

Chorus Aviation Inc.

First Quarter 2021 Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Chorus Aviation Inc. First Quarter 2021 Earnings Call. At this time, all participants are in a listen-only mode.

After the speaker 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.

Please be advised that this conference is being recorded.

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

I would now like to hand the conference over your speaker today, Miss Natalie Megann, Vice President of Investor Relations. 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 this morning for our first quarter 2021 conference call and 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 information and statements which are subject to various risks, uncertainties, and assumptions that are included or referenced in our Management Discussion and Analysis of the results and operations of Chorus Aviation Inc. for the period ended March 31, 2021, 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 our MD&A for a discussion relating to the use of such non-GAAP measures.

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

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

Thank you, Natalie, and good morning, everyone. In such a difficult environment, I'm pleased and encouraged with our accomplishments so far this year. They really demonstrate the strength and resiliency of our employees and business model and the tremendous expertise of our team.

The safety of our employees is our top priority, and the success of our company is in part due to safety being part of our DNA. With the third wave of the pandemic now upon us, I'm amazed and grateful for the tenacity and professionalism of our team and especially our frontline employees.

We are continually working to address concerns in an ever-changing operational environment. Together with our unions, we are being as proactive as possible to better support our people. At some point, this crisis will abate. We've been managing well through the challenges and are collectively focused on ensuring we emerge on the other side as strong as possible.

In March, we amended our CPA with Air Canada to address the dramatic and sustained reduction in air travel demand caused by the pandemic by optimizing the Jazz fleet. As such, Air Canada is transferring the fleet of 25 Embraer E175s, making Jazz their current sole Air Canada Express partner and the exclusive Air Canada Express operator of 70- to 78-seat capacity regional aircraft until 2025. The transitions of these aircraft and the new ALPA pilots are going well, and we're pleased to welcome these new employees.

Earlier this month, we operated our first E175 flight and plan to induct four aircraft per month and have them all flying by the end of the third quarter of this year.

I commend the Jazz team for their dedication and hard work bringing the E175 fleet online so quickly.

We've begun to retire the Dash 8-300 fleet from Jazz, and we are actively pursuing a range of options for these aircraft.

The revision of the CPA also included the implementation of a cap on the controllable cost guardrail receivables at \$20 million annually. This reduces our financial exposure and minimizes draws on our working capital.

As our work with Air Canada on recovery plans continues, these revisions further strengthen our relationship and provide network efficiencies and planning flexibility, elements that are vital as service resumption is implemented.

We continue to focus on our costs and remain prepared to respond to increased flying demand when the recovery starts.

On the heels of finalizing the revised CPA, we launched a capital raise, which was oversubscribed and delivered gross proceeds of \$145 million. Preserving and building liquidity remains a priority, and we believe the timing of this raise was good, given the positive momentum we have been building, despite the onset of the third wave.

We were delighted to have two new institutional investors, such as NordStar Capital and the Alberta Investment Management Corporation, come on board through the concurrent private placement in support of our growth strategy. The net proceeds will be used primarily to support our leasing business, pay down debt, pursue opportunities, and for other general corporate purposes.

While there remains uncertainty, our industry is seeing positive trends as air travel demand returns, most particularly in regional and short-haul markets. We are well positioned to prudently pursue growth opportunities. This was evidenced by our recent long-term lease agreements with two new customers, Sky Alps of Italy and Cobham Aviation Services of Australia.

The aircraft, three Dash 8-400s, were repossessed in 2020 and underwent reconfiguration and return to service work at Voyageur and Jazz Technical Services.

This is what differentiates us from our competition. We offer a broad range of solutions to remarket aircraft during one of the most challenging periods in aviation history.

We continue to work with our lessees as they manage through this time. Lease revenue collections have plateaued given the third wave of the pandemic, and we expect this to improve with passenger traffic recovery and the reintroduction to service of grounded aircraft around the world.

The current environment has been difficult to remarket off-lease aircraft. The sector itself is very competitive and dynamic. We are actively remarketing our off-lease aircraft and watching developments in the industry closely.

We haven't changed our cautious approach to growth and are in a good position to take advantage of new opportunities, such as sale and leaseback transactions with high-quality customers seeking additional balance sheet flexibility.

We have cash on hand, good liquidity, and continue to work well with our customers.

Now turning to our Voyageur operation, where momentum is definitely building. The team in North Bay is having an exceptional start to the year. The recent contract announcements with Purolator, Transport Canada, and Ambulance New Brunswick are a testament to the incredible skill and ingenuity of the team, and clearly position us as a leading special mission service provider.

We see good potential to grow into the cargo business, which is a new area of focus for us. We've been active in air cargo through the conversion of several Dash 8 aircraft to package freighters and developing a new relationship with a market leader like Purolator is a meaningful step in the expansion of our contract flying capabilities in the cargo market.

The Purolator contract is for three years and follows the successful completion of an initial six-month trial. We will be using two former Dash 8-100s from Jazz that were converted in-house to package freighters to operate between Indianapolis, Hamilton, and Montreal. One of the aircraft is completing a contract with another customer and the second aircraft is currently undergoing freighter conversion in North Bay.

This is another demonstration of our ability to leverage the value in our asset at any point in their lifecycle. We're very excited about this opportunity, and we'll work hard to grow this relationship over time.

Another exciting development is our new three-year agreement to upgrade and modify Transport Canada's National Aerial Surveillance Program fleet of three Dash 8-100s and one Dash 7 aircraft with new surveillance equipment. This contract demonstrates Voyageur's unique engineering capabilities and expertise.

And of course, we were thrilled to extend our 25-year relationship with Ambulance New Brunswick for an additional 5 years.

Our accomplishments to date this year really show the strength of our employees, our expertise, and the wide range of integrated products we offer in the regional aviation space. We are making meaningful progress in broadening our footprint in the regional aviation sector and diversifying our

business. We are proud of the way we are managing through the pandemic and have centred our attention on the future.

I'm very grateful to our employees for delivering terrific accomplishments, despite all of the challenges associated with the global pandemic. We are well positioned to take advantage of future opportunities.

I would be remiss if I didn't acknowledge Jazz being named one of Canada's Best Diversity Employers for the 10th consecutive period by Mediacorp Canada Inc. Diversity is core to our culture. We value individual uniqueness and foster safe spaces that empowers employees to be their authentic selves. By encouraging inclusive work environments that build on the diverse perspectives, experiences, and abilities of the employees, we are fostering innovation and positive change. Congratulations again for another great accomplishment.

Before I turn the call over to Gary, I'd like to recognize the federal government's recent announcement confirming the importance of regional services in Canada. I would like to thank the many government representatives across Canada I've spoken with over the last several months for listening to our concerns with respect to the importance of regional services being a critical lifeline to Canada's regional communities.

As the vaccine rollout continues, governments are turning their attention to safe reopening and longer-term solutions for the sector. We look forward to learning the details of this plan and hope it is shared very soon, as we know air travel is essential to our economy.

I will continue to advocate for regional service so that it remains top of mind with decision-makers as they chart a course for the country out of this pandemic.

Thank you very much for your time. And I'll now pass the line over to Gary.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Joe, and good morning. Here's how the first quarter of this year compares to the first quarter of 2020.

Our first quarter adjusted EBITDA was \$84 million, a \$4.5 million decrease over first quarter 2020. Adjusted net income was \$15.7 million, an \$8.1 million decrease over last year, which led to a decrease in adjusted EPS at \$0.10 versus \$0.15 in the first quarter of 2020.

The Regional Aircraft Leasing segment's adjusted EBITDA decreased by \$9.5 million, primarily due to lower lease margins attributable to off-lease aircraft, a \$2.5 million expected credit loss provision, and a lower US dollar exchange rate, partially offset by additional aircraft earning leasing revenue.

Adjusted EBITDA for the Regional Aviation Services segment increased by \$4.9 million.

The first quarter results were impacted by a decrease in stock-based compensation, an increase in aircraft leasing revenue under the CPA, an increase in other revenue, and a decrease in general administrative expenses, offset by a decrease in fixed margin in line with the CPA contract and a decrease in capitalization of major maintenance overhauls on owned aircraft operated under the CPA.

Adjusted net income was \$15.7 million for the quarter, a decrease of \$8.1 million, due to the previously mentioned \$4.5 million decrease in adjusted EBITDA, an increase in net interest costs of \$4.6 million primarily related to the new credit facilities added in April 2020 in additional aircraft debt, and an increase of \$1.2 million in realized and unrealized foreign exchange on working capital, offset by a \$2 million decrease in adjusted income tax expense.

Net loss increased \$20.8 million, primarily due to the previously noted decrease in adjusted net income of \$8.1 million, the one-time restructuring costs related to the 2021 CPA amendments of \$81.8 million, a change in the net lease repossession cost of \$7 million, offset by the change in net unrealized

foreign exchange on long-term debt of \$45.4 million, tax recovery on adjusted items of \$21.3 million, and a decreased impairment of \$5.9 million in the RAL segment.

The 2021 CPA amendments became effective on a retroactive basis to January 1, 2021, resulting in one-time restructuring costs of \$81.8 million, with a non-cash impairment and inventory provisions on the Dash 8-300 of \$42.8 million, early retirement program costs of \$26.3 million to incentivize early departure of Jazz pilots enrolled in the defined benefit pension plan, non-cash DB pension plan curtailment provision of \$10 million, integration in E175 aircraft-related transition costs of \$2 million, and signing bonuses of \$0.7 million for Jazz pilots.

Chorus also agreed to pay Air Canada \$20 million in connection with the transfer and integration of the E175s into the covered aircraft fleet. These one-time restructuring costs and provisions are added back to adjusted EBITDA, adjusted EBT, and adjusted net income accordingly.

Now turning to liquidity. We ended the first quarter with \$171.3 million in liquidity, a decrease from the fourth quarter of approximately \$29.7 million, primarily due to certain payments related to the 2021 CPA amendments of approximately \$17 million and debt repayments of \$56 million, offset by the collection of the 2020 controllable cost guardrail receivable of \$44.2 million.

On April 6, 2021, Chorus completed a concurrent public offering and private placement of equity units and convertible senior unsecured debentures for gross proceeds of \$145.1 million. The net proceeds after transaction costs was approximately \$138 million.

Chorus used a portion of these proceeds to repay loan deferrals of \$33.9 million.

Chorus also plans to pay down additional—or pay down secured indebtedness by approximately \$75 million. Repayment of these secured debt facilities will reduce our debt and interest payments by approximately US\$700,000 per month while also bringing the carrying value of CAC's unencumbered fleet

to approximately \$140 million and reducing Chorus' restricted cash requirements by approximately \$10 million.

With the capital raise, Chorus has bolstered its liquidity to fund ongoing operations, plan capital expenditures, and to fund prudent growth opportunities.

We did see CAC's gross lease receivable increase by US\$9.6 million to US\$53.8 million in the quarter, with the potential to increase to US\$60 million by the end of 2021. The increase is due to the additional rent relief requests from certain customers resulting from the continued travel restrictions and as the number of COVID variants and cases continues to climb.

In addition, we collected 62 percent of lease revenue build in the first quarter from our lessees, excluding repossessed aircraft, which is consistent with the fourth quarter 2020 collections.

Planned capital expenditures in 2021, including capitalized major maintenance overhauls, are estimated to be between \$26 million and \$35 million. This estimate includes between \$8 million and \$12 million that will be included in the controllable costs. Planned aircraft-related acquisitions are expected to be between \$35 million and \$45 million in 2021.

Before opening the call to questions from the analyst community, I would like to acknowledge the outstanding efforts of our team so far this year. Thank you to all our employees. Stay safe and take care.

That includes my commentary. Thank you for listening. Operator. you can open the call to questions.

Q&A

Operator

Thank you, sir. As a reminder to ask a question, you will need to press *, 1 on your telephone.

We have our first question from the line of Tim James from TD Securities. Your line is now open.

Tim James — TD Securities

Thank you. Good morning, everyone.

Joe Randell

Morning.

Tim James

My first question, I'm just wondering how we should think about lease rates in the short term here. Should we think that the new leasing contracts, and I guess I'm thinking in particularly off-lease aircraft with potentially any new opportunities as well, that lease rates will be lower than they were kind of prior to the pandemic? And is it possible, if that is the case, to kind of quantify to what degree there is pressure on those rates?

Joe Randell

Tim, I think it's fair to say, given the pandemic and the number of aircraft that have been repossessed and returned, that there will be downward pressure on lease rates as these aircraft are repositioned with new operators. But of course, it does give you an opportunity to reset leases for longer periods of time, et cetera. So I think the industry is experiencing that downward pressure on assets that are on the ground.

I think new assets, new financings, though, are not experiencing the same magnitude of downward pressure in terms of lease rates, et cetera. And the amount, the reduction is the function of the individual carrier, and I think it's a little early to say exactly where it's all going to settle out.

I think we were really fortunate, unlike a lot of lessors that haven't been able to put aircraft out there with new operators, we've been fortunate to do these. We're working on some others right now and I think—and we're optimistic that we will be able to do more here, but I can't tell you exactly how much. The rates are decreasing and that sort of thing, but it's certainly down on the aircraft that are being remarketed, for sure, within the industry.

Tim James

So with that in mind, I'm wondering if these remarketed aircraft, I guess, in particular and maybe it's newer aircraft, given these kind of unprecedented times, are you approaching sort of the terms on leases any differently? Is there any way to kind of leave some flexibility so that you can avoid locking into leases that may be below market rates and one, two, three years from now? Or are you approaching sort of the terms of the leases in the same way as kind of pre-pandemic?

Joe Randell

I think it depends. It depends on the operator. It depends on the lease. It's good. It's actually beneficial to put some of these aircraft out there on longer-term leases because you certainly don't face the prospect of having the airplane returned in the near term again and having to remarket it once again.

So again, it varies and there's no particular sort of a rule of thumb per se, other than getting the cash flow back up on these assets that are otherwise just sitting idle and doing it with good credit and people who have good business plans as the market starts to recover. And I think that's what we're seeing is people are now thinking about the recovery, and that's why we're seeing some growing interest in terms of people picking up airplanes.

But it isn't going to happen overnight. It's going to be a process that's going to take some time for the industry, I think, to recover from this, especially with the assets that are on the ground. And we

look at the number of assets that we repossessed during this process is a total of 13 airplanes. And we look at our competitors with others in the business, and 13 is actually not a bad number at all, if you look at it as a percentage of the fleet that we had under lease.

Tim James

Okay. That's really helpful. Thanks, Joe. And just my last question, really kind of stepping back big picture. I'm just wondering how you're thinking about the Company's, the equity valuation these days and kind of where the market's understanding of the business is, given where we are in terms of the recovery from the pandemic. And I guess it always is important to come back to kind of the market's understanding of the risk profile of Chorus in general. Just wondering if you can comment on kind of your thoughts on—

Joe Randell

Sure.

Tim James

—on the valuation.

Joe Randell

Well, clearly, I think 2020 was a difficult year and we were severely hit, as everybody else was. A lot of uncertainty in terms of how long and how deep, et cetera. We really, I think, used the year to our advantage in doing this new contract with Air Canada, and we sort of really reestablished the relationship on the basis of this recovery that's coming up in future. So we removed the uncertainty with respect to that contract and its longevity and et cetera.

And the recent announcement with Air Canada and the federal government, I think gives everybody a lot of comfort in terms of Air Canada's ability to get through this as well. So we look at that

side of the business now as being very, very solid and very predictable for sure. And a lot of people still don't understand that; how we're compensated under the CPA. And under our CPA with Air Canada, we're paid for the aircraft, we're paid for the operation, but it's generally fixed with very limited exposure in terms of any downside. The guardrail, we put a cap on that, et cetera. So I think still the market is grappling a little bit with understanding some of that.

And I think on the leasing business itself, obviously we've been through a rough time with this. We're not fully through it yet, but we're seeing this recovery starting to happen, et cetera. And so I really do believe that there's a turnaround coming soon in the leasing business as carriers start to get back up. I think the third wave in some of these countries was—we didn't really predict it, but it's happening for sure. But again, these countries will come out of it, et cetera.

And then while not a really huge part of our business, we have Voyageur. And Voyageur has been out there. We were diversifying the business. Unfortunately, though, the bulk of our business was dependent on passenger travel, but you can see now with some of the things that we're doing organically at Voyageur with respect to the conversion of freighters, the operation of freighter aircraft, other special missions, we continue to do very well with the UN, et cetera. And actually Voyageur has been doing better than it has in a long, long time through the pandemic, and it's because it's not exposed to the passenger business. So we're moving in that direction as well.

So I think we're definitely in a rebuilding mode. I think we've done a very good job of managing our liquidity through this process to ensure that there was no top-over here or anything of that nature that was going to happen. And I think we really solidified our relationships with our customers, including Air Canada, and we've grown new customers through this process, so.

But it's tough because people look at the air business and we all get sort of thrown in the same bucket. And sometimes people don't really look under the covers to understand the different nature of our business and what we have done, so. But that makes us feel very optimistic about the future.

So the worst is behind, we believe, and we're in that rebuilding mode.

Tim James

Okay. Thank you very much for your thoughts.

Joe Randell

Thanks, Tim.

Operator

Thank you. Our next question is from the line of Kevin Chiang from CIBC. Please go ahead.

Kevin Chiang — CIBC

Hi. Good morning, everybody. Thanks for taking my question. Maybe just on that last point, Joe, the optimism you have around the recovery, and we've obviously seen some markets where vaccination rates are higher, a pretty big spike in air traffic. Just as you think about that, are there any bottlenecks you think you need to work through either from a labour front or maybe from a pilot or personnel front as you think of getting—as flight activity picks up again across the portfolio?

Joe Randell

No. And in terms of getting back up, we don't lose any sleep at night over that at all. We are in constant contact with our unions. We've been recalling some people and we see people wanting to get back to work, et cetera.

It's been difficult in a pandemic environment operationally where you have to take proactive steps with your crews, et cetera, on aircraft where you may have had passengers travelling that had COVID. But we've been doing that well. We're being very proactive with respect to that, and.

But generally speaking, I don't think we're going to see a huge overnight ramp up in flying in any event, but I think it will be fairly steady. And we're totally equipped and doing that. And we're bringing these 175s over. And operationally, the aircraft have to be transitioned. The crews are generally coming over as well, the pilots. And that transition has been going very well. So we're in pretty good shape, so we don't really see any bottlenecks.

The issue is the restart and how it's going to happen so that passengers feel comfortable travelling safely and what is going to be required of them with respect to testing, quarantines, things of that nature. So we're all anxiously awaiting this. And as the vaccine level starts to increase, you can really see people wanting to get back up. And we believe that there's a pent-up demand, especially on the leisure side for people that just want to travel. And we're seeing some signs, even in terms of Canada, an interest in Canadian tourism domestically and things of that nature that you read about that makes us hopeful.

Kevin Chiang

Got it. Thank you for the colour there. And then if I could turn to Voyageur. They've been on quite a roll here to start the year. And maybe more specifically on your recent agreement with Purolator, just wondering as you think of the charter opportunities in front of you, is the primary focus on converting regional aircraft and turboprops for freighter conversion? Would you consider other fleet types as you expand that opportunity? Is there anything in the CPA that we should be aware of that may limit your cargo ambitions here?

Joe Randell

No, there are none. There are no limitations in the CPA with respect to cargo. Our focus is on regional airplanes currently for sure, and that's because we have a lot of them that came back as a result of restructuring the CPA with Air Canada. And we now have Dash 8-300s that we believe are going to be very valuable as the world starts to return to some degree of normality.

These are 50-seat airplanes. They had investments on life extension programs on the majority of these airplanes, and we see them as being valuable going forward because there is only one manufacturer in the world right now of 50-seat aircraft, and they are incredibly expensive brand-new. And we think there will be a worldwide demand for this size of airplanes as the pandemic starts to come around. So that's why I mentioned in my comments that we're looking at a variety of different alternative ways of working this fleet and getting it deployed. And Voyageur is really the centre for doing that and they're going to be focused on making the most out of these assets. And that's in our DNA so that's—and we're feeling very positive about that.

Kevin Chiang

That's helpful. And maybe just last one for me. When you look at the pipeline of opportunities, I'd be just interested in the conversations you're having with customers today in terms of how they're looking at their regional fleet and maybe leasing that today versus maybe what they thought pre-pandemic. And maybe your own appetite for any type of portfolio transaction now. Is that something that you'd be looking at? Or is your preference for kind of the overall aviation market to be a little bit further along before you take a bigger bite on a portfolio deal?

Joe Randell

So with respect to the regional fleet, the good news is the customers that we deal with in general are not saying they don't want the airplanes. They're saying we just need a little help to get through this.

And as we're seeing, these are the first airplanes back. So we're not seeing a big pushback on people just saying, I just don't want to operate these airplanes anymore. They all see them, the folks that we deal with, as part of the future and they want to utilize them. It's just a matter of the interim effect of the pandemic, more or less.

With respect to opportunities, whether it's portfolio, sale and leaseback, anything of that nature, we see these things out there in the marketplace. We constantly evaluate them and we look at them, though, in terms of what an investment would do for us in terms of improving our results, or what it does to our balance sheet and our debt loads, et cetera. So we are focused on this. So I can't really rule anything out. But there are interesting opportunities out there.

Kevin Chiang

Thank you for taking my question.

Operator

Thank you. Our next one is from David Ocampo from Cormark Securities. Your line is now open.

David Ocampo — Cormark Securities

Good morning, everyone.

Gary Osborne

Hi, David.

David Ocampo

I just want to circle back here on the on the leasing opportunity that you guys see in front of you. And when we think about the amount of leverage that you guys typically normally use in a leasing transaction, I think it was 3 to 1 or 4 to 1, has that changed given the current environment? Or are you willing to take on less debt now, just given the risk that you see in front of you?

Gary Osborne

David, it's Gary here. I mean, typically it's 3 to 1 that we've seen in the industry with the leverage ratio, so when you take on an aircraft. And certainly, that's always our target. And as we go through these transactions, that's what we certainly gravitate back towards, but it could be plus or minus depending.

David Ocampo

And, Joe, you talked about new opportunities yielding very similar type results to pre-pandemic levels. And I think previously you mentioned that you were targeting a mid-teens ROE with that 3 to 1 leverage. Is that still the case? Or are you looking at higher-quality customers now that may push down those lease rates?

Joe Randell

I think there may be a little downward pressure on the lease rates out there. But we're still targeting to get back to what we had said before, but it's just going to take—it's not going to happen quickly.

David Ocampo

Okay. And then just a clarification question for me on the CPA amendment fee that you guys are paying to some of your pilots. Is any of that reimbursed by Air Canada as part of the Capacity Purchase Agreement? Or is that completely one-off and something that you guys have to bear on your own?

Gary Osborne

Sure. It's Gary here. That's one of—the \$20 million fees is a one-off. That's something we bear and same with the early retirement programs and all the items we mentioned.

David Ocampo

Okay.

Joe Randell

They're part of our restructuring costs.

David Ocampo

Okay. Thank you.

Operator

Thank you. The next one is from Cameron Doerksen from National Bank Financial. Please go ahead.

Cameron Doerksen — National Bank Financial

Thanks. Good morning. I guess a question on the CapEx and I guess the, I think it's related third-party leased fleet expectations this year. I mean, if I look back to the Q4 MD&A, the CapEx expected for 2021 was quite a bit higher, but there was also two ATRs, I think, for an undisclosed customer that were sort of planned to come in this year at some point. I see those have kind of disappeared and I just want to make sure that the reason the CapEx has come down is, a big factor would be the fact that you no longer expect those two ATRs to come in.

Gary Osborne

So, Cameron, it's Gary here. So we removed those two because there's not a firm commitment on those aircraft. Even though we continue to talk to the customer in that transaction, there is no firm commitment at this point. And if you look at how we've approached the disclosure here in Q1 is we put in the CapEx table the firm commitments, and we've done the same also with the fleet in other tables, so that way it's very clear that if we have a firm commitment, it's there and if not, it isn't. And in this case here we removed it simply because we're still in discussions, but there's nothing firm anymore.

Cameron Doerksen

Okay. No, that that explains it. Can you talk about, I guess, any change in, I guess, cash collections? I mean, it didn't change a whole lot in Q1 relative to Q4. Have you seen any material change so far in Q2? Or is it still kind of running in that 60 percent-to-65 percent range?

Gary Osborne

It's Gary here again. I think as far as the rent collections and that, we are expecting hopefully to be in that 60 percent range. It's really what you saw in the receivables. We had some of the deferral arrangements just get a bit behind given the COVID variants, but as far as the basic rent numbers, we're hoping to be in that same range.

Cameron Doerksen

Okay. And maybe just going back to the Purolator contract, I mean, obviously that's a nice win. I would expect that Purolator maybe doesn't only want to operate one or two aircraft here. So I'm just wondering if you can talk about any specific opportunities to grow with Purolator or with any other, I guess, packaging courier companies in Canada, just any prospects for growth there.

Joe Randell

I believe there are good prospects for growth. We've fostered a very good relationship with Purolator, and we believe there could be other opportunities to do more. This is a beginning. I think with the growth of e-commerce, certainly, and that's really affected a lot of regional communities where people are shopping online, et cetera, et cetera. And I think a lot of that will continue and that will, I think, grow demand, especially for time-sensitive items into these communities.

And these Dash 8 freighters are real workhorses and reliable. And we did the six-month trial; it worked very well. And so we're optimistic that it's going to grow, that the demand will be there, and we're

going to work hard to do that because we see it as being one of the better opportunities we have, no question about it.

Cameron Doerksen

Okay. That's great. Thanks very much.

Operator

Thank you again. Again, as a reminder, if you would like to ask a question over the phone, simply press *, then the number 1 on your telephone keypad.

Our next question is from the line of Konark Gupta from Scotiabank. Please go ahead.

Konark Gupta — Scotiabank

Thanks, Operator, and good morning, everyone. And kudos to the team on ESG achievements so far. So maybe the first one, let's follow up on Cam's question on CapEx. I see from the CapEx table, obviously CapEx has come down. The FX, or foreign exchange rate has improved as well clearly, but we are still seeing a further strength in Canadian dollar since the end of March 2021. So wondered, Gary, if you have any sense as to what this CapEx number, \$60 million to \$80 million would look like under the current FX?

Gary Osborne

It's Gary here. Under the current FX, it would come down a little bit because there is some US funds in there, obviously. We used \$1.2575 as the conversion rate. We're down into the 1.2s now, I believe, low 1.2s, so would certainly bring it down a bit. But it wouldn't be materially down, given what sits in there.

Konark Gupta

Okay. Thanks, Gary.

Gary Osborne

Yep.

Konark Gupta

Then on the on the incremental rent relief commentary that you made, just wondering, you have a lot of customers in Asia-Pacific, Africa, India, and different markets. Where is the rent relief largely coming from, I guess? Because every different jurisdiction is in a different mode right now with respect to lockdowns and the waves of the COVID and stuff, right? So where are you seeing more kind of relief requests coming in?

Joe Randell

Well, I think that depends on the time where you are in the pandemic. And I think you are right, Konark, that each part of the world seems to be going through things at a little bit of a different time. And I'd just use as an example, India, which was doing very, very well with very high utilization and that sort of thing until sort of the end of March. And then things have deteriorated quite significantly there. And Africa is having some challenges as well.

But then we see rebounds in other areas in terms of some of the areas in South America are coming back and even in terms of opening up Europe a little bit here, et cetera, so. And of course, the United States is sort of leading, I think, the rest of the world. But we really don't know. And an area that's going well may turn around and fall back a bit. And of course, we even have experienced that here in Nova Scotia. So it's hard to say.

But I think it is fair to say that the stress on the carriers is directly proportionate to the extent of the pandemic in any of these jurisdictions. And in other areas of Southeast Asia we see some improvement, so it depends.

Konark Gupta

That makes sense, Joe. Thank you. Then on the lease collection, can you remind us, was your least collection typically about 100 percent prior to the pandemic? Or was it a lower number? I mean, I'm just thinking where can it go back to from 60 percent plus.

Gary Osborne

Hi. It's Gary here again. Typically it's 100 percent prior to the pandemic. Normally your rent is paid in advance, so we would hope to gravitate towards back closer to that as we come out of the pandemic here.

Konark Gupta

Great. Thanks. And then on the gross lease receivable, seems like it's obviously going up here and you expect a further increase as you collect less than 100 percent. What's your line of sight, Joe, when and at what level the gross lease receivable peaks?

Gary Osborne

Sorry—

Joe Randell

Sorry. Go ahead, Gary.

Gary Osborne

So I guess what we're showing there, Konark, is really, we expect it to peak at most at \$60 million hopefully by the end of the year. And as far as the collections, as I said, we're hoping it stays around where we're at today and improve on it, but it's really going to be dependent on the COVID variants. So it's hard to give you exact projections on that.

Konark Gupta

So I guess that \$60 million, like it's obviously going up from here, but it may not necessarily come down right away at that point and like it might continue to build up, depending on the collection.

Gary Osborne

Yeah. I think what we've shown there is US\$60 million is where we expect the top end to possibly be. It will take time to collect the funds as we come out of this year and into next year. So that will take some time, though, to wind its way down.

Konark Gupta

Great. Okay. Thanks. And then as you look at the CAC's growth trajectory from here, perhaps leveraging the recent equity raise and debt raise, how do you envision the growth trajectory? I mean, historically you guys have, pre-pandemic, looked at 20-odd aircraft a year. And where would you see that number be today for the next couple of years or further out? And what would be your resumption for the timing of the remaining 10 of these aircraft placement?

Gary Osborne

So, Konark, it's Gary here. I'll talk a little bit about the growth CapEx. We're certainly evaluating leasing transactions out there. And we're certainly not putting any guidance out there as far as the number of transactions and timing. So as we're making our way through this COVID piece, we certainly want to study it and make sure that we make the right decisions as we as we come out of that cycle.

Konark Gupta

Okay. That's understandable, Gary. But I was more curious as to the timing of the 10 off-lease aircraft, if you see an opportunity here in the near term within like calendar 2021? Or do you see those 10 aircraft fully being remarketed by 2022?

Gary Osborne

I know we are actively remarketing all those off-lease aircraft, and we continue to be optimistic that we'll get those working here soon. But there's nothing we can report and give you guidance on at this stage, other than we are working hard and we're very optimistic, but it's tough to give an exact answer to that.

Konark Gupta

Great—

Joe Randell

Right. I think there's certainly a possibility that some of them will fall into 2022, so. But like Gary said, we're working hard and you never know, so we will see.

Konark Gupta

Okay, guys. Thanks for the answers. That's all my questions. Great. Thanks.

Operator

Thank you. The next one is from Walter Spracklin from RBC Capital Markets.

Walter Spracklin — RBC Capital Markets

Good morning, everyone. So I want to come back on the Purolator question. It's my understanding that this was being done to a certain degree with another carrier prior to your having taken that business. Is that right? And what can you gauge, if that's true, what can you gauge from the trends there? Was Purolator looking for just someone with larger capacity to grow? And a little bit of detail around your ability to win that contract would be great.

Joe Randell

Yeah. Well, I think this was a service performed by someone else originally with a different type of aircraft, et cetera. I'm sure Purolator looks at a lot of things when they choose an operator in terms of reliability, costs, volumes, et cetera. And I think it was really a combination of those things.

And we have a very good track record as an operator in terms of our performance, and I think—I can't help but think that weighed in in terms of the decision as well. And reliability in the freight business and the courier business, I think, is very important.

So I think it was a combination of things, but the Dash 8 freighters are relatively new in the marketplace, have a good payload, and are reliable. And so I think it was really—I don't think it was one thing, Walter. I think it was a combination of things and—

Walter Spracklin

Yeah. I know that whenever one of those time-sensitive customers switch, it's reliability, it's either because they lost significant liability—or reliability with their predecessor, or they just needed the capacity and are just hopeful that the reliability stays in place. And I think they probably had that comfort level with you for the reasons that you mentioned. Any sense of where the growth was going? Like is this a rapid growth trend prior to you picking up that you hope or expect will continue? How are you anticipating or factoring in growth? And what has Purolator given you in terms of what they believe the growth rate will be in that business for cross-border activity?

Joe Randell

Yeah. We started actually looking at the cargo business before even COVID with the assets that we had coming off lease, et cetera. And we've had some of these assets deployed for some time with other carriers in Canada, both on a wet-lease and a dry-lease basis. So we didn't say a lot about it because it was pretty small and it was sort of in incubation period. I think it started getting more serious when we

got into the trial with Purolator. And this wasn't something that was just brand new. Like I mentioned, we'd been doing this for some time to them. And they do have other regional services that they offer in Canada, that they use in Canada for their needs. And where we see there are some opportunities there.

We don't have a particular size on that right now or a time frame, other than we're working hard in North Bay on converting airplanes. And we believe that converting these aircraft, there will be a good market for them, whether it's for us to operate, for us to lease, et cetera. They're great assets and including now we have these 300s as well as coming at us, which I think is great raw material. So that's been good.

And the other thing I didn't mention is that we launched the used parts business or the USM business some time ago, and that business we do see a recovery in as well, so in demand around the world. And that's part of what Voyageur has been doing as well. We've parted out a number of airplanes, et cetera. So when you look at the number of things that they're doing and how those fit with us, I think it's very promising.

Walter Spracklin

That's fantastic. Switching gears a little bit, I know we all have the view that regional is going to open up first. Friends and family travel domestically will be open quickly and ramp up significantly. My two questions there are, as we see different regions in the world moving at different paces, experiencing different levels of opening, when you look at the ones that are useful as a crystal ball to see where trends are, are you encouraged by that? And importantly, if it comes back very significantly and we get a kind of a hockey stick, knock on wood, type of event, are you positioned to be able to handle that level? Obviously with that speed of growth in demand will have a little bit of a look to it—advanced look of it with your

booking curve. But you feel comfortable that you're able to handle some erratic surges in capacity or in demand, should that come about?

Joe Randell

Yeah. No, I think we're in we're in good shape. And when I look at what's happening in the US right now where the vaccination rates are high and people are back in the air and travelling, and a lot of it is driven by leisure travel, people just want to get out of the house and go see their relatives or take a break somewhere. And I think they'll be primarily looking domestically to do that. And that's exactly what we're seeing in the US. So I can't help but think that what we're seeing there will happen with time in the various other jurisdictions, including Europe that are talking about a travel passport now and things of that nature, so.

But we're in good shape. We're ready to go operationally, and we do have, as you know, some assets available to lease. So as the recovery comes around, I think we'll be there.

Walter Spracklin

Great. I've already booked my flights back home, so all set. Thanks very much, Joe.

Joe Randell

Okay, Walter. Yeah.

Operator

Thank you. We have another question from Matthew Lee from Canaccord. Please go ahead.

Matthew Lee — Canaccord

Hey. Morning, guys.

Joe Randell

Good morning.

Matthew Lee

So just a follow-up question on the CapEx. If the undisclosed customer ends up firming up its commitment for the two ATRs, will that flow into F'21 CapEx? Or is that more likely to become an F'22 event at this point?

Gary Osborne

It would flow into our CapEx table if we end up doing that deal, Matthew, so it would end up just adding to our CapEx—or into our CapEx for 2021.

Matthew Lee

Right. But I mean, in terms of timing, that's still going to be a 2021 event?

Gary Osborne

It's possible. Again, we're in discussions with the customers—or the customer. And if you look just given where everything is worldwide, it could be this year; it could be next year. It would really depend on how things go.

Matthew Lee

Okay. Great. And then maybe if you were to ballpark your objective for collection rates going throughout the year, what would you say is an attainable rate by the end of 2021, if you were to think about it that way?

Gary Osborne

We haven't put together or not certainly comfortable putting a forecast out around that at this stage given where we are worldwide, but we do want to improve, obviously, off the 60 percent. I mean, 100 percent is really the goal. And it's going to depend on how the markets open up, how the COVID

variants shape up, and how the jurisdictions go. So it's really hard to give you a firm answer on that, just given where the world is so different.

Matthew Lee

All right. That's it for me. Thanks.

Gary Osborne

Yep.

Operator

Thank you. We don't have any questions at this time. Presenters, please continue.

Nathalie Megann

Thank you, Operator, and thank you, everyone, for being with us this morning. We wish you a pleasant day and will now conclude the call.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect. Have a great day.