered into these transactions with these various operators. Demand continues to be robust, and our pipeline of future possible transactions look good. And we hope to be in a position soon to make more announcements in that regard, so we've not really seen any changes in the market in the regional aviation segment.

Gary Osborne

And just, sorry, it's Gary here again. Just to reiterate, we do monitor our lessees actively, so we keep a good eye on all their credit portfolios. And we're quite pleased with where they're at right now.

Konark Gupta

Okay. Thanks a lot for that. That's it for me.

Joe Randell

Thank you.

Operator

Your next question comes from the line of Doug Taylor with Canaccord Genuity. Your line is open.

Doug Taylor — Canaccord Genuity

Yes. Thank you. Good morning, and I'll start by—

Joe Randell

Hi.

Doug Taylor

—adding my congratulations to you, Joe, on your pending Hall of Fame induction—

Joe Randell

Okay.

Doug Taylor

—that was in the announcement.

Joe Randell

Thank you, Doug.

Doug Taylor

Let me drill down a little bit more on the decision to exit the leases of these aircraft. So based on what you just said, can you just confirm, you were approached about these particular aircraft? Are you actively looking at making any other changes or augmentations to your portfolio that might involve you exiting aircraft or rebalancing the portfolio in some way regionally or by airframe?

Joe Randell

Yeah. In this case, the customer … the ultimate customer approached us, and we were pleased to oblige. And I think it worked out very well. We got through the transaction very quickly. It generated good cash. And we felt, overall, that the redeployment of that cash in other opportunities would provide us with a better return. So that was really the motivating factor on our side, so it was really a win-win.

We'll continue to look at opportunities to trade. We have nothing pending in that regard, et cetera, but it is very much a trading business. As you know, we've purchased aircraft from other lessors because they wanted to rebalance or felt they could better deploy the cash that they would develop as a result of that, so. And we'll continue to do the same. So it isn't all about just acquisition. It's about trading, and it's about maximizing returns on your investment.

Doug Taylor

So you mentioned that EBITDA will obviously be impacted as those aircraft exit the fleet in Q4. Do you expect then to recognize a gain of some sort on the exit versus your book value of those aircraft?

Gary Osborne

We are still working through the details in a transaction, but we don't expect anything to be material.

Doug Taylor

Yep—

Joe Randell

Just for a gain or loss, so.

Doug Taylor

So obviously in a quarter like the one that you've just exited with the volume of aircraft coming in, timing of when those aircraft comes in has a pretty big impact, I think, on the profitability within that quarter. Could you comment a little bit on how the deliveries were spread over the course of the quarter? I'm just looking for a little help in terms of the linearity or the sequential impact of the existing portfolio Q3 to Q4.

Joe Randell

Yeah. We're just looking that up right now. I believe—and August was a very, very busy month in terms of the completion of some of the leases so, Gary?

Gary Osborne

Yeah. I think just on Page 28 of the MD&A it listed the dates there, by and large, of when everything came in during the—at least post the quarter. And as far as the other deliveries during the quarter, it was almost midpoint. It wasn't quite skewed to midpoint. I think it was a little bit on the back end of the quarter if you divided Q3 in half.

Doug Taylor

So fairly well balanced then. Okay.

Gary Osborne

Yeah. It did fairly well. I mean, once you work it all out, it's pretty balanced.

Doug Taylor

Okay. Last question for me. Obviously, you've got a lot more scale now with your leasing business and the interest rate environment would appear to be favourable. I mean, can you comment on your ability to lower the debt cost side of the equation at least at the margins over—in the near term with either the existing aircraft-related debt or some of the other facilities that you've now put in place?

Gary Osborne

Well, as far as the aircraft go that we have in the Regional segment, Regional Leasing segment, those aircraft are generally backed by asset-backed debt. So they're fixed-term debt so—and they're set. So those interest rates are essentially baked in. And if you remember, the lease rates associated with those lessees did move with that debt, so it preserves the margin.

So at this stage, we don't actively look at trying to reset that debt because it is nicely matched with the lessee contracts. And as we move ahead with the interest rate environment where it's been, and it's been on the lower side, as we know, that will certainly help the lease rate come down for our lessees. The margins will remain similar because they're—that's the way the industry works; you bake in your margin there. So we see it as good for the lessees, good for us in that sense, but we don't have an active program where we're going to look at relooking at the debt that we've assigned per lessee.

Joe Randell

But going forward, we will be actively looking at how we reduce our cost—

Gary Osborne

Absolutely, yeah.

Joe Randell

—because that's a key factor in this business—

Doug Taylor

And maybe I'll just add one—

Joe Randell

—but there will be more options, we believe, in terms of how we finance the business.

Gary Osborne

Yes.

Doug Taylor

That's encouraging. I mean, I'll just ask one more question there. I mean, the last time we had the debt—or the interest rates environment that we are starting to see again, there seemed to be increased competition, particularly on the narrow-body side in terms of chasing down the lease rates and the returns. Have you observed any change in the return—like the ROE profile, I'll say, given where the interest rates are and are moving in the new deals that you've signed?

Joe Randell

No. We're generally still targeting what we had originally planned on. It's a competitive environment. We chase a lot of potential opportunities to come up with what we put together in our portfolio here. But we've not seen a huge influx of new capital into the Regional Aircraft Leasing business. I think it remains a very stable segment. And we do realize that there's more pressure, especially on the wide-body side and some on the narrow-body but, again, this—currently, we're not seeing that same sort of abundance of capital really flowing into this business.

Doug Taylor

Thank you very much.

Joe Randell

Okay.

Operator

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

Walter Spracklin — RBC Capital Markets

Thanks very much. Good morning, everyone.

Joe Randell

Morning, Walter.

Walter Spracklin

So I want to start with, now you mentioned 20 per year that you indicated before of self-funded growth in new leases. When you look at your pipeline right now, certainly in the near term, would you say that that is pretty much lined up with what you would expect to do in the next 12 months? Or would you expect it to be higher or lower compared to that self-funded target?

Joe Randell

With the pipeline that we see right now, we anticipate no issue in growing by 20 airplanes, as we've said.

Walter Spracklin

Perfect. Okay. Now should you grow more than 20, then what's been your targeted approach, do you think, your most favourable approach for funding that excess?

Joe Randell

Well, we're—right now, we're focused on the 20 and to deliver on the results. I think next year we will see a lot of these leases kicking in with our earnings. I think that will and should produce an upswing in our share price, et cetera. And we are going to monitor what happens as we build these earnings into the Company's results and look then at how we grow the business further.

But for now, we're saying steady as it goes, 20 aircraft per year. We have the ability to fund that. We're going to continue executing. It's very stable. I think we've got a great portfolio of customers, a great equipment mix, and for us, it's just about performing. As we've said, we will perform. And then we will reevaluate. I think the opportunities are greater in the business, but we are using a very disciplined approach in the interest of our shareholders.

Walter Spracklin

No, it makes a lot of sense. So in terms of the aircraft types that you're focused on right now and any emerging opportunities in those—we've talked a bit about the Airbus A220—any update as to how you look at the type of aircraft that you'll be … will be part of your portfolio? And have you leaned more toward expanding the number of types?

Joe Randell

Well, first of all, we really like turboprops. From a residual value perspective and the stability of that part of the business and that, we think it's a great segment of the business. They are not replaceable by other types of equipment at all very easily in most markets, et cetera. So we'll continue to focus on the turboprop side.

But certainly on the regional jet side, we're monitoring very carefully what happens with the Embraer product as it evolves from the E1 to the E2 product. The Embraer E2s are definitely within our scope and focus. The A220s, I've said that previously, are very much in our focus. And we like the 75- to 130-seat regional jet market and especially some of the newer products. We are not heavily exposed with respect to the older-technology Embraers or the CRJs in our portfolio.

And for instance, the CRJs that we operate for Air Canada, of which where most of our Bombardier product on the regional jet side is, are secured through long-term leases operated through the CPA. So we're very comfortable with that, but we see and we do see opportunities to grow most especially in the newer-technology regional jet market.

Gary Osborne

Yep.

Walter Spracklin

If you were to go to the A220, is the Air Canada option already kind of passed? Have they fully allocated how they're going to be financing that? Or could that be if you were to get into the A220 could it be through the relationship with Air Canada?

Joe Randell

I'm sure as to where Air Canada is in terms of funding these acquisitions, et cetera. But we are interested in leasing the aircraft, but I can't really say any more than that in terms of Air Canada's plans on how they would finance their fleet.

Walter Spracklin

Fair enough. Okay. Now I don't think that the MAX—the issues that were with the MAX really impacted your business—and correct me if I'm wrong—and now that there is at least discussion of it possibly coming back maybe in the near term, any reason why that would have any impact at all on your business?

Joe Randell

No. First of all, the impact that the MAX has had on our business, first of all, it hasn't had a financial impact on our business. But we were extremely busy in Jazz flying for Air Canada. The increased utilization, our Block Hours were up substantially in the quarter, year over year as we increased the utilization on the fleet and on our flight crews, et cetera. But under the structure of the CPA, of course, we are paid a fixed fee and we delivered that product to Air Canada at its request to assist with that difficult situation, and we continue to do so.

As the MAX comes back, I think there will be a lot of changes in the pilot world as Air Canada introduces more aircraft and grows its operation. And of course, we continue to provide Air Canada with a lot of pilots. And we work closely with Air Canada in the transition of the pilots. And 60 percent of Air Canada's new hires on the pilot side will come from Jazz. So we anticipate that to be very busy with pilot flow next year, et cetera.

But in terms of impact on our bottom line, et cetera, it's now going to de-risk; very predictable, as I said earlier. So we're just there as a good partner to do whatever we can to assist Air Canada.

Walter Spracklin

Okay. That's all my questions Thanks very much.

Joe Randell

Okay. Thanks, Walter.

Operator

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

Cameron Doerksen — National Bank Financial

Yeah. Thanks. Good morning. Just a question on, I guess, the cash debt repayments. If I look at the, I guess, the current long-term debt, roughly 185 million or so which you'd have to principally have to repay over the next 12 months. With that said at the end of Q3, I'm just wondering if you can give us some indication as to what the 2020 kind of principal repayment might be, given some of the transactions you've kind of concluded at the end of the quarter? Should we expect it to kind of creep—I'm assuming the fleet plan stay as it is. Should we expect that to kind of creep towards the $200 million mark in 2020?

Gary Osborne

I guess as far as your modelling goes there, if you look at the current debt in that, there is one balloon in there for, I think, about 15 million in the next year that we expect to refinance, so if you take that out and then just model it with the aircraft acquisitions, it should move directionally with that. I don't have an exact number to give you for 2020, but if you did something like that it would give you a pretty good indication.

And as far our free cash flow and how we generate, if you look at the quarter and you start to assess that with the debt repayments and the cash flow from operations, I think you can get a pretty good—you can see that the stream of inflows will certainly more than match and be greater than the outflows related to the debt.

Cameron Doerksen

Okay. Okay. No, that's helpful. And maybe just a second question from me. I just wonder if you can give us an update on the Voyageur business, what—how the business is performing in the last quarter and prospects for additional contracts and things there?

Joe Randell

Yeah. Voyageur performed well in the quarter. The results have certainly improved at Voyageur. It is meeting our expectations. They're very busy. In the—with aircraft modifications, the MRO business; it's being fully utilized, and we're growing some aspects of that business. It's not going to have a hugely material impact on results, but it really is strategically important to us for a number reasons in that it really supports our third-party leasing business, but also the Jazz business, et cetera. And the demand for contract flying has been good with contracts being renewed, et cetera.

So it's very much steady as it goes, and we're very optimistic about Voyageur, though, and its impact going forward as really being a strategic enabler for us. So we're very pleased with the way the business is performing in North Bay.

Cameron Doerksen

Okay. No, that's great. Thanks very much.

Operator

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

Tim James — TD Securities

Thanks. Thank you very much. Good morning.

Joe Randell

Good morning.

Tim James

First question on the CPA. I'm just wondering how we should think about the use of the guardrails in the CPA in the quarter. Does that mean costs were higher than expected and margins slightly lower and that's why those guardrails were triggered? Maybe you could just refresh us on how that works. And do you basically get a revenue boost to offset any higher costs?

Gary Osborne

Yeah. So the way it works is it's $2 million annually, plus or minus, that the guardrail kicks in. So if you look at the way it worked in the quarter, any excess of the costs over the revenue would have been caught up with the guardrails, given where the first quarter of the year we were a bit behind. And then likewise, had we over-performed, we would have reduced our revenue by the same amount.

And if you look at what you're seeing is it's certainly a good quarter as far as performance in the CPA, and then you're measuring 2019 obviously against 2018, which was a different economic formula.

Joe Randell

Yeah. And those costs were running very high in the third quarter because of all the increased flying we were doing for Air Canada, et cetera. But all of that is basically covered.

Gary Osborne

That's right. And the way it works … the way that works is that with the Air Canada extra flying and when OPI (phon) would bill Air Canada at the rates under the CPA and they would pay us as such and then we would do the comparison back into the costs. So as we did extra flying, if there's extra costs it gets picked up in that guardrail.

Tim James

So your reference earlier then to there being no financial impact from all the extra flying related to the MAX issue is because of these guardrails, which kind of brought you back into that plus or minus $2 million range?

Joe Randell

You got it.

Gary Osborne

Yeah.

Joe Randell

Yeah. The impact is not significant on the bottom line at all, but it very much affects your revenues and expenses.

Gary Osborne

Yeah.

Tim James

Okay. Okay. That's helpful. Then just a general sort of very long-term question thinking about your cost structure here. Joe, could you give us kind of your updated thought on how we as kind of outsiders monitoring the long-term cost structure of Jazz and the provision of the CPA services how we should think about the cost structure or monitor it to be comfortable with competitiveness relative to peers and therefore the relevance to Air Canada. Is it best to look at it sort of trends in a cost per Block Hour? Or how would you recommend we watch that?

Joe Randell

Well, I'd say you have to break the costs down into the various buckets. The leasing costs are market. The third-party maintenance costs, the engine overhauls, et cetera, are all done at market rates. And really the controllable part of the costs from our point of view would really be more in the direct labour side.

And then I'd point you to the collective agreements that we have in place. With the pilots, the agreement goes out to 2035, and so very predictable, the costs are very predictable, which is of course, I think, one of the influencing factors with Air Canada in terms of entering into a long-term agreement. And our other labour agreements have been brought in line with respect to being industry-competitive, and a number of those agreements still go for a number of years, et cetera. And those costs then as we renegotiate the agreements we'll be discussing those with Air Canada, and I think we're provided to cover those costs. So we will be in, I think, reasonably good shape with respect to the market, so.

And these are things that are addressed in the CPA and make labour costs very predictable going forward. So I think that's really the check. I think if you look at Block Hour costs and that, you know you can compare those, I guess, vis-à-vis other regional operators. It's a fair comparison. But we don't anticipate to be offside with respect to the competitiveness of our costs.

Gary Osborne

No. In fact, just to kind of reiterate, we work very well with Air Canada. On the cost side and the finance and the operational groups are all linked at the hip. And they understand the costs. And the problem with Block Hour-type costs and things like that, deployment, geographic deployment, things like that affect it, so we work with Air Canada. They understand our costs. We understand them obviously very well, and we're quite comfortable with where we're at. So as far as the benchmarking and that sort of thing goes, it’s very difficult, I think, from the outside looking in. But I can tell you that we work very well with Air Canada, and we are very cost-focused, so.

Joe Randell

And we absolutely provide Air Canada with many more services than most CPA partners do as well. We do heavy maintenance, as an example. We do airport operations throughout Canada, whereas other CPA operators are really purely flight crew and maintenance. So when you look at our costs, our costs really bring in all these other costs as well. So when you do the comparisons, it’s always important that you do apples-to-apples.

Tim James

Okay. That’s very helpful. Thank you.

Joe Randell

Okay.

Operator

As a reminder, if you would like to ask a question, please press *, then the number 1 on your telephone keypad.

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

Kevin Chiang — CIBC

Good morning. Thanks for taking my question, and again congrats, Joe, on the induction there. I think you might have mentioned this earlier—I might have just missed it—talking about the options around your debt financing. I think on the Q2 call you mentioned you were looking or exploring looking at the unsecured market. If you can provide an update there? And does that change how many—that 20 aircraft number if you move to the unsecured market with a little bit more flexibility, could you in theory acquire more aircraft in a year with a more favourable debt instrument in place?

Gary Osborne

We're still interested in the unsecured market, as you alluded to, and we're looking at that market and we're certainly interested in it. And it would continue to fund our 20 aircraft a year. I think back to the point I think I made on the call earlier, we continue to monitor our debt level to make sure that we stay within industry norms and whatnot.

So with that in mind, whatever instrument we raise, we're going to stay within those metrics.

Kevin Chiang

Okay. And do you have a sense if that's something that could be completed in 2020? Or is this still kind of the early innings of the evaluation?

Joe Randell

No. We're actively pursuing that, so it's part of our growth strategy and as you see, we're really deploying our cash very well. So we want to continue to keep this pace, so we're looking to do it in such a way that we … that would allow us to do that. So as I said, announcements and that sort of thing, stay tuned.

Kevin Chiang

Okay. And maybe just last one for me. In terms of your charter flying, with your leasing business having obviously exhibited strong growth here, it seems like people are pretty comfortable with the trajectory and the risk profile. What do you see on the charter flying side in terms of opportunities? It seems like it's also something you're incubating here. Is that something you think you can grow much more significantly and maybe entering into markets on the contract flying side that you currently don't service?

Joe Randell

Yeah. Yeah. It's in our DNA, basically, contract flying. And the type of contract flying we do is quite varied from everything from the CPA operation with Air Canada to flying for the World Food Program in Africa. And this is where, of course, Voyageur has an enormous amount of experience in terms of special-mission flying, et cetera. And the whole concept of using contract flying is really a focus of ours, and in other segments of the business are of interest on the contract flying side as well. But again, we're going to take a pretty measured, disciplined approach, but we see opportunities in that regard. And we certainly have the know-how to deliver on those services.

Kevin Chiang

Thank you very much.

Joe Randell

Okay. You're welcome.

Operator

There are no further telephone questions at this time. I now turn the call back to Nathalie Megann for closing remarks.

Nathalie Megann

Thank you, Operator. So we'll now conclude the call, and we thank you, all, for taking the time with us today. Have a great day.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.