



Second Quarter 2020

**Unaudited Interim Condensed
Consolidated Financial Statements**

June 30, 2020



Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

| | June 30, 2020 | As at December 31, 2019 |
|---|------------------|-------------------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash | 153,410 | 87,167 |
| Accounts receivable – trade and other | 111,393 | 68,666 |
| Inventories | 79,965 | 61,843 |
| Prepaid expenses and deposits | 7,837 | 11,150 |
| Current portion of lease receivables | 3,284 | 4,558 |
| Income tax receivable | 1,806 | 1,323 |
| | 357,695 | 234,707 |
| Restricted cash (note 15) | 40,126 | 26,690 |
| Lease receivables | 7,865 | 8,637 |
| Property and equipment (note 6) | 2,676,339 | 2,592,327 |
| Intangibles | 1,660 | 1,799 |
| Goodwill | 7,150 | 7,150 |
| Deferred income tax asset (note 9) | 542 | 2,784 |
| Other long-term assets | 80,585 | 71,600 |
| | 3,171,962 | 2,945,694 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 142,800 | 177,575 |
| Current portion of lease liabilities | 4,128 | 5,785 |
| Current portion of long-term incentive plan | 1,956 | 6,549 |
| Current portion of long-term debt (note 8) | 196,097 | 164,554 |
| Dividends payable | — | 6,487 |
| Income tax payable | 1,458 | 10,114 |
| | 346,439 | 371,064 |
| Lease liabilities | 9,384 | 10,531 |
| Long-term debt (note 8) | 1,876,781 | 1,658,576 |
| Deferred income tax liability (note 9) | 192,665 | 192,315 |
| Other long-term liabilities | 129,754 | 108,215 |
| | 2,555,023 | 2,340,701 |
| Equity | 616,939 | 604,993 |
| | 3,171,962 | 2,945,694 |
| Contingencies (note 13) | | |
| Economic dependence (note 14) | | |
| Subsequent events (note 16) | | |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

| | Capital \$ | Deficit \$ | Exchange differences on foreign operations \$ | Contributed surplus \$ | Equity component of convertible units \$ | Total \$ |
|--|---------------|---------------|---|------------------------------|--|-------------|
| Balance - December 31, 2018 | 153,669 | (783,793) | 15,850 | 1,041,100 | 2,981 | 429,807 |
| Net income for the period | — | 72,388 | — | — | — | 72,388 |
| Other comprehensive income (loss) for the period (net of tax) | — | 11,347 | (13,623) | — | — | (2,276) |
| Comprehensive income (loss) for the period | — | 83,735 | (13,623) | — | — | 70,112 |
| Dividends | — | (37,520) | — | — | — | (37,520) |
| Issuances of shares, net of transaction costs and related tax | 97,260 | — | — | — | — | 97,260 |
| Dividend reinvestment plan | 9,304 | (462) | — | — | — | 8,842 |
| Stock options exercised | 9,440 | — | — | (647) | — | 8,793 |
| Expense related to stock-based compensation plans | — | — | — | 107 | — | 107 |
| Balance - June 30, 2019 | 269,673 | (738,040) | 2,227 | 1,040,560 | 2,981 | 577,401 |
| Net income for the period | — | 60,772 | — | — | — | 60,772 |
| Other comprehensive income (loss) for the period (net of tax) | — | 526 | (5,860) | — | — | (5,334) |
| Comprehensive income (loss) for the period | — | 61,298 | (5,860) | — | — | 55,438 |
| Dividends | — | (38,795) | — | — | — | (38,795) |
| Dividend reinvestment plan | 11,850 | (499) | — | — | — | 11,351 |
| Stock options exercised | 234 | — | — | (16) | — | 218 |
| Expense related to stock-based compensation plans | — | — | — | 110 | — | 110 |
| Reclassification of stock-based compensation from equity settled to cash settled liability | 92 | — | — | (822) | — | (730) |
| Balance - December 31, 2019 | 281,849 | (716,036) | (3,633) | 1,039,832 | 2,981 | 604,993 |
| Net income for the period | — | 11,871 | — | — | — | 11,871 |
| Other comprehensive (loss) income for the period (net of tax) | — | (7,518) | 19,774 | — | — | 12,256 |
| Comprehensive income for the period | — | 4,353 | 19,774 | — | — | 24,127 |
| Dividends | — | (19,520) | — | — | — | (19,520) |
| Dividend reinvestment plan | 6,626 | 713 | — | — | — | 7,339 |
| Balance - June 30, 2020 | 288,475 | (730,490) | 16,141 | 1,039,832 | 2,981 | 616,939 |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.



Unaudited Consolidated Statements of Income
For the three and six-month periods ended June 30, 2020 and 2019

(expressed in thousands of Canadian dollars, except earnings per share)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Operating revenue (note 14) | 184,214 | 332,520 | 542,238 | 676,387 |
| Operating expenses (note 14) | | | | |
| Salaries, wages and benefits | 54,205 | 114,738 | 190,180 | 242,700 |
| Depreciation, amortization and impairment | 48,970 | 33,552 | 92,998 | 65,802 |
| Aircraft maintenance materials, supplies and services | 12,380 | 47,442 | 61,599 | 106,769 |
| Airport and navigation fees | 4,362 | 42,385 | 42,750 | 82,679 |
| Terminal handling services | 1,324 | 4,719 | 6,330 | 10,843 |
| Other | 29,290 | 39,323 | 68,006 | 77,114 |
| | 150,531 | 282,159 | 461,863 | 585,907 |
| Operating income | 33,683 | 50,361 | 80,375 | 90,480 |
| Non-operating (expenses) income | | | | |
| Interest revenue | 43 | 691 | 709 | 1,487 |
| Interest expense | (21,411) | (18,890) | (42,284) | (35,427) |
| (Loss) gain on disposal of property and equipment | (390) | 1,430 | (374) | 1,466 |
| Foreign exchange gain (loss) | 18,467 | 11,576 | (20,965) | 25,826 |
| | (3,291) | (5,193) | (62,914) | (6,648) |
| Income before income taxes | 30,392 | 45,168 | 17,461 | 83,832 |
| Income tax (expense) recovery (note 9) | | | | |
| Current income tax | 2,229 | (2,220) | (3,069) | (4,440) |
| Deferred income tax | (3,456) | (4,007) | (2,521) | (7,004) |
| | (1,227) | (6,227) | (5,590) | (11,444) |
| Net income | 29,165 | 38,941 | 11,871 | 72,388 |
| Earnings per share, basic | 0.18 | 0.25 | 0.07 | 0.47 |
| Earnings per share, diluted | 0.18 | 0.24 | 0.07 | 0.46 |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.



Unaudited Consolidated Statements of Comprehensive Income
For the three and six-month periods ended June 30, 2020 and 2019

(expressed in thousands of Canadian dollars)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|------------|---------------------------|------------|
| | 2020 \$ | 2019 \$ | 2020 \$ | 2019 \$ |
| Net income | 29,165 | 38,941 | 11,871 | 72,388 |
| Other comprehensive income | | | | |
| <i>Items that will not be subsequently reclassified to the statements of income</i> | | | | |
| Actuarial (losses) gains on employee benefit liabilities, net of tax (recovery) expense of \$(2,360) and \$1,122 (2019 - \$1,685 and \$5,661) | (6,352) | 4,450 | 3,023 | 14,734 |
| <i>Items that will be subsequently reclassified to the statements of income</i> | | | | |
| Change in fair value of financial assets and liabilities, net of tax expense (recovery) of \$430 and \$1,185 (2019 - (\$381) and (\$484)) | (786) | (2,669) | (10,541) | (3,387) |
| Exchange differences on translation of foreign operations | (15,564) | (7,197) | 19,774 | (13,623) |
| Comprehensive income | 6,463 | 33,525 | 24,127 | 70,112 |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows
For the three and six-month periods ended June 30, 2020 and 2019

(expressed in thousands of Canadian dollars)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|-----------|---------------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Cash provided by (used in) | | | | |
| Operating activities | | | | |
| Net income | 29,165 | 38,941 | 11,871 | 72,388 |
| Charges (credits) to operations not involving cash | | | | |
| Depreciation, amortization and impairment | 48,970 | 33,552 | 92,998 | 65,802 |
| Amortization of accrued transaction and financing fees | 1,005 | 1,861 | 1,979 | 2,532 |
| Loss (gain) on disposal of property and equipment | 390 | (1,430) | 374 | (1,466) |
| Unrealized foreign exchange (gain) loss | (22,407) | (16,095) | 15,989 | (32,848) |
| Realized foreign exchange loss | 4,324 | 2,947 | 7,466 | 5,563 |
| Effect of foreign exchange rate changes on cash | 26 | 2,461 | (3,525) | 2,951 |
| Deferred income tax expense | 3,456 | 4,007 | 2,521 | 7,004 |
| Other | (1,652) | 273 | (1,250) | 556 |
| | 63,277 | 66,517 | 128,423 | 122,482 |
| Net changes in non-cash balances related to operations (note 15) | (91,460) | (9,429) | (107,629) | (15,436) |
| | (28,183) | 57,088 | 20,794 | 107,046 |
| Financing activities | | | | |
| Repayment of lease liabilities | (1,719) | (1,888) | (3,482) | (3,779) |
| Repayment of long-term borrowings | (33,465) | (36,363) | (75,385) | (69,224) |
| Long-term borrowings, net of financing fees | 214,744 | 200,729 | 244,625 | 215,711 |
| Issuance of shares, net of transaction costs | — | — | — | 97,260 |
| Unsecured debentures, net of transaction costs | — | — | 372 | — |
| Proceeds on stock options exercised | — | 4,485 | — | 8,793 |
| Dividends | (4,902) | (14,237) | (18,680) | (27,915) |
| | 174,658 | 152,726 | 147,450 | 220,846 |
| Investing activities | | | | |
| Increase in security deposits and maintenance reserves | 1,812 | 7,039 | 6,481 | 27,822 |
| Additions to property and equipment | (94,150) | (152,950) | (104,135) | (317,507) |
| Payments received on lease receivables | 1,384 | 1,596 | 2,705 | 3,231 |
| Proceeds on disposal of property and equipment | — | 83 | 16 | 119 |
| Decrease (increase) in restricted cash | 8,290 | (2,384) | (13,013) | (2,271) |
| | (82,664) | (146,616) | (107,946) | (288,606) |
| Effect of foreign exchange rate changes on cash | (1,049) | (3,207) | 5,945 | (4,292) |
| Net change in cash during the periods | 62,762 | 59,991 | 66,243 | 34,994 |
| Cash – Beginning of periods | 90,648 | 67,595 | 87,167 | 92,592 |
| Cash – End of periods | 153,410 | 127,586 | 153,410 | 127,586 |

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

1 General information

Chorus Aviation Inc. ("Chorus") is a holding company with various aviation interests incorporated on September 27, 2010, pursuant to the *Canada Business Corporations Act* (the "CBCA"). The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6200, P.O. Box 50, Toronto, Ontario, M5X 1B8 and its country of domicile is Canada.

The accompanying unaudited interim condensed consolidated financial statements (the "financial statements") are of Chorus. References to Chorus in the following notes to the consolidated financial statements refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries.

Chorus' primary business activities include contract flying, aircraft leasing and maintenance, repair and overhaul services.

Contract flying is currently Chorus' primary business and these flying operations are conducted through both its Jazz Aviation LP ("Jazz") and Voyageur Aviation Corp. ("Voyageur") subsidiaries. Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and transborder network. Jazz and Air Canada are parties to an amended and restated capacity purchase agreement dated January 1, 2015, most recently amended and extended effective January 1, 2019 (the "CPA"), under which Air Canada purchases substantially all of Jazz's fleet capacity at pre-determined rates. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on Air Canada (refer to note 14 - Economic dependence for further details). Jazz also operates charter flights for a variety of customers. Voyageur provides specialized contract ACMI (aircraft, crew, maintenance and insurance) flying, such as medical, logistical and humanitarian flights, to international and domestic customers.

Chorus provides aircraft leasing to third-party air operators through its wholly-owned subsidiary Chorus Aviation Capital Corp. ("CACC").

2 Basis of presentation

These financial statements are in compliance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying Chorus' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2019. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2019.

These financial statements have been authorized for issuance by Chorus' Board of Directors on August 12, 2020.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2019.

Government Grant

In response to the economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program in April 2020. CEWS provides a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. This subsidy was retroactive to March 15, 2020. The qualification and application of the CEWS is assessed over multiple four-week application period segments.

Chorus recognizes government grants when there is reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received. Chorus recognizes government grants as a reduction to the related expense that the grant is intended to offset. Chorus has recognized a government grant of \$53,357 related to the CEWS for the three months ended June 30, 2020.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

The novel strain of coronavirus ("COVID-19") outbreak has led to worldwide economic uncertainty with companies around the globe trying to manage through this unprecedented, ever changing event. For the aviation industry, it has led to strict travel restrictions and global cancellations impacting all airlines around the world.

Global debt and equity capital markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect Chorus' operations, financial results and condition in future periods are also subject to significant uncertainty.

Significant estimates made in the preparation of these financial statements include, but are not limited to, the following areas:

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Significant accounting policies, judgements and estimation uncertainty (continued)

Operating revenue

Under the CPA, Chorus and Air Canada are to re-set certain rates applicable to the year ending December 31, 2020. The new rates will be retroactive to January 1, 2020. The negotiation of these rates has not been completed. As a result, Chorus used interim rates for certain Controllable Costs to estimate CPA operating revenues during the three and six-month periods ended June 30, 2020. Once the new rates are established, Chorus and Air Canada will reconcile amounts already recorded to those rates now under negotiation. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. Given the nature of the Controllable Cost Guardrail, Chorus' exposure to variances between the Controllable Revenue Chorus receives from Air Canada to cover annually negotiated Controllable Costs and Chorus' actual Controllable Costs incurred in performing its services for Air Canada is limited to \$2,000 annually.

Employee benefits

The cost and related liabilities of Chorus' post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve certain assumptions including those in relation to discount rates, future salary increases, mortality rates and future benefit increases. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty.

Depreciation and amortization of long-lived assets

Management makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current fair value of the assets, Chorus' fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. These adjustments are accounted for on a prospective basis, through depreciation, amortization and impairment expense. A 10% reduction to the residual values of aircraft would result in an increase of \$6,957 to annual depreciation expense.

Impairment of non-financial assets

In accordance with IAS 36 – *Impairment of Assets*, Chorus' aircraft that are to be held and used, are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying value of the aircraft may not be recoverable. Aircraft leased to third parties are not reviewed for impairment until after five years from the date of manufacture unless changes in circumstances suggest that there is an indicator of impairment. Management considers the current appraisal values, among other factors in assessing possible indicators of impairment.

For the purposes of measuring recoverable amounts, assets are grouped at the lowest level for which identifiable cash flows are largely independent of other groups of assets.

For any aircraft for which an indicator of impairment is present, management estimates the recoverable amount which is the greater of fair value less cost of sales and value in use. An impairment charge would be recorded if the recoverable amount is less than the carrying amount of the assets being tested. For the three and six months ended June 30, 2020, Chorus recorded impairment provisions of \$9,540 and \$15,453 based on management's assessment of the economic impact of COVID-19 on its overall Regional Aircraft Leasing segment's portfolio.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

3 Significant accounting policies, judgements and estimation uncertainty (continued)

In assessing recoverable amounts, Chorus makes estimates about the expected useful lives and the residual value of aircraft, supported by estimates received from independent appraisers, for the same or similar aircraft types, and considers Chorus' anticipated utilization of the aircraft in addition to the creditworthiness of its lessees. In determining the residual value of the aircraft, Chorus also applies a future inflation rate assumption. The value in use is estimated by taking the present value of future cash flows obtainable as a result of an asset's continued use, including those from its ultimate disposal, discounted at 7.41% at June 30, 2020 (2019 - 5.60%).

The calculation of value in use for aircraft showing signs of impairment requires the use of judgement in the assessment of estimated future cash flows associated with the aircraft and its eventual disposition. Future cash flows are assumed to occur under the current market conditions and assume adequate time for a sale between a willing buyer and seller. Changes in the expected residual value, inflation rate and discount rate assumptions could have a material impact on Chorus' conclusion.

Impairment of financial assets

Chorus' principal financial assets that are subject to the expected credit loss ("ECL") model are trade and other receivables resulting from its leasing activities and cash and cash equivalents.

Chorus has entered into rent deferral arrangements with substantially all of its lessees which increases receivable risk due to the weakened financial state of its lessees. If COVID-19 and associated government restrictions continue for a prolonged period of time, the risks associated with the payment of deferred and future rent payments could significantly increase.

Chorus applies the IFRS 9 simplified approach to measuring ECLs which uses a lifetime expected loss allowance for all trade receivables and has established a provision matrix that is based on Chorus' historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Letters of credit and security deposits held are considered an integral part of trade receivables and considered in the calculation of impairment.

During the three and six months ended June 30, 2020, Chorus recorded a charge related to allowance for impairment of trade and other receivables of \$1,929 (2019 - \$nil), which is included in operating expense.

Income taxes

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors potential changes to tax law and bases its estimates on the best available information at each reporting date.

New accounting standards adopted during the period

The IASB issued *Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39, and IFRS 7*. The amendments affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships directly affected by interest rate benchmark reform. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. Chorus' exposure to changes in LIBOR rates is confined to those loan and derivative agreements that have floating rates that reference LIBOR and that do not mature before December 31, 2021. (Refer to note 12 - Financial instruments and fair values for further details.)

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

4 Segmented information

Chorus' reportable operating segments have been identified on the basis of services provided and are consistent with the internal reporting provided to the Chief Executive Officer and Chief Financial Officer.

Chorus has two reportable operating segments:

- The Regional Aviation Services segment includes contract flying, charter operations and maintenance, repair and overhaul services that is carried on by both Jazz and Voyageur. This segment also includes corporate expenses, such as interest on 6.00% Debentures, 5.75% unsecured debentures, unsecured revolving credit facility and operating credit facility, executive and stock-based compensation and professional fees. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment as it is an important part of the CPA. Aircraft leasing under the CPA currently includes 34 Dash 8-400s, eight CRJ900s, 14 Dash 8-300s which have completed the extended service program, or ESP, as well as five engines which are owned by Chorus.
- The Regional Aircraft Leasing segment leases aircraft to third parties through CACC. Its current portfolio of leased aircraft includes 49 aircraft comprising 19 ATR72-600s, 18 Dash 8-400s, four CRJ1000s, four E190s, two E195s and two A220-300s. CACC also has five Dash 8-400s and three ATR72-600s previously on lease to Flybe Limited ("Flybe") and two CRJ900s previously on lease to CityJet. These aircraft are currently being repossessed and will be remarketed to other airlines. (Refer to note 16 - Subsequent events)

Chorus evaluates the performance of each reportable segment using a different measure for each segment. Adjusted EBITDA is used to evaluate the Regional Aviation Services segment and Adjusted EBT is used to evaluate the Regional Aircraft Leasing segment. Adjusted EBITDA and Adjusted EBT are non-GAAP financial measures. These non-GAAP financial measures are generally numerical measures of a company's financial performance, financial position or cash flows, that include or exclude amounts from the most comparable GAAP measure. As such, these measures are not recognized for financial statement presentation under GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

Due to economic impact of COVID-19 on the global airline industry, Chorus revised its definition of Adjusted EBTIDA and Adjusted EBT during the second quarter of 2020 to include impairment provisions and lease repossession costs net of security packages recovered to facilitate transparency and comparability of its results. Adjusted EBTIDA and EBT should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements.

Adjusted EBITDA refers to earnings before net interest expense, income taxes, depreciation and amortization, impairment provisions, lease repossession costs net of security packages recovered, signing bonuses, employee separation program costs, strategic advisory fees and other items such as foreign exchange gains or losses. Adjusted EBT refers to earnings before income tax, signing bonuses, employee separation program costs, strategic advisory fees, impairment provisions, lease repossession costs net of security packages recovered and other items such as foreign exchange gains and losses.

The accounting policies and practices for each of the segments are the same as those described in note 3 of these financial statements. All inter-segment and intra-segment revenues are eliminated and all segment revenues presented in the tables below are from external customers.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

4 Segmented information (continued)

A significant customer is one that represents 10% or more of each segment revenue earned during the period. For the periods ended June 30, 2020 and June 30, 2019, the Regional Aviation Services segment reported revenue from one significant customer. See note 14 "Economic dependence" for a discussion of transactions between Chorus and Air Canada, and its subsidiary (Air Canada Capital Ltd.). For the three and six months ended June 30, 2020, there were four and three leasing customers, respectively that represented 10% or more of the Regional Aircraft Leasing segment revenue due to the early life cycle of this segment.

Information regarding the annual financial results of each reportable operating segment is as follows:

| | For the three months ended June 30, 2020 | | | For the three months ended June 30, 2019 | | |
|---|--|---------------------------|---------------|--|---------------------------|---------------|
| | Regional Aviation Services | Regional Aircraft Leasing | Total | Regional Aviation Services | Regional Aircraft Leasing | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Operating revenue | 145,640 | 38,574 | 184,214 | 302,382 | 30,138 | 332,520 |
| Operating expenses | 111,497 | 39,034 | 150,531 | 267,306 | 14,853 | 282,159 |
| Operating income (loss) | 34,143 | (460) | 33,683 | 35,076 | 15,285 | 50,361 |
| Net interest expense | (9,544) | (11,824) | (21,368) | (8,293) | (9,906) | (18,199) |
| Foreign exchange gain (loss) | 17,574 | 893 | 18,467 | 11,601 | (25) | 11,576 |
| (Loss) gain on disposal of property and equipment | (390) | — | (390) | 1,430 | — | 1,430 |
| Earnings (loss) before income tax | 41,783 | (11,391) | 30,392 | 39,814 | 5,354 | 45,168 |
| Income tax (expense) recovery | (3,514) | 2,287 | (1,227) | (5,639) | (588) | (6,227) |
| Net income (loss) | 38,269 | (9,104) | 29,165 | 34,175 | 4,766 | 38,941 |

| | For the six months ended June 30, 2020 | | | For the six months ended June 30, 2019 | | |
|---|--|---------------------------|---------------|--|---------------------------|---------------|
| | Regional Aviation Services | Regional Aircraft Leasing | Total | Regional Aviation Services | Regional Aircraft Leasing | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Operating revenue | 453,476 | 88,762 | 542,238 | 620,377 | 56,010 | 676,387 |
| Operating expenses | 394,331 | 67,532 | 461,863 | 557,942 | 27,965 | 585,907 |
| Operating income | 59,145 | 21,230 | 80,375 | 62,435 | 28,045 | 90,480 |
| Net interest expense | (18,316) | (23,259) | (41,575) | (17,245) | (16,695) | (33,940) |
| Foreign exchange (loss) gain | (21,407) | 442 | (20,965) | 26,006 | (180) | 25,826 |
| (Loss) gain on disposal of property and equipment | (374) | — | (374) | 1,466 | — | 1,466 |
| Earnings (loss) before income tax | 19,048 | (1,587) | 17,461 | 72,662 | 11,170 | 83,832 |
| Income tax (expense) recovery | (6,366) | 776 | (5,590) | (10,149) | (1,295) | (11,444) |
| Net income (loss) | 12,682 | (811) | 11,871 | 62,513 | 9,875 | 72,388 |

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

4 Segmented information (continued)

Management uses Adjusted EBITDA and Adjusted EBT to measure the Regional Aviation Services and Regional Aircraft Leasing segment performance, respectively. The following table reconciles operating income to Adjusted EBITDA and earnings before income tax to Adjusted EBT:

| | For the three months ended June 30, 2020 | | For the three months ended June 30, 2019 | |
|--|--|---------------------------|--|---------------------------|
| | Regional Aviation Services | Regional Aircraft Leasing | Regional Aviation Services | Regional Aircraft Leasing |
| | \$ | \$ | \$ | \$ |
| Operating income - as reported above | 34,143 | — | 35,076 | — |
| Depreciation, amortization and impairment ⁽¹⁾ | 22,098 | — | 22,660 | — |
| Employee separation program ⁽¹⁾ | 381 | — | 1,807 | — |
| Adjusted EBITDA⁽²⁾ | 56,622 | — | 59,543 | — |
| (Loss) earnings before income tax | — | (11,391) | — | 5,354 |
| Unrealized foreign exchange gain | — | (1,307) | — | — |
| Impairment provisions ⁽¹⁾ | — | 9,540 | — | — |
| Lease repossession costs ⁽¹⁾⁽³⁾ | — | 8,008 | — | — |
| Adjusted EBT⁽²⁾ | — | 4,850 | — | 5,354 |

| | For the six months ended June 30, 2020 | | For the six months ended June 30, 2019 | |
|--|--|---------------------------|--|---------------------------|
| | Regional Aviation Services | Regional Aircraft Leasing | Regional Aviation Services | Regional Aircraft Leasing |
| | \$ | \$ | \$ | \$ |
| Operating income - as reported above | 59,145 | — | 62,435 | — |
| Depreciation, amortization and impairment ⁽¹⁾ | 43,390 | — | 45,702 | — |
| Employee separation program ⁽¹⁾ | 4,264 | — | 2,162 | — |
| Signing bonus ⁽¹⁾ | — | — | 2,000 | — |
| Adjusted EBITDA⁽²⁾ | 106,799 | — | 112,299 | — |
| (Loss) earnings before income tax | — | (1,587) | — | 11,170 |
| Unrealized foreign exchange gain | — | (465) | — | — |
| Impairment provisions ⁽¹⁾ | — | 15,453 | — | — |
| Lease repossession costs ⁽¹⁾⁽³⁾ | — | 1,985 | — | — |
| Adjusted EBT⁽²⁾ | — | 15,386 | — | 11,170 |

(1) Included in operating expenses.

(2) These are non-GAAP financial measures.

(3) Lease repossession costs are net of security package recovered.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

4 Segmented information (continued)

Selected assets and liability information by reportable operating segment:

| | As at June 30, 2020 | | | As at December 31, 2019 | | |
|---|----------------------------|---------------------------|-----------|----------------------------|---------------------------|-----------|
| | Regional Aviation Services | Regional Aircraft Leasing | Total | Regional Aviation Services | Regional Aircraft Leasing | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Additions to property and equipment, net of disposals/deposits applied ⁽¹⁾ | 103,651 | 484 | 104,135 | 61,532 | 814,169 | 875,701 |
| Property and equipment | 1,162,576 | 1,513,763 | 2,676,339 | 1,102,977 | 1,489,350 | 2,592,327 |
| Long-term debt (excluding lease liabilities) | 1,079,976 | 992,902 | 2,072,878 | 849,675 | 973,455 | 1,823,130 |

(1) Excludes non-cash transactions of foreign currency adjustments of \$75,140 (2019 - \$54,505).

Revenue from external customers by country, based on where the customer carries on business:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|----------------------|-----------------------------|--------|---------|--------|---------------------------|--------|---------|--------|
| | 2020 | | 2019 | | 2020 | | 2019 | |
| | \$ | % | \$ | % | \$ | % | \$ | % |
| Canada | 145,640 | 79.1% | 302,382 | 90.9% | 453,476 | 83.6% | 620,377 | 91.7% |
| Other ⁽¹⁾ | 38,574 | 20.9% | 30,138 | 9.1% | 88,762 | 16.4% | 56,010 | 8.3% |
| | 184,214 | 100.0% | 332,520 | 100.0% | 542,238 | 100.0% | 676,387 | 100.0% |

Property and equipment by country based on where the customer carries on business:

| | As at June 30, 2020 | | As at December 31, 2019 | |
|-------------------------|---------------------|-----------|-------------------------|-----------|
| | \$ | % | \$ | % |
| | Canada | 1,162,576 | 43.4% | 1,102,977 |
| Other ⁽¹⁾⁽²⁾ | 1,513,763 | 56.6% | 1,489,350 | 57.5% |
| | 2,676,339 | 100.0% | 2,592,327 | 100.0% |

(1) The other country classification for both revenue and property and equipment is 100% Regional Aircraft Leasing.

(2) India is the one country included in other that represents more than 10% of total assets.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

5 Revenue from contracts with customers

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes other sources of revenue relating to lease income (including any rights to use specified aircraft that have been identified as lease revenues embedded in the CPA and contract flying service agreements) of \$76,631 and \$165,872 for the three and six months ended June 30, 2020, respectively (for the three and six months ended June 30, 2019 - \$71,214 and \$137,645, respectively). Revenue is disaggregated primarily by nature and category in the underlying contract.

| | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------|-----------------------------|---------|---------------------------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Controllable revenue | 66,441 | 171,589 | 254,035 | 361,514 |
| Fixed margin ⁽¹⁾ | 18,201 | 15,820 | 35,637 | 31,269 |
| Incentive revenue | 307 | 517 | 615 | 1,125 |
| CPA pass-through revenue | 13,168 | 51,314 | 59,834 | 103,206 |
| Other | 9,466 | 22,066 | 26,245 | 41,628 |
| | 107,583 | 261,306 | 376,366 | 538,742 |

(1) Jazz earns a fixed margin which is set for 2019 and 2020 as an aggregate amount irrespective of the number of Covered Aircraft and thereafter based on the number of Covered Aircraft operated by Jazz under the CPA.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

6 Property and equipment

| | Flight equipment | Facilities | Equipment | Leaseholds | Right-of-use assets | Deposits on aircraft | Total |
|---------------------------------------|---------------------|------------|-----------|------------|------------------------|-------------------------|-----------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Year ended December 31, 2019 | | | | | | | |
| Opening net book value | 1,908,601 | 34,747 | 9,666 | 1,355 | 3,187 | 39,996 | 1,997,552 |
| Additions | 872,298 | 938 | 5,284 | 4,676 | — | 32,092 | 915,288 |
| Right-of-use assets | — | — | — | — | 1,072 | — | 1,072 |
| Deposits applied | — | — | — | — | — | (39,587) | (39,587) |
| Disposals | (90,859) | — | — | — | — | — | (90,859) |
| Foreign currency adjustment | (52,746) | — | — | — | — | (1,759) | (54,505) |
| Depreciation | (128,480) | (1,612) | (4,723) | (338) | (1,481) | — | (136,634) |
| Closing net book value | 2,508,814 | 34,073 | 10,227 | 5,693 | 2,778 | 30,742 | 2,592,327 |
| Six months ended June 30, 2020 | | | | | | | |
| Opening net book value | 2,508,814 | 34,073 | 10,227 | 5,693 | 2,778 | 30,742 | 2,592,327 |
| Additions | 112,380 | 292 | 788 | 2,395 | — | (201) | 115,654 |
| Deposits applied | — | — | — | — | — | (11,519) | (11,519) |
| Disposals | (2,305) | — | — | — | — | — | (2,305) |
| Impairment | (15,567) | — | — | — | — | — | (15,567) |
| Foreign currency adjustment | 73,618 | — | — | — | 26 | 1,496 | 75,140 |
| Depreciation | (73,243) | (772) | (2,115) | (562) | (699) | — | (77,391) |
| Closing net book value | 2,603,697 | 33,593 | 8,900 | 7,526 | 2,105 | 20,518 | 2,676,339 |

| | Flight equipment | Facilities | Equipment | Leaseholds | Right-of-use assets | Deposits on aircraft | Total |
|-------------------------------------|---------------------|------------|-----------|------------|------------------------|-------------------------|-----------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Year ended December 31, 2019 | | | | | | | |
| Cost | 3,027,558 | 48,934 | 81,164 | 17,754 | 11,785 | 30,742 | 3,217,937 |
| Accumulated depreciation | (518,744) | (14,861) | (70,937) | (12,061) | (9,007) | — | (625,610) |
| Net book value | 2,508,814 | 34,073 | 10,227 | 5,693 | 2,778 | 30,742 | 2,592,327 |
| At June 30, 2020 | | | | | | | |
| Cost | 3,189,475 | 49,225 | 81,860 | 20,082 | 11,810 | 20,518 | 3,372,970 |
| Accumulated depreciation | (585,778) | (15,632) | (72,960) | (12,556) | (9,705) | — | (696,631) |
| Net book value | 2,603,697 | 33,593 | 8,900 | 7,526 | 2,105 | 20,518 | 2,676,339 |

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

6 Property and equipment (continued)

On March 5, 2020, Flybe ceased operations and was placed in administration. Chorus had three ATR72-600s and five Dash 8-400s on lease to Flybe which had remaining lease terms between two and four years. For the three and six months ended June 30, 2020, Chorus recorded an impairment of \$nil and \$5,913 on three ATR72-600s on lease to Flybe. There was no impairment recorded on the five Dash 8-400.

On October 25, 2019, Chorus sold three Dash 8-400s and recorded a loss on the disposal of these aircraft of \$3,407 in revenue and also recognized a foreign exchange gain of \$1,320, recycled from other comprehensive income, related to windup of the related entities.

7 Credit facilities

Operating credit

Chorus has a three-year committed operating credit facility with a maturity date of August 30, 2022. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of \$75,000 with the opportunity to borrow up to a further \$25,000 on a demand basis.

As at June 30, 2020, \$30,000 was drawn under the facility. Chorus has also provided letters of credit totaling \$9,588 that reduce the amount available under this facility. The facility bears interest for Canadian dollar advances at US dollar LIBOR plus 1.75 - 2.25% and for US dollar advances at LIBOR plus 2.75% - 3.00%.

The indebtedness under this facility is secured by all present and after-acquired personal property of the Credit Parties, excluding aircraft, engines and certain real estate property.

Under the terms of this credit facility, Chorus is required to maintain a maximum ratio of total debt to EBITDA, as well as a minimum ratio of EBITDA to fixed charges. As at June 30, 2020, Chorus was in compliance with these covenants.

Any outstanding balance under this facility may become immediately repayable if Chorus undergoes a change of control without the lender's consent.

Revolving credit facility for aircraft acquisition

Chorus has a US \$300,000 committed, revolving credit facility to finance future aircraft acquisitions for its regional aircraft leasing business. The facility provides a revolving period of between 24 and 36 months (depending on the level of utilization in the first 24 months) and a 48-month term-out period. The facility also provides an uncommitted option to expand by US \$100,000 to US \$400,000 (refer to note 16 - Subsequent events).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

7 Credit facilities (continued)

The revolving portion of the facility ends in January 2021 with an option to convert to an amortizing term loan for a further four years maturing in January 2025. During the revolving period, amortization will be 5% annually. During the term-out period, the loans will amortize based on a 12 year straight-line full payout schedule, adjusted for the age of the aircraft at the time of addition to the facility. The facility may be prepaid in part or in full subject to a US \$5,000 minimum prepayment.

The facility bears interest at US dollar LIBOR plus 2.75% during the revolving period and ranging from LIBOR plus 3.0% - 4.75% during the term-out period. As at June 30, 2020, \$154,305 (US \$113,226) was drawn on the facility.

The facility is secured by the aircraft financed under the facility, as well as an assignment of the leases, insurance proceeds and other collateral security customary for financings of this nature. All loans under this facility are cross-defaulted, cross-collateralized, and are guaranteed by Chorus Aviation Capital (Ireland) Limited ("CACIL").

The facility contains covenants that must be met on an ongoing basis. The financial covenants include a minimum amount of cash, tangible net worth, and a maximum debt-to-equity ratio in certain subsidiaries. As at June 30, 2020, Chorus was in compliance with these covenants.

Unsecured Revolving Credit Facility

On April 28, 2020, Chorus obtained a US \$100,000 unsecured revolving credit facility for general corporate purposes, repayable in two years. The facility contains customary covenants and events of default, including restrictions on share repurchases and the payment of dividends consistent with Chorus' operating facility (i.e. maximum \$0.48 per share per year), a mandatory prepayment upon the occurrence of a change of control of Chorus, and events of defaults that would be triggered upon the acceleration of Chorus indebtedness in excess of US \$10,000 or any event of default under any other indebtedness owed by Chorus to EDC. In addition, this credit facility contains a covenant to not exceed a prescribed total leverage ratio of debt to EBITDA. Chorus' obligations to pay principal and interest under this facility rank at least pari passu in right of payment with all unsecured and unsubordinated indebtedness. As at June 30, 2020, Chorus was in compliance with these financial covenants.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

8 Long-term debt

Long-term debt consists of the following:

| | As at | |
|--|------------------|----------------------|
| | June 30, 2020 | December 31, 2019 |
| | \$ | \$ |
| Secured long-term debt and revolving credit facility | | |
| Amortizing term loans | | |
| Secured by aircraft ^(1a) | 1,468,121 | 1,389,286 |
| Secured by engines ^(1b) | 8,519 | 8,900 |
| Revolving credit facility ^(1c) | 154,305 | 150,944 |
| Nova Scotia Jobs Fund loan - secured by office building ⁽²⁾ | 8,000 | 8,000 |
| Operating credit facility ⁽³⁾ | 30,000 | — |
| 6.00% Debentures ⁽⁴⁾ | 200,000 | 200,000 |
| | 1,868,945 | 1,757,130 |
| Unsecured long-term debt | | |
| 5.75% debentures ⁽⁵⁾ | 86,250 | 86,250 |
| Unsecured revolving credit facility ⁽⁶⁾ | 136,280 | — |
| | 2,091,475 | 1,843,380 |
| Less: | | |
| Deferred financing fees | (16,658) | (18,131) |
| Accretion discount on convertible units | (1,939) | (2,119) |
| | 2,072,878 | 1,823,130 |
| Less: Current portion | 196,097 | 164,554 |
| | 1,876,781 | 1,658,576 |

The current portion of long-term debt in the above table includes deferred financing fees of \$3,121, for the period ended June 30, 2020 (December 31, 2019 - \$2,916).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

8 Long-term debt (continued)

(1) Amortizing term loans

- a) Secured by aircraft - Individual term loans, repayable in instalments, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.79%, maturing between June 2021 and June 2032, each secured primarily by its respective aircraft and engines. The net book value of property and equipment pledged as collateral under these term loans was CAD \$2,045,991 (December 31, 2019 - CAD \$1,946,606).

On March 5, 2020, Flybe ceased operating and was placed in administration. The remarketing periods for the three ATR72-600s and two of the five Dash 8-400s was 24 months and ten months, respectively from the date of filing. The loans related to these aircraft are subject to repayment at the end of these periods. As at June 30, 2020, Chorus' long-term debt associated with these aircraft was US \$35,659 and US \$10,590 for three ATR72-600s and two Dash 8-400s, respectively.

- b) Secured by engines - Individual term loans, repayable in instalments, bearing fixed and floating interest at a weighted average rate of 4.34%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine. As at June 30, 2020, the net book value of property and equipment pledged as collateral under Dash 8-400 engine financing was CAD \$12,100 (December 31, 2019 - CAD \$12,410).
- c) Revolving credit facility - Individual term loans, repayable in instalments, bearing floating interest at a weighted average rate of 2.94%, amortizing to January 2025, each secured primarily by the aircraft financed by the loans and a security assignment of the leases in respect thereof. Floating interest rates have been fixed via swap agreements on a portfolio basis related to these loans at a weighted average rate of 4.63%. As at June 30, 2020, the net book value of property and equipment pledged as collateral under these term loans was CAD \$247,781 (December 31, 2019 - CAD \$242,050).

Financial Covenants under amortizing term loans

Chorus' debt agreements contain covenants which, if breached and not waived by the relevant lenders, could result in the acceleration of indebtedness. To the extent that debt agreements are cross-defaulted to other debt agreements, a default or acceleration under one agreement could cause a default or acceleration under another agreement. Therefore, if Chorus were to default under any of its debt agreements, this could have a material adverse effect on Chorus' financial position, cash flows and prospects.

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8 Long-term debt (continued)

The principal financial covenants are as follows:

Amortizing term loans have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing Inc. ("JLI") and any entity controlled directly or indirectly by either of them), Voyageur and various subsidiaries of CACC (which hold aircraft acquired for lease to customers outside of Chorus).

- The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreements with the lender also contain a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Dash 8-400s, Dash 8-400 spare engines, and CRJ900s. Furthermore, the loans may become immediately repayable if Jazz undergoes a change of control without the lender's consent (however, a change of control of Chorus is deemed not to be a change of control of Jazz for purposes of these financing agreements so long as Chorus' shares are publicly traded).
- Voyageur is required to maintain prescribed liquidity levels.
- Subsidiaries of CACC have entered into financing agreements in connection with the acquisition of aircraft. CACC, CACIL and/or JLI have guaranteed the indebtedness under a substantial number of these financing agreements. Under the terms of those financing agreements, the guarantors and/or the borrowers are required to maintain a minimum tangible net worth, observe a maximum consolidated total debt to tangible net worth ratio, observe debt-to-equity covenants, maintain a minimum cash balance, maintain minimum lease rent coverage ratios and/or refrain from paying dividends or other distributions if the debt covenants are breached. Furthermore, the indebtedness under certain of these financing agreements is cross-defaulted to payment defaults by JLI under facilities under which JLI is the borrower.

As at June 30, 2020, Chorus (or as applicable, certain subsidiaries) was in compliance with all of these financial covenants.

(2) Nova Scotia Jobs Fund loan

Term loan repayable in annual instalments of \$1,000, bearing interest at a fixed rate of 3.33%, maturing August 31, 2027. The loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases.

For the three and six months ended June 30, 2020, the total interest expense on amortizing term loans and the Nova Scotia Jobs Fund loan, inclusive of deferred financing expense amortization, was \$15,746 and \$31,664 respectively (for the three and six months ended June 30, 2019 - \$14,998 and \$27,802 respectively).

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8 Long-term debt (continued)

(3) Operating credit facility

Chorus has a three-year committed operating credit facility with a maturity date of August 30, 2022. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of \$75,000 with the opportunity to borrow up to a further \$25,000 on a demand basis.

The facility bears interest for Canadian dollar advances at US dollar LIBOR plus 1.75 - 2.25% and for US dollar advances at LIBOR plus 2.75% - 3.00%. As at June 30, 2020, \$30,000 was drawn under the facility. Chorus has also provided letters of credit totaling \$9,588 that reduce the amount available under this facility.

(4) 6.00% Debentures

In December 2016, Chorus entered into a subscription agreement with Fairfax Financial Holdings Limited ("Fairfax") for an investment of \$200,000 in Chorus through a private placement of convertible units. In March 2017, Chorus received the funds from the investment, with the net proceeds after deduction of expenses being approximately \$195,972.

The 6.00% Debentures bear interest at a rate of 6.00% per annum, are currently secured by certain Dash 8-100s and Dash 8-300s and real estate property owned by Chorus (the "Collateral Security"), mature on December 31, 2024 and are redeemable at par at any time after December 31, 2021, except in the event of the satisfaction of certain conditions after a change of control (in which case Chorus may be required to make an offer to repurchase all of the 6.00% Debentures) or the exercise of the Warrants.

Each Warrant is exercisable by the holder thereof by paying the exercise price in cash or by tendering the 6.00% Debentures. Except in certain circumstances relating to a change of control of Chorus, the Warrants are exercisable up to and including the earlier of the redemption of the 6.00% Debentures by Chorus and the business day immediately preceding the maturity date of the 6.00% Debentures. The Warrants also include customary anti-dilution provisions.

Assuming the exercise of all of the Warrants, Fairfax, through its subsidiaries, would beneficially own 24,242,424 of the issued and outstanding shares of Chorus. Fairfax had agreed to hold the convertible units until at least December 31, 2019. Fairfax is no longer bound by that restriction, however, the Collateral Security will be released if Fairfax sells or otherwise disposes of any of the convertible units.

The 6.00% Debentures are listed on the Toronto Stock Exchange ("TSX") under the symbol CHR.DB.

The following table illustrates the allocation of the convertible units between debt and equity as at June 30, 2020. Significant judgement was exercised by management in determining this allocation.

| | Cost of borrowing % | Debt \$ | Equity component of Convertible Units \$ | Total \$ |
|------------------------------------|------------------------|----------------|--|----------------|
| Balance - December 31, 2019 | 6.0 | 195,097 | 2,981 | 198,078 |
| Accretion expense | | 420 | — | 420 |
| Balance - June 30, 2020 | | 195,517 | 2,981 | 198,498 |

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

8 Long-term debt (continued)

Transaction costs are capitalized and offset against the debt and equity portions of the convertible units and amortized over the life of the convertible units using the effective interest rate.

For the three and six months ended June 30, 2020, the total interest expense on the convertible units was \$3,193 and \$6,396 respectively (for the three and six months ended June 30, 2019 - \$3,209 and \$6,748, respectively) which included interest accretion of \$210 and \$420 (for the three and six months ended June 30, 2019 - \$196 and \$392, respectively).

(5) 5.75% Unsecured Debentures

In December 2019, Chorus issued \$86,250 aggregate principal amount 5.75% Unsecured Debentures. The 5.75% Unsecured Debentures bear interest at a rate of 5.75% per annum, are unsecured, and mature on December 31, 2024.

Subject to any required regulatory approval and provided no event of default has occurred and is continuing under the terms of the indenture governing the 5.75% Unsecured Debentures, Chorus has the option to satisfy its obligation to pay the principal amount of the 5.75% Unsecured Debentures due at redemption or maturity (together with any applicable premium) by delivering freely tradable shares. The 5.75% Unsecured Debentures are not convertible by the holders thereof into shares at any time.

Chorus received proceeds of \$82,372 net of \$3,878 in transaction costs associated with the offering. Transaction costs are capitalized and offset against the 5.75% Unsecured Debentures and amortized over the life of the 5.75% Unsecured Debentures using the effective interest rate.

The 5.75% Unsecured Debentures trade on the TSX under the symbol CHR.DB.A.

For the three and six months ended June 30, 2020, the total interest expense on the Unsecured Debentures was \$1,405 and \$2,803 respectively (for the three and six months ended June 30, 2019 - \$nil) which included interest accretion of \$165 and \$324 respectively (for the three and six months ended June 30, 2019 - \$nil).

(6) Unsecured revolving credit facility

During the quarter, Chorus added and fully drew on a US \$100,000 unsecured revolving credit facility for general corporate purposes, repayable in two years. For the three and six months ended June 30, 2020, the total interest expense on the revolving unsecured credit facility was \$524 (for the three and six months ended June 30, 2019 - \$nil and \$nil respectively).

The majority of the following future repayments of long-term debt are payable in US dollars and Euros and have been converted to Canadian dollars at closing rates on June 30, 2020. The timing of future principal payments, excluding unamortized deferred financing fees, is as follows:

| | \$ |
|--|------------------|
| No later than one year | 199,218 |
| Later than one year and no later than five years | 1,357,922 |
| Later than five years | 534,335 |
| | <u>2,091,475</u> |

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

9 Income taxes

The effective income tax rate on Chorus' earnings before income tax differs from the expected amount that would arise using the combined statutory income tax rates. A reconciliation of the difference is as follows:

| | Three months ended June 30, | |
|--|-----------------------------|---------|
| | 2020 | 2019 |
| | \$ | \$ |
| Earnings before income tax | 30,392 | 45,168 |
| Income tax expense at the statutory tax rates ⁽¹⁾ | 8,830 | 11,563 |
| Recognition of previously unrecognized cumulative eligible capital | (1,559) | (1,615) |
| Net impact of capital items ⁽²⁾ | (4,927) | (3,630) |
| Impact of rate changes | (12) | — |
| Other | (1,105) | (91) |
| Income tax expense | 1,227 | 6,227 |
| Effective tax rate | 4.0% | 13.8% |

| | Six months ended June 30, | |
|--|---------------------------|---------|
| | 2020 | 2019 |
| | \$ | \$ |
| Earnings before income tax | 17,461 | 83,832 |
| Income tax expense at the statutory tax rates ⁽¹⁾ | 4,152 | 21,126 |
| Recognition of previously unrecognized cumulative eligible capital | (3,121) | (3,441) |
| Net impact of capital items ⁽²⁾ | 6,314 | (7,345) |
| Impact of rate changes | (1,116) | — |
| Other | (639) | 1,104 |
| Income tax expense | 5,590 | 11,444 |
| Effective tax rate | 32.0% | 13.7% |

- (1) Chorus uses weighted average statutory tax rates for each of the individual entities based on the jurisdiction in which the entity is taxable. The majority of Chorus' income is earned in Canada and Ireland which have average statutory tax rates of 27.0% and 12.5%, respectively.
- (2) The impact of capital items is mainly related to the foreign exchange fluctuations on the long-term debt associated with the purchase of aircraft. The impact of the non-deductible portion of any unrealized loss (gain) is recognized in the calculation of income tax expense at the end of each period. To the extent that a capital loss is recorded for accounting purposes, the benefit of the deductible portion of the loss is recognized only to the extent that it is probable that the loss will be utilized. Income tax expense related to unrealized foreign exchange gains recorded in a period is reduced by previously unrecognized income tax assets related to unrealized foreign exchange losses. Chorus does not have a plan in place to utilize the deductible portion of the balance of the foreign exchange losses, accordingly no deferred tax asset has been recognized related to the foreign exchange losses.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

9 Income taxes (continued)

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately \$317,948 as at June 30, 2020, related to capital cost allowance on eligible capital property. In accordance with the initial recognition exemption, as outlined in IAS 12 *Income taxes*, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three and six months ended June 30, 2020, Chorus utilized a total of \$5,766 (\$1,559 tax effected) and \$11,532 (\$3,121 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

10 Dividends

On April 6, 2020, Chorus suspended its dividend and Dividend Reinvestment Plan ("DRIP") following the payment of the dividends payable on April 17, 2020 to shareholders of record on March 31, 2020. Dividend payments will remain suspended until further notice. Chorus' Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board. Chorus had previously paid a monthly dividend of \$0.04 per share.

Chorus declared dividends of \$nil and \$19,520 for the three and six months ended June 30, 2020, respectively (three and six months ended June 30, 2019 - \$19,217 and \$37,520, respectively). Cash dividends paid for the three and six months ended June 30, 2020 were \$4,902 and \$18,680, respectively (three and six months ended June 30, 2019 - \$14,237 and \$27,915, respectively).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

11 Capital stock

a) Authorized:

An unlimited number of Class A variable voting shares, no par value ("Variable Voting Shares"); and

An unlimited number of Class B voting shares, no par value ("Voting Shares")

Issued and outstanding:

| | Number of Shares | \$ |
|---|------------------|---------|
| Shares issued and outstanding December 31, 2018 | 140,210,174 | 153,669 |
| Shares issued through private offering | 15,561,600 | 97,260 |
| Shares issued through equity dividend reinvestment plan | 2,679,810 | 21,154 |
| Shares issued through exercise of stock options | 1,984,069 | 9,674 |
| Shares issued through long-term incentive plan | 15,342 | 92 |
| Shares issued and outstanding December 31, 2019 | 160,450,995 | 281,849 |
| Shares issued through equity dividend reinvestment plan | 1,416,393 | 6,626 |
| Shares issued and outstanding June 30, 2020 | 161,867,388 | 288,475 |

Dividend Reinvestment Plan ("DRIP")

Chorus implemented a DRIP effective February 1, 2018, which provides shareholders who are resident in Canada the opportunity to purchase additional shares using cash dividends paid on shares enrolled in the DRIP. All shares purchased under the DRIP were newly issued by Chorus from treasury. On April 6, 2020 Chorus announced the suspension of its DRIP following payment of the previously declared dividend payable on April 17, 2020.

b) Earnings per Share

The following table provides a breakdown of the numerator and denominator used in the calculation of earnings per share and diluted earnings per share.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|-------------|---------------------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Numerator | | | | |
| Income | 29,165 | 38,941 | 11,871 | 72,388 |
| Denominator | | | | |
| Weighted average number of shares | 161,778,177 | 158,211,840 | 161,300,610 | 154,275,260 |
| Weighted average dilutive shares | 1,815,563 | 1,590,370 | 2,020,692 | 1,549,723 |
| Weighted average number of diluted shares | 163,593,740 | 159,802,210 | 163,321,302 | 155,824,983 |

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

12 Financial instruments and fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; fair value through other comprehensive income; and amortized cost. With the exception of the item noted below, all financial instruments have fair value that approximate carrying value due to their short-term nature.

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, asset backed commercial paper, lease receivables, accounts payable and accrued liabilities, dividends payable, long-term incentive plan liability, lease liabilities, total return swaps, interest rate swaps and long-term debt.

The following financial instruments have a fair value that differs from carrying value:

- Lease receivables

At June 30, 2020, the lease receivables had a fair value of \$12,097 versus a carrying value of \$11,149. Chorus' annual cash flows have been discounted at the relevant market interest rates.

- Amortizing term loans

At June 30, 2020, long-term debt had a fair value of \$1,708,845 compared to a carrying value of \$1,638,944, excluding deferred financing fees of \$10,607. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- 6.00% Debentures

At June 30, 2020, the convertible units had a fair value of \$193,144 versus a book value of \$198,062, excluding deferred financing fees of \$2,545. The fair value was calculated by discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

- 5.75% Unsecured debentures

At June 30, 2020, the 5.75% Unsecured Debentures had a fair value of \$65,550 versus a carrying value of \$86,250, excluding deferred financing fees of \$3,506. The fair value is based on quoted prices observed in active markets.

- Interest rate swaps

At June 30, 2020, the interest rate swap liability had a fair value and carrying value liability of \$14,125. The fair value of interest rate swaps, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

- Total return swap

At June 30, 2020, the total return swap liability had a fair value and carrying value of \$10,271. The fair value of total return swap, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

12 Financial instruments and fair values (continued)

Financial risk factors

Chorus, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, equity price risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

Interest rate risk

Chorus' cash earns interest at prevailing and fluctuating market rates, as Chorus' objective is to maintain these balances in highly liquid investments.

The majority of Chorus' debt is not subject to interest rate volatility as it bears interest at fixed rates or at floating rates that are fixed via interest rate swaps. As at June 30, 2020, 97.7% of Chorus' debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 2.3% floating rate debt. Approximately 44.4% of the floating rate debt relates to aircraft for which Chorus has a variable lease rate with the underlying lessee and therefore has limited the exposure to the fluctuating rate of those loans.

Chorus has entered into interest rate swaps on certain of its amortizing term loans and warehouse revolving credit facility, converting a portion of its floating interest rate debt to fixed rates for the average duration of each loan and facility. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. All interest rate swaps are designated and effective as cash flow hedges. The fair value of interest rate swaps was a \$14,125 liability at June 30, 2020 (\$2,398 liability as at December 31, 2019) and is recorded in other long-term liabilities. Changes in the fair value of interest rate swaps are recorded in other comprehensive income. During the three and six months ended June 30, 2020, Chorus recognized other comprehensive loss of \$786 and \$10,541 respectively, net of tax (for the three and six months ended June 30, 2019 - comprehensive loss of \$2,669 and \$3,387, net of tax). Should Chorus be required to repay loans associated with these swaps, it would also be required, in most cases to close out the related swap agreements and settle any amounts owing.

In July 2017 the U.K. Financial Conduct Authority announced that the London Interbank Offered Rate (LIBOR) will be phased out by year-end 2021. Chorus' exposure to changes in LIBOR rates is confined to those loan and derivative agreements that have floating rates that reference LIBOR and that do not mature before December 31, 2021. As at June 30, 2020, Chorus had 22 loans which totaled \$278,127 and 10 derivative agreements which referenced notional amounts totaling \$237,163 which are impacted by LIBOR transition as they mature after December 31, 2021. Chorus continues to monitor, and plan for, the transition to alternative rates and anticipates no material impacts on its financial results.

Chorus manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize potential for changes in interest rates to cause adverse changes in cash flows to Chorus.

A 1% change in the interest rate would not have a material impact on net income for the three months ended June 30, 2020.

Credit risk

Credit risk arises from cash, restricted cash, deposits, as well as credit exposure to customers, including outstanding receivables. Chorus manages the credit risk on cash by ensuring that the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. In accordance with its investment policy, Chorus invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 Banks and Schedule 2 Banks rated R-1 high, and commercial paper rated R-1 high.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

12 Financial instruments and fair values (continued)

The maximum exposure to credit risk for cash, restricted cash, deposits and trade and other receivables approximate the amount recorded on the statement of financial position, with the exception of lease receivables related to operating leases.

CACC has entered into rent deferral arrangements with substantially all of its lessees which will reduce Chorus' cash flow over the period of deferrals. These deferral arrangements could also increase Chorus' receivable risk due to the weakened financial state of its lessees. In addition, Chorus' liquidity could be put under stress where CACC is required to service principal and interest payments under its loans during the term of the deferral arrangements. If COVID-19 and associated government restrictions continue for a prolonged period of time the risks associated with the payment of deferred and future rent payments increase which could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

With the exception of trade receivables, Chorus has no financial assets past due. As at June 30, 2020, the total amount of trade receivables was \$76,998 (2019 - \$61,730), net of allowance for doubtful accounts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific customer. The amount of this allowance was \$1,298, of which \$1,081 related to lease deferral agreements.

At June 30, 2020, trade receivables of \$60,649 (2019 - \$59,318) were not past due or impaired. The breakdown of the past due amounts of \$16,349 (2019 - \$2,412) are as follows:

| | 2020 \$ | 2019 \$ |
|---------------------------|------------|------------|
| Past due but not impaired | | |
| 60 - 90 days | 6,257 | 728 |
| Over 90 days | 10,092 | 1,684 |
| | 16,349 | 2,412 |

Of the total trade receivables, \$34,985 (2019 - \$50,138) are with Air Canada. Chorus is directly affected by the financial and operational strength of Air Canada.

Equity Price Risk

Chorus has equity price risk exposure to shares that it issues under its various stock-based compensation programs. To mitigate this risk, Chorus implemented a total return swap in the fourth quarter of 2019. The total return swap is intended to economically hedge the variability of Chorus' share price affecting settlement under its various stock-based compensation programs. Chorus does not apply hedge accounting to the total return swap and as such, gains and losses arising from changes in its fair value are recognized in operating income in the period in which they arise. The fair value of total return swap was a \$10,271 liability at June 30, 2020 and is recorded in other long-term liabilities (\$707 asset as at December 31, 2019 recorded in other long-term assets). During the three and six months ended June 30, 2020, a corresponding gain (loss) of \$152 and (\$15,161), including a settlement of \$4,183 in the three months ended March 31, 2020, has been recorded in operating income, respectively (\$nil for both the three and six months ended June 30, 2019). For additional information, please refer to note 3(h) and 3(i), Significant Accounting Policies, of the audited consolidated financial statements of Chorus for the year ended December 31, 2019.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

12 Financial instruments and fair values (continued)

Liquidity risk

Chorus' liquidity needs are primarily related to funding ongoing operations, planned capital expenditures including investment in aircraft acquisitions, principal and interest payments related to long-term borrowings and the payment of dividends.

Chorus has a number of treasury management practices designed to promote strong liquidity and continued access to capital including those related to liquidity, leverage, cash flows and dividends, foreign exchange risk and interest rate risk.

As of June 30, 2020, Chorus had \$153,410 in cash and a committed facility of up to \$75,000 with the opportunity to borrow up to a further \$25,000 on a demand basis. As at June 30, 2020, \$30,000 was drawn under the facility. Chorus has also provided letters of credit totaling \$9,588 that reduce the amount available under this facility.

Currency risk

Chorus receives revenue and incurs expenses in U.S. dollars, Canadian dollars and European Euros. Chorus manages its exposure to currency risk in its Regional Aviation Services business by billing for its services within the CPA with Air Canada in the underlying currency related to the expenditure and matching the currency of debt for leased aircraft with the currency of the related lease rents. Accordingly, the primary exposure results from balance sheet fluctuations of U.S. denominated cash, accounts receivable, accounts payable, and in particular, lease liabilities and long-term debt, which are long-term and are therefore subject to larger unrealized gains or losses.

Chorus mitigates the currency risk associated with its Regional Aircraft Leasing division by borrowing in the same currencies of the related lease revenues.

The amount of US dollar denominated assets was \$112,468 and US denominated liabilities was \$794,664 at June 30, 2020. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately \$6,822. A 1¢ change in the Euro versus Canadian dollar exchange rate would not have a material impact on unrealized gains or losses for the period ended June 30, 2020.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

13 Contingencies

As permitted by the CBCA, the by-laws of Chorus provide that each director or officer will be entitled to indemnification from Chorus in respect of any civil, criminal or administrative, investigative or other proceeding which the director or officer is involved because of his or her association with Chorus or any other entity (if applicable) in respect of which he or she serves in a similar capacity at the request of Chorus, provided that the director or officer acted honestly and in good faith with a view to the best interests of Chorus, or in the case of a criminal or administrative action proceeding that is enforced by a monetary penalty, where the director or officer had reasonable grounds for believing that his or her conduct was lawful. The directors and officers are also covered by indemnification agreements and directors' and officers' liability insurance. The aggregate of all amounts recorded in these financial statements with respect to such indemnifications is not material.

Various lawsuits and claims that have arisen in the normal course of business are pending by and against Chorus. The provisions, if any, that have been recorded are not material. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of Chorus.

Chorus enters into various operating agreements and real estate licenses or leases, which in some cases permit Chorus to use certain premises or operate at certain airports, and which in other cases lease space in Chorus' facilities to its tenants. It is common in such commercial license or lease transactions for the licensee or tenant to agree to indemnify the landlord for tort liabilities that arise out of or relate to its use or occupancy of the licensed or leased premises. In certain cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but generally excludes any liabilities caused by their gross negligence or wilful misconduct. In addition, the licensee or tenant typically indemnifies the landlord for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

In aircraft, engine and other equipment ("Equipment") financing or leasing agreements, Chorus typically indemnifies the financiers and/or lessors, directors acting on their behalf and other related parties against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the Equipment and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, but generally excluding any liabilities caused by their gross negligence or wilful misconduct. In addition, in certain equipment financing or leasing transactions, Chorus typically provides indemnities in respect of certain tax consequences.

When Chorus enters into other types of leases and technical service agreements with service providers, primarily service providers who operate an airline as their main business, Chorus has from time to time agreed to indemnify the other party against liabilities that arise from third party claims, whether or not these liabilities arise out of or relate to the negligence of the other party, but generally excluding liabilities that arise from the other party's gross negligence or wilful misconduct.

Chorus cannot reasonably estimate the potential amount, if any, it could be required to pay under such indemnifications. Such amount would also depend on the outcome of future events and conditions, which cannot be predicted. Historically, Chorus has not made any significant payments under these indemnifications.

Chorus expects it would be covered by insurance for most tort liabilities and certain related contractual indemnifications.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

14 Economic dependence

The transactions between Air Canada, and its subsidiary (Air Canada Capital Ltd.), and Chorus are summarized in the table below:

| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------|-----------------------------|---------|---------------------------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Operating revenue | | | | |
| Air Canada | 135,280 | 274,420 | 421,310 | 568,902 |
| Operating expenses | | | | |
| Air Canada | 446 | 745 | 1,531 | 1,501 |

The following current balances with Air Canada and its subsidiary (Air Canada Capital Ltd.) are included in the financial statements:

| | June 30, | As at |
|--|----------|--------------|
| | 2020 | December 31, |
| | \$ | 2019 |
| | \$ | \$ |
| Accounts receivable | | |
| Air Canada | 34,985 | 50,138 |
| Lease receivables | | |
| Air Canada | 11,149 | 13,195 |
| Contract asset | | |
| Air Canada | 5,117 | 4,997 |
| Other long-term receivables | | |
| Air Canada | 2,153 | 1,360 |
| Accounts payable and accrued liabilities | | |
| Air Canada | 1,636 | 1,957 |
| Air Canada Capital Ltd. | 8,784 | 8,372 |
| Accrued Air Canada payable - Deferred lease inducements, prepaid aircraft rent and related fees | | |
| Air Canada | 234 | 1,112 |

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

15 Statement of cash flows - supplementary information

a) Net changes in non-cash balances related to operations:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| (Increase) decrease in accounts receivable – trade and other | (41,929) | 4,321 | (43,060) | (7,351) |
| (Increase) decrease in inventories | (8,146) | 1,281 | (16,206) | (2,642) |
| Decrease (increase) in prepaid expenses | 8,374 | 6,134 | 3,327 | (1,203) |
| Increase in income tax receivable | (8) | (2,761) | (483) | (2,147) |
| Increase in other long-term assets | (2,967) | (6,253) | (5,057) | (9,194) |
| Decrease in accounts payable and accrued liabilities | (48,359) | (20,052) | (34,765) | (4,472) |
| Increase (decrease) in current portion long-term incentive plan liability | 92 | 331 | (4,592) | 977 |
| (Decrease) increase in income tax payable | (2,133) | 4,090 | (8,666) | 5,620 |
| Increase in other long-term liabilities | 3,616 | 3,480 | 1,873 | 4,976 |
| | (91,460) | (9,429) | (107,629) | (15,436) |

The above table excludes non-cash transactions related to the foreign currency adjustments.

b) Other

| | Three months ended June 30, | | Six months ended June 30, | |
|---------------------------------|-----------------------------|--------|---------------------------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | \$ | \$ |
| Cash payments of interest | 20,149 | 12,982 | 35,741 | 24,850 |
| Cash receipts of interest | 351 | 631 | 1,205 | 1,494 |
| Cash (receipts) payments of tax | (87) | 950 | 12,220 | 967 |

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

15 Statement of cash flows - supplementary information (continued)

c) Reconciliation between the opening and closing balances for liabilities from financing activities

| | Amortizing term loans | Convertible units | Unsecured Debentures | Credit facilities ⁽¹⁾ | Total long-term debt | Lease liabilities |
|---|--------------------------|----------------------|-------------------------|-------------------------------------|-------------------------|----------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance - December 31, 2019 | 1,545,984 | 195,097 | 82,049 | — | 1,823,130 | 16,316 |
| Long-term borrowings, net of financing cots | 79,585 | — | 372 | 165,040 | 244,997 | — |
| Repayment of long-term borrowings | (75,385) | — | — | — | (75,385) | — |
| Repayment of lease liabilities | — | — | — | — | — | (3,482) |
| Total financing cash flow activities | 4,200 | — | 372 | 165,040 | 169,612 | (3,482) |
| Interest expense | — | 420 | 324 | — | 744 | — |
| Deferred financing fee amortization | 1,509 | — | — | — | 1,509 | — |
| Unrealized foreign exchange loss | 20,788 | — | — | 1,240 | 22,028 | 653 |
| Realized foreign exchange loss | 7,466 | — | — | — | 7,466 | — |
| Foreign currency adjustments | 48,389 | — | — | — | 48,389 | 25 |
| Total financing non-cash activities | 78,152 | 420 | 324 | 1,240 | 1,240 | 678 |
| Balance - June 30, 2020 | 1,628,336 | 195,517 | 82,745 | 166,280 | 2,072,878 | 13,512 |

(1) Includes the operating credit facility and the unsecured revolving credit facility.

d) Restricted cash

Cash encumbered in support of issued letters of credit and leasing arrangements have been classified as restricted cash and shown separately in the consolidated statement of financial position (June 30, 2020 - \$40,126; December 31, 2019 - \$26,690).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2020

(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

16 Subsequent events

The COVID-19 pandemic has created unprecedented challenges for the aviation industry due to strict travel restrictions and global cancellations impacting all airlines around the world. Even though Chorus' business model does not directly expose it to the market risks ordinarily faced by airlines, substantially all its source revenue is derived from airline customers, through its CPA with Air Canada and its leasing of aircraft to airline customers globally. The full extent of the duration and therefore the impact of this pandemic are unknown.

As the uncertainty regarding the full extent and duration of the pandemic continues, Chorus' Board of Directors and executive management team is focused on the safety of its employees, ensuring maximum available liquidity and financial flexibility and strengthening relationships with its customers and mitigating costs.

Revolving credit facility for aircraft acquisitions

On July 30, 2020, Chorus amended the terms of this facility to defer the commencement of the term-out period by nine months to September 2021 and reduced the facility to US \$200,000. The reduction in size of the facility removes an unused portion on which Chorus had been paying standby fees. As of June 30, 2020, \$154,305 (US \$113,226) was drawn on the facility.

All loans under this facility are repayable at a rate of 5.00% annually until September 2021. Starting September 2021, the loans will be repayable based on a 12-year straight-line full pay-out schedule, adjusted for the age of the aircraft at the time they were added to the facility, until they mature in January 2025. Chorus may prepay loans under this facility at any time in whole or in part, subject to a US \$5,000 minimum prepayment.

The facility bears interest at US dollar LIBOR plus 2.75% until the start of the term-out period and ranging from LIBOR plus 3.00% - 4.75% thereafter until maturity.

Virgin Australia

Virgin Australia entered voluntary administration on April 20, 2020. Chorus has recently been advised by the administrators of Virgin Australia that the airline intends to terminate its lease agreements with CAC for three ATR72-600s and work with CAC to facilitate an orderly return of the aircraft. The estimated financial impact of this termination has been included in Chorus' general impairment and lease repossession provisions in the quarter. Chorus holds security packages in respect to these aircraft. The average remaining lease terms for these aircraft is four years. Chorus will have 24 months to remarket the aircraft, failing which Chorus may be required to repay the debt outstanding on the aircraft. As at June 30, 2020, Chorus' long-term debt related to these aircraft was US \$28,503.

Deferral of loan payments

On July 23, 2020, Chorus amended a repayment deferral agreement with one of its lenders totaling US \$21,229 plus interest which was extended to December 31, 2020, repayable over 12 months where the payment of corresponding aircraft lease rents have been deferred.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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(expressed in thousands of Canadian dollars, except shares, share prices and earnings per share)

16 Subsequent events (continued)

CityJet

CACC is in the process of repossessing two CRJ900s previously on lease to CityJet through an executed mutually agreed termination agreement providing for the early termination of the leases and return of the aircraft to CACC. Chorus has not recorded an impairment charge on these aircraft due to the expected recovery of its security package. Chorus has 24 months to remarket the aircraft, failing which Chorus may be required to repay the debt outstanding on the aircraft. The average remaining lease terms for these aircraft was eight years. As at June 30, 2020, Chorus' long-term debt related to these aircraft was US \$29,582.

Aeromexico

Aeromexico filed for Chapter 11 in the United States on June 30, 2020. Chorus leases three E190s to Aeromexico which remain under lease during the administration. Chorus holds security deposits in respect of these aircraft. The average remaining lease terms for these aircraft is 2.5 years. Chorus will have six months to remarket two of the aircraft and nine months for one of the aircraft in the event that the aircraft leases are rejected, failing which Chorus may be required to repay the debt outstanding on the aircraft. As at June 30, 2020, Chorus' long-term debt related to these aircraft was US \$35,667. The potential impact, if any, cannot be determined at this time as it depends upon the outcome of the administrative proceedings. Management is closely monitoring this development.