FINAL TRANSCRIPT

Chorus Aviation Inc.

Segmented Reporting Session

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PRESENTATION

Operator

Good day. My name is Jack, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Chorus Aviation Segmented Reporting Session. 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'd like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

Nathalie Megann, Vice President of Investor Relations, you may begin your conference.

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

Thank you. Good morning, and thank you, all, for taking the time to join us. The purpose of this call is to provide you with an overview of our proposed format for segmented financial reporting.

Jolene Mahody, our Executive Vice President and Chief Financial Officer, will take you through the presentation, and then we'll open the call to questions and comments from our analysts.

Please note that a revised version of this presentation has been uploaded to our website and on SEDAR. The change can be found on Page 13, whereby it now reads approximately US$800 million in future contracted lease revenue.

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 Slide 2 of the presentation titled Segment Reporting Transition Information Session.

In addition, some of the following discussion involves certain non-GAAP measures, including references to EBITDA, adjusted EBITDA, adjusted EBT, and adjusted net income. Please refer to Slide 3 of the presentation.

We look forward to receiving any feedback you might have on this segmented information, as we want our new reporting to be as helpful to you as reasonably possible.

We are also pleased to have Steve Ridolfi, President of Chorus Aviation Capital, with us today in the event that you have specific questions related to our aircraft leasing segment, along with Tyrone Cotie, Vice President of Treasury.

As mentioned, the purpose of this call is to discuss the segmented financial reporting format, and as such, we would like to limit the questions to this topic.

I'll now turn the call over to Jolene to walk you through the presentation.

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

Thank you, Nathalie, and good morning. Due to the significant growth in our regional aircraft leasing business in the last year, we will begin reporting segmented results for our fourth quarter of 2018.

This presentation uses our third quarter 2018 financial results to illustrate what will change and what you can expect to see starting with our fourth quarter and year-end report out in February.

So let's begin on Slide 4. Chorus currently operates in two business segments. We have airline operations and regional aircraft leasing. I'll turn you to Slide 5, where I'll provide the details on these segments.

Airline operations. Our airline operations segment includes contract flying and charter operations conducted by Jazz and Voyageur subsidiaries. It also includes the MRO business that is carried on by Voyageur through its Voyageur Aerotech and Voyageur Avparts subsidiaries and Jazz through its Jazz Technical Services division.

The segment also includes expenses related to corporate costs, such as interest on convertible units and executive and share-based compensation.

We have included aircraft leasing under the CPA in the results of the airline operations segment. This leasing revenue is an important part of our CPA, and it also reflects our aircraft leasing capability beyond that which is reported in our regional aircraft leasing segment.

Aircraft leasing under the CPA currently includes 34 Q400s, 5 CRJ900s, 8 Dash 8–300s which have completed the extended service program, or ESP, as well as side engines. These aircraft are operated by Jazz under the CPA.

The number of aircraft are expected to increase, as 11 additional Dash 8–300s will undergo ESPs and earn leasing revenue under the CPA. Eight ESPs will be completed by the end of 2019 and the remaining three by no later than December 31, 2022.

The regional aircraft leasing business has grown significantly since its inception at the end of 2016, and includes the results of our leasing business carried out by Chorus Aviation Capital.

Our regional aircraft leasing business has grown to now include 12 airlines located in 12 countries spanning six continents. We have acquired or signed committed leases for aircraft valued at approximately US$730 million, which includes 33 aircraft comprised of 28 which are under lease as of November 28th and 5 aircraft with firm commitments to be delivered in 2019. This fleet is comprised of 11 ATR 72–600s, 10 Q400s, 4 CRJ1000s, 4 E190s, 2 CRJ900s, and 2 E195s.

Chorus has realized net proceeds of 303 million from the issuance of convertible units in March 2017 and the issuance of common shares in March 2018 earmarked for investment in regional aircraft leasing segment. Approximately 30 percent of the capital is uncommitted, and Chorus anticipates committing the balance by mid-2018—sorry, by mid-2019.

I'll now turn you to Page 6. Here's a look at our current fleet by segment. The airline operations segment includes the Jazz covered fleet, which is made up of 116 aircraft, of which 47 currently earn leasing revenue under the CPA.

As I already mentioned, this segment also includes the Voyageur operational fleet of 20 aircraft. The regional aircraft leasing segment has grown to 33 aircraft, and as mentioned, three of the eight committed aircraft were delivered subsequent to September 30, 2018, with the remaining five expected to be delivered in 2019.

I'll now turn to Page 7. The segment revenue mapping here is a bridge between our consolidated results and our indicative segment results.

As you can see, the airline operations is comprised of 100 percent of the CPA revenue, 100 percent of the charter and the other contract flying revenue, and a portion of the other revenue category related to MRO and other.

In Q3 2018, we reported other revenue of 29.8 million. Going forward, other revenue will be split between regional aircraft leasing and airline operations revenue.

In Q3, this split was 19.8 million for the regional aircraft leasing and 9.9 million for airline operations segment, which is mainly made up of MRO. We'll continue to report revenue from aircraft leasing under the CPA separately.

I'll now turn to Slide 8. And this slide illustrates our indicative new financial reporting format for our Q3 2018 results and the comparative period of 2017 for our two business segments.

The following key financial results include revenue, expense, and net income; other key line items, such as interest, depreciation, and other line items which are necessary to derive the adjusted metrics; and adjusted EBITDA, adjusted earnings before taxes, and adjusted net income. When we present this information in our Q4 MD&A, it will be accompanied by a detailed analysis and commentary by segment. For the purposes of this presentation, I'll provide a few comments on the comparative segmented figures, with more focus paid to the regional aircraft leasing segment. And I'll ask you to refer to our recently issued Q3 2018 MD&A for more detail.

So the airline operations segment generated revenue of 347 million, a 13.3 million or 4 percent increase from Q3 2017. This was due to an increase in controllable revenue of 7 million, an increase in aircraft leasing under the CPA of 2.5 million, and an increase in pass-through revenue of 3.6 million.

Third quarter operating expenses increased by 18.6 million, or 6.6 percent, to 301 million from Q3 2017. This was driven by increased aircraft maintenance expense of 12.3 million; increased salaries, wages, and benefits of 3.1 million; and increased other expenses of 4.3 million. The airline operations segment reported adjusted EBITDA of 70.1 million, adjusted EBT of 35.7 million for the quarter, and adjusted net income was 27 million for the quarter.

On the regional aircraft leasing side, revenues for the regional aircraft leasing segment increased to 19.8 million, a 9.8 million or 97 percent increase from Q3 2017, due to the equivalent aircraft under lease increasing from approximately 12 in the third quarter of 2017 to 23 in the third quarter of 2018.

Operating expenses increased to 10.1 million from 5.7 million in Q3 2017. The 4.3 million increase is due to a 3.3 million increase in depreciation, with the remainder mainly attributable to salaries, wages, and benefit increases related to additional employees supporting the leasing growth.

Adjusted EBITDA increased to 16.9 million, due the significant growth in the number of aircraft under lease period over period.

Adjusted EBT increased 2.3 million, due to the increase in adjusted EBITDA, offset by increased depreciation of 3.1 million related to new aircraft and increased interest expense of 3 million related to additional aircraft debt.

And adjusted net income increased by 1.9 million, or 95.9 percent primarily related to increased adjusted EBT of 2.3 million, which was offset by increased taxes of 0.4 million.

I'll now turn to Slide 9 to speak to the year-to-date Q3 2018 period. So for the nine months ended September 30, 2018, Chorus reported adjusted EBITDA of 249.7 million versus 204 million in 2017. Adjusted EBITDA contribution by segment is as follows. The airline operations segment comprised 81 percent of adjusted EBITDA in 2018 versus 95 percent in 2017, and the regional aircraft leasing segment contributed 19 percent versus 5 percent in 2017.

For the nine months ended September 30, 2018, adjusted net income was 86.7 million, a decrease from 2017 of 5.1 million, or 5.6 percent. The airline operations segment contributed 87 percent versus effectively 100 percent in 2017, and the regional aircraft leasing segment contributed 13 percent.

Revenue for the airline operation increased 59 million to 135.7 million, or 5.5 percent from 2017 due to the following: Controllable revenue increased 49.1 million, or 8.7 percent; aircraft leasing under the CPA increased 6.2 million; CPA pass-through revenue increased by 2 million. And this was partially offset by a decrease in charter and other contract flying revenue of 2.7 million.

Operating expenses were 908 million, an increase of 43.3 million, which was driven by increased aircraft maintenance expense of 50.2 million, offset partially by a decrease in terminal handling costs of 5.3 million and a decrease in other expenses of 1.7 million.

Year-to-date adjusted EBITDA was 201 million for the airline operations segment, EBT was 99.3 million, and adjusted net income was 75.5 million.

Again, I'll refer you to our Q3 2018 MD&A for additional details, but on the regional aircraft leasing segment, I'll provide a bit more commentary.

For the nine months ended September 30, 2018, the regional aircraft leasing segment increased revenue to 56.8 million, a 42.6 million increase from 14.3 million in 2017. The growth was the result of an increase in the number of equivalent aircraft in the leasing portfolio from approximately 6 in 2017 to 23 in 2018.

Year-to-date 2018 expenses increased to 29.5 million from 8.6 million in 2017. The 20.9 million increase is reflective of the growth in the segment during the year mostly related to depreciation and salaries and wages.

Adjusted EBITDA increased 36.8 million due to the significant growth in the number of aircraft under lease period over period. Adjusted EBT increased 14 million due to the increase in adjusted EBITDA and a 3.3 million positive impact related to a foreign exchange change on working capital, which was offset by increased depreciation of 15.2 million, primarily related to new aircraft, and increased interest expense of 10.9 million related to additional aircraft debt.

And finally, adjusted net income increased by 11 million, primarily related to the increase in adjusted EBT of 14 million, which was offset by increased taxes of 3 million.

I'll now turn you to Slide 10. And this slide includes selected balance sheet information on property and equipment and long-term debt.

Long-term debt for the airline operation includes the convertible units and debt related to aircraft leasing under the CPA. And long-term debt in the regional leasing segment represents borrowings to finance the aircraft.

This slide illustrates that we're investing in the regional aircraft leasing business. Debt in this segment is increasing, as approximately 75 percent of the investment in new regional aircraft are financed by debt.

The investment in the airline operations is more targeted with respect to the maintenance of our existing fleet and our investments in ESPs on the Dash 8–300 fleet.

We will further expand our disclosure commencing in Q4 2018 to provide a breakdown of the geographic diversity associated with these assets, and we will review other relevant disclosures.

Slide 11 provides some information commonly reported by aircraft leasing companies to measure—commonly reported, and it'll assist you with your comparative analysis. So as mentioned, we have a committed fleet of 33 aircraft with a US$730 million acquisition value and approximately US$600 million in future contracted lease revenue.

The weighted average age of our fleet is three years, with the weighted average remaining lease term eight years. Eighty-eight percent of the debt is fixed rate or hedged with a swap, while the weighted average cost of borrowing is 4.6 percent.

I'm sorry, I realized I said approximately US$600 million in future contracted lease revenue. That should read 800 million, consistent with the revised package that was distributed on our website.

Turning to Page 12, the regional aircraft leasing portfolio. This slide just further illustrates the diversity we've achieved to date with 6 different aircraft types placed with 12 different customers.

And finally turning to the last page, this last slide provides similar disclosure to aircraft leasing under the CPA. We have a fleet of 47 aircraft and 5 engines with a net book value of this fleet of 860 million Canadian. There's approximately 800 million in future contracted lease revenue related to these assets in US dollars. The weighted average age of the CPA fleet is six years, with an average remaining lease term of eight years. One hundred percent of the debt is at fixed rate or hedged with a swap, and 3.6 percent is the weighted average cost of borrowing.

That concludes my remarks. Thank you for listening. And, Operator, we can now open the call to questions from the analysts.

Q&A

Operator

Certainly. At this time, if you'd like to ask a question, please press *, 1 on your telephone keypad. We'll pause for a moment to compile the Q&A roster. Again, that is *, 1 on your telephone keypad to ask a question by phone.

Again, if you'd like to ask a question, please press *, 1 on your telephone keypad.

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

Tim James — TD Securities

Thank you. Good morning, everyone. I guess first question, just a confirmation. All of the information that we find in the presentation will be provided on an ongoing basis in the future, the indicative balance sheet information, everything. I just want to confirm that some of this isn't sort of a onetime kind of introduction to this data; that anything in here will be available going forward.

Jolene Mahody

Yeah. No, that's correct, Tim. It's our intention to provide this information going forward as you see here in the presentation.

Tim James

Okay. Okay. Super. And then I guess just a question maybe for Steve, I suppose. I'm just wondering if you could provide a bit of an update on any competitive changes you're seeing out there in the regional aircraft leasing industry.

Steve Ridolfi — President of Chorus Aviation Capital, Chorus Aviation Inc.

Okay. Well, it's not quite to do with segmentation, but no, there hasn't been too many changes in our side of the marketplace in the regional aircraft leasing side. I think the dynamics are pretty much unchanged.

Tim James

What about in terms of the cost of capital? Any kind of changes you're seeing in the marketplace on that front?

Steve Ridolfi

Well, as you know, interest rates have been rising, and that affects all capital acquisition purchases. I think you have to keep in mind that the increase in capital costs apply to both the bank financing and to operating leases. So kind of the two the tide rises on the marketplace all over.

I think from our perspective we follow suit. In other words, we try to match lease rates with increasing interest rates, and by and large, that's happening.

Tim James

And so far are you—how do you feel your customers, what's their receptivity to higher lease rates? I guess what I'm getting at is are you able so far—

Steve Ridolfi

Yeah.

Tim James

—to kind of maintain the margins that you were getting 12 months ago with new leases?

Steve Ridolfi

Yeah. So far. Obviously, there's always a bit of a lag as this occurs. I think it's actually pretty good times in the airline world in terms of overall profitability. I think, obviously, there's much talk about what's around the corner, and I won't speculate here.

But I think, by and large, the industry is strong and healthy, and so far has been able to absorb the capital increases.

Tim James

Okay. Great. Thank you very much.

Operator

Again, if you'd like to ask a question, please press *, 1 on your telephone keypad.

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

Cameron Doerksen — National Bank Financial

Thanks. Good morning. I guess maybe just a question on the operating expenses for the regional aircraft leasing business. I'm just wondering if you can maybe quantify or give us an idea of how they're going to trend, just the cost to kind of just manage the business, not the—obviously the depreciations is part of that number, but just like sort the ongoing cost to manage the third-party regional aircraft leasing business? And whether you've got the team built out to where it needs to be now? And how we should expect those costs to kind of trend in future quarters?

Steve Ridolfi

Yeah. I think if I can comment on that, we don't see a terrible amount of changes from those costs. I think you're referring to mostly the SG&A, right, the cost of the—

Cameron Doerksen

Exactly, yeah. Exactly.

Steve Ridolfi

I think we're fairly built out in terms of what we have. So right now you'll see if you measure SG&A as a percentage basis, it's a little bit on the high side. And as the fleet builds out, that percentage will come down a little bit.

But I have to remind you that that cost is relatively small, right? We're not huge in terms of labour compared to other divisions and other companies. So I think you can make the assumption that it'll be marginally down from an SG&A perspective over time.

Cameron Doerksen

Okay. Now maybe just a second question. I guess maybe you'll have more to say on this in the new year, but just wondering how changes in IFRS are going to change some of the reporting for you? I guess maybe you can talk about it both within the sort of the regional aircraft leasing business, but also the airline operations segment.

Jolene Mahody

Yeah. Sure. And we do have some disclosure that we included in our Q3 results around some qualitative aspects of changes that we can expect with IFRS 16. Although we haven't completed all the quantification yet, that will come with our Q4 reportive (sic).

But generally, as you know, what will happen is those assets that are treated as operating leases today in the airline operations segment will become capitalized. Now for us, given that we have a large component of our fleet that's owned today and operated under the CPA, there's no impact for those assets. We also have a large component of assets that we operate that are leased through to us from Air Canada. And when they're leased through to us from Air Canada, they show up, of course, as an expense under our aircraft rent section, and they also show up as a revenue item in controllable revenue.

So from a bottom-line perspective they wash away. And it's our understanding and as I said, we're continuing to evaluate this, but under the new IFRS that those two expenses—that expense item and that revenue item actually will collapse and go away altogether.

So we'll no longer be showing in our aircraft rent line or our controllable revenue line items associated with aircraft that are subleased through to us from Air Canada. So as a result, not only does it not have a P&L—like that P&L impact, it goes away in both revenue and expense—there is no balance sheet impact for us for those assets that are leased on through.

That leaves just a small remaining group of aircraft that are on third-party lease that will be capitalized on our balance sheet, and so we'll have the impact of changing the P&L associated with those aircraft.

But they're not to a great degree. We have a handful of aircraft, maybe seven aircraft, five to seven aircraft that will fall into that category.

Tyrone Cotie — Vice President of Treasury, Chorus Aviation Inc.

Jolene, by segment, really the majority of those changes are going to flow into the airline operations; really nothing impacting the regional aviation segment.

Cameron Doerksen

Okay. Yeah. That was my follow-up question was whether there was any impact on the leasing segment, but it doesn't sound like there is, so.

Jolene Mahody

No.

Cameron Doerksen

Okay. Very good. That was all for me. Thanks.

Operator

There are no further questions at this time. I would now like to turn the call back over to the Chorus Aviation management team for final remarks.

Nathalie Megann

Thank you, Jack, and thank you, all, for taking the time with us today.

We'll now conclude the call.

Operator

This concludes the Chorus Aviation Segmented Reporting Session. We thank you for your participation. You may now disconnect.