chorus
aviation inc.

Second Quarter 2020

Management's Discussion and Analysis of Results of Operations And Financial Condition

August 12, 2020

INTRODUCTION

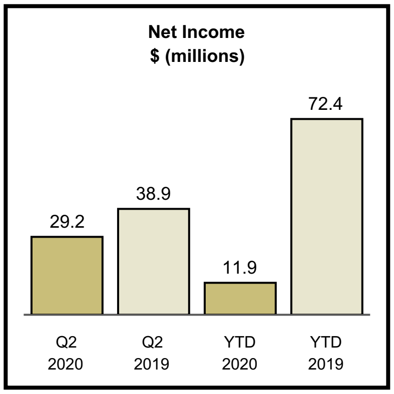
In this MD&A, references to Chorus refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to Jazz. Please refer to Section 23 - Glossary of Terms for definition of capitalized terms and acronyms used in this MD&A.

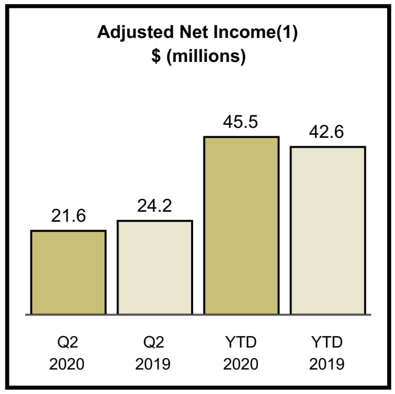
This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements of Chorus and the notes therein for the three and six months ended June 30, 2020, the audited consolidated financial statements of Chorus for the year ended December 31, 2019, Chorus' 2019 annual MD&A dated February 12, 2020 and Chorus' 2019 Annual Information Form dated February 12, 2020. All financial information has been prepared in accordance with GAAP, as set out in the CPA Canada Handbook, except for any financial information specifically denoted otherwise. Except as otherwise noted or where the context may otherwise require, this MD&A is prepared as of August 12, 2020.

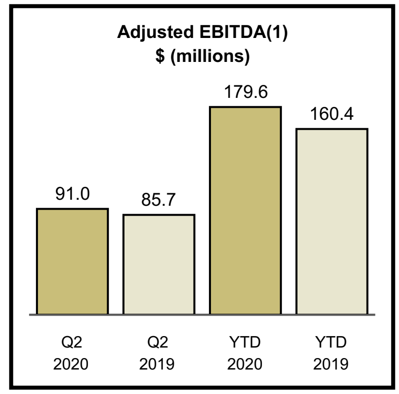
The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to the discussion of specific risks in Section 8 – Capital Structure and Section 10 – Risk Factors.

Except where the context otherwise requires, all amounts are stated in Canadian dollars.

1 OVERVIEW







(1) These are non-GAAP financial measures. Refer to Section 18 – Non-GAAP Financial Measures.

Q2 2020 Financial Highlights:

- Net income of $29.2 million, or $0.18 per basic Share, a quarter-over-quarter decrease of $9.7 million due to the global economic impact of COVID-19 on its results partially offset by the change in unrealized foreign exchange of $6.3 million.
- Adjusted net income of $21.6 million, or $0.13 per basic Share, a decrease of $2.5 million quarter-over-quarter primarily due to the economic impact of COVID-19 on its results.
- Adjusted EBITDA of $91.0 million increased $5.3 million quarter-over-quarter primarily due to the growth in aircraft leasing.

Chorus' focus remains on the safety of employees and passengers, maximizing available liquidity, protecting assets and preserving operations as it continues to deal with the impacts of COVID-19 on the travel and airline industry. Chorus implemented additional safety measures, in line with Air Canada's program and international requirements, to further provide protection for passengers and employees by better monitoring passengers' fitness to fly and new standards for cabin cleanliness.

Liquidity

As of June 30, 2020, Chorus' liquidity was approximately $189.0 million including cash of $153.4 million and $35.4 million of available room on its operating credit facility.

In the second half of 2020, Chorus expects its liquidity to be relatively constant (refer to Liquidity - Section 9). Subsequent to June 30, 2020, Chorus completed transactions that increased cash by $39.0 million (US $28.6 million) from:

- Financing of US $18.0 million received on July 31, 2020 on two unsecured aircraft;
- Release of restricted cash of US $6.9 million due to the execution of a lease deferral arrangement; and
- Cash received from the sale of a Dash 8-300 of US $3.7 million.

chorus aviation inc.

Chorus has implemented measures in the second half of 2020 to bolster its liquidity given the uncertainty related to the duration and impact of the COVID-19 pandemic which include:

- Extending a loan deferral program with its largest lender that allows Chorus to defer scheduled payments under certain aircraft loans to the end of the year so long as the rent under the corresponding lease is deferred. Repayment of the deferrals is required over the course of 2021. In the second half of 2020, the estimated cash preservation from the program, is approximately US $18.0 million (refer to Section 4 - Outlook);
- Implementing overhead cost reduction programs that encompass temporary and permanent layoffs, as well as pay reductions for members of the executive, management team and Board of Directors;
- Continuation of the suspension of its dividends (refer to Section 8 - Capital Structure); and
- Reducing non-essential capital expenditures.

Second Quarter Highlights:

Regional Aviation Services:

- Chorus purchased and started earning leasing revenue on three CRJ900s in the quarter and delayed the delivery of the remaining six CRJ900s until December 2020.
- Jazz and Voyageur utilized the Canada Emergency Wage Subsidy ("CEWS") program and netted the $53.4 million government grant against salaries, wages and benefits expense in the quarter. Jazz's portion of the CEWS was $51.0 million and is included in the Controllable Cost Guardrail under the CPA. Contingent upon qualification, Jazz and Voyageur plan to utilize the CEWS for the remainder of the program to December 31, 2020.
- Jazz discontinued 21 of its regional routes and closed eight Jazz managed stations due to reduced flying under the CPA.
- Jazz offered voluntary employee separation program packages in the quarter in order to reduce overhead and the costs will be a Pass-Through Cost under the CPA.

Regional Aircraft Leasing:

- Extended a loan deferral program with its largest lender that allows Chorus to defer scheduled payments under certain aircraft loans to the end of the year so long as the rent under the corresponding lease is deferred. Repayment of the deferrals is required over the subsequent 12 months.
- CAC continues to execute rent deferral arrangements for third-party lessees that provide short-term rent relief, typically between three and 12 months, with repayment over a subsequent period, typically between 12 and 24 months.
- Chorus recorded an aircraft impairment provision of $9.5 million and lease repossession costs of $8.0 million based on management's assessment of the economic impact of COVID-19 on CAC's overall leasing portfolio which has a net book value of $1.5 billion. Chorus also recorded an expected credit loss provision of $1.1 million during the quarter related to the deferred leasing arrangements (refer to Section 12 - Critical Accounting Estimates).
- 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. CAC holds security packages in respect of these aircraft. Under the related loan agreements, CAC has 24 months to remarket these aircraft.
- Aeromexico filed for voluntary Chapter 11 petitions in the United States on June 30, 2020 in order to implement a financial restructuring. CAC has three E190s on lease to Aeromexico and holds security packages in respect of these aircraft. Although the aircraft currently remain in Aeromexico’s operation, there can be no assurance that CAC’s aircraft will be retained at the conclusion of the restructuring.
- CAC is actively remarketing the five Dash 8-400s and three ATR72-600s previously on lease to Flybe.

- CAC is in the process of repossessing two CRJ900s previously on lease to CityJet pursuant to a negotiated termination agreement which provides for the early termination of the leases and orderly return of the aircraft to CAC. Under the related loan agreements, CAC has 24 months to remarket these aircraft.

Second Quarter Summary

In the second quarter of 2020, Chorus reported Adjusted EBITDA of $91.0 million, an increase of $5.3 million over the second quarter of 2019.

The Regional Aircraft Leasing segment's Adjusted EBITDA increased by $8.2 million primarily related to the growth in aircraft earning leasing revenue partially offset by a $1.1 million expected credit loss provision related to management's assessment of its lessees' credit risk.

The Regional Aviation Services segment's Adjusted EBITDA decreased by $2.9 million. The second quarter results were impacted by:

- a reduction in other revenue due to a decrease in third-party MRO activity and reduced contract flying in Voyageur due to the economic impact of COVID-19;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of $2.9 million over the previous period; and
- expected credit loss and inventory provisions of $1.3 million in Voyageur; partially offset by
- decreased stock-based compensation of $2.6 million due to the change in the Share price inclusive of the change in fair value of the Total Return Swap (refer to Section 8 - Capital Structure);
- increased aircraft leasing under the CPA; and
- decreased general administrative expenses.

Adjusted net income was $21.6 million for the quarter, a decrease of $2.5 million due to:

- an increase in depreciation of $5.9 million primarily related to additional aircraft in the Regional Aircraft Leasing segment;
- an increase in net interest costs of $3.2 million primarily related to the 5.75% Unsecured Debentures, the unsecured revolving credit facility and additional aircraft debt in the Regional Aircraft Leasing segment; and
- a decrease of $1.8 million due to a loss of $0.4 million versus a gain of $1.4 million on disposal of property and equipment; partially offset by
- a $5.3 million increase in Adjusted EBITDA as previously described;
- a $2.5 million decrease in income tax expense resulting from a reduction in EBT combined with a decrease in certain provincial tax rates and non-deductible expenses of $5.0 million offset by tax recovery on adjusted items of $2.5 million; and
- a decrease of $0.6 million in realized foreign exchange and unrealized foreign exchange losses on working capital.

Net income decreased $9.8 million due to the previously noted $2.5 million decrease in Adjusted net income, $9.5 million on impairment provisions and $8.0 million on lease repossession costs; offset by the change in net unrealized foreign exchange on long-term debt of $6.3 million, tax recovery on adjusted items of $2.5 million and decreased employee separation program costs of $1.4 million.

Year-to-date Summary

Chorus reported Adjusted EBITDA of $179.6 million for 2020, an increase of $19.2 million over 2019.

The Regional Aircraft Leasing segment's Adjusted EBITDA increased by $24.7 million which was primarily due to the growth in aircraft earning leasing revenue partially offset by a $1.1 million expected credit loss provision related to management's assessment of its lessees' credit risk.

The Regional Aviation Services segment's Adjusted EBITDA decreased by $5.5 million. The 2020 results were impacted by:

- a reduction in other revenue due to a decrease in third-party MRO activity and reduced contract flying in Jazz and Voyageur due to the economic impact of COVID-19;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of $1.3 million over the previous period; and
- expected credit loss and inventory provisions of $1.3 million in Voyageur; partially offset by
- decreased stock-based compensation of $5.2 million due to the change in the Share price inclusive of the change in fair value of the Total Return Swap (refer to Section 8 - Capital Structure); and
- increased aircraft leasing under the CPA.

Adjusted net income was $45.5 million year-to-date, an increase over 2019 of $2.9 million due to:

- a $19.2 million increase in Adjusted EBITDA as previously described;
- a decrease in income tax expense of $2.9 million resulting from a reduction in EBT combined with a decrease in certain provincial tax rates and non-deductible expenses of $5.9 million offset by tax recovery on adjusted items of $3.0 million; and
- a decrease of $2.0 million in realized foreign exchange and unrealized foreign exchange losses on working capital; partially offset by
- an increase in depreciation of $11.7 million primarily related to additional aircraft in the Regional Aircraft Leasing segment and impairment on aircraft;
- an increase in net interest costs of $7.6 million primarily related to additional aircraft debt in the Regional Aircraft Leasing segment, the 5.75% Unsecured Debentures and the unsecured revolving credit facility; and
- a decrease of $1.8 million due to a loss of $0.4 million versus a gain of $1.4 million on disposal of property and equipment.

Net income decreased $60.5 million over 2019 due to the change in net unrealized foreign exchange on long-term debt of $48.8 million, $15.5 million on impairment provisions, $2.0 million on lease repossession costs net of the Flybe security package recovered, and increased employee separation program costs of $2.1 million; offset by the previously noted increase of $2.9 million in Adjusted net income, tax recovery on adjusted items of $3.0 million and decreased signing bonuses of $2.0 million related to the Jazz pilot collective agreement.

2 ABOUT CHORUS

Chorus' vision is to deliver regional aviation to the world. Headquartered in Halifax, Nova Scotia, Chorus comprises Chorus Aviation Capital, a leading lessor of regional aircraft to airlines around the world, and Jazz and Voyageur, companies that have long histories of safe flight operations with excellent customer service. Through its subsidiaries, Chorus provides a full suite of regional aviation support services that encompasses every stage of an aircraft's life-cycle, including: aircraft acquisition and leasing; aircraft refurbishment, engineering, modification, re-purposing and preparation; contract flying; and aircraft and component maintenance, disassembly, and parts provisioning.

Chorus groups its businesses into two reporting segments:

1) **Regional Aviation Services**: this segment includes all three sectors of the regional aviation industry in which Chorus currently operates. This segment also includes corporate expenses, such as interest expense on the 6.00% Debentures, the 5.75% Unsecured Debentures, unsecured revolving credit facility and the operating credit facility, executive and share-based compensation and professional fees.

   a) Contract flying: Chorus provides contract flying services, commonly referred to as "wet leasing" through two of its wholly-owned subsidiaries: Jazz and Voyageur.

      Jazz is the largest regional airline in Canada and operates more flights into more airports in Canada through its scheduled services under the CPA with Air Canada than any other Canadian airline. Pursuant to the CPA, Jazz operates substantially all of its capacity on behalf of Air Canada under the Air Canada Express brand. Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft, including revenue from passenger ticket sales and cargo services. Accordingly, Air Canada bears all of the market risk associated with fluctuations in those revenues. Jazz also operates charter flights for a variety of customers.

      Voyageur provides specialized contract flying, such as medical, logistical and humanitarian flights, to international and Canadian customers.

   b) Aircraft leasing under the CPA: Jazz currently earns leasing revenue under the CPA from 56 aircraft and five spare engines. Chorus is earning leasing revenue on three CRJ900s and delayed the delivery of the remaining six CRJ900s until December 2020. The 2019 CPA Amendments also contemplate that Chorus will acquire five additional 75-78 seat aircraft for operation by Jazz under the CPA in 2025. Voyageur also earns revenue from aircraft leasing.

   c) Maintenance, repair and overhaul (MRO), part sales and technical services: Jazz through its Jazz Technical Services division provides 24/7 MRO services and is certified on Dash Aircraft and CRJ aircraft products as well as Embraer 135 and 145 aircraft. Voyageur provides specialty, MRO and engineering services on Dash Aircraft and CRJ Aircraft products and is Transport Canada, Federal Aviation Administration and European Aviation Safety Agency certified. Capabilities also include technical advisory support as well as aircraft disassembly and aircraft parts provisioning and sales offering.

2) **Regional Aircraft Leasing**: Chorus provides aircraft leasing to third-party air operators, commonly referred to as "dry leasing", through its wholly-owned subsidiary, CAC. As of August 12, 2020, CAC's portfolio of leased aircraft consists of 59 aircraft of which 46 aircraft are on lease to airline customers comprising 18 Dash 8-400s, 16 ATR72-600s, four CRJ1000s, four E190s, two E195s and two A220-300s. CAC owns 13 aircraft that are currently or will be imminently be off-lease, eight of which were previously on lease to Flybe (five Dash 8-400s and three ATR72-600s), two CRJ900s previously on lease to CityJet and three ATR72-600s on lease to Virgin Australia. Chorus' intention with respect to aircraft currently off-lease is to remarket them for lease to other airlines.

Jazz earns revenue under the CPA in five ways:

1. Fixed Margin

Jazz earns a Fixed Margin which has been set for 2020 as an aggregate amount irrespective of the number of Covered Aircraft and thereafter is based on the number of Covered Aircraft operated by Jazz under the CPA.

2. *Performance Incentives*

Jazz has the opportunity to earn Performance Incentives under the CPA for achieving certain performance targets in relation to controllable on-time performance, controllable flight completion, customers arriving with luggage and customer service.

3. *Controllable Revenue*

Jazz is paid Controllable Revenue rates based on Controllable Costs that are estimated using certain variables. Jazz's exposure to variances between the Controllable Revenue Jazz receives from Air Canada to cover annually negotiated Controllable Costs and Jazz's actual Controllable Costs incurred in performing its services for Air Canada is limited to $2.0 million annually (referred to as the "Controllable Cost Guardrail"). Controllable Revenue rates are set annually, and Jazz and Air Canada complete an annual reconciliation and payment once the variance, if any, between the Controllable Revenue paid by Air Canada and Jazz's actual Controllable Costs is determined. If Jazz's Controllable Costs exceed the revenue received from Air Canada by more than $2.0 million, Air Canada will pay to Jazz an amount equal to the excess over $2.0 million. Conversely, if the Controllable Revenue paid by Air Canada to Jazz exceeds Jazz's actual Controllable Costs by more than $2.0 million, Jazz will pay to Air Canada an amount equal to the excess over $2.0 million.

Controllable Costs include such costs as wages and benefits, certain depreciation and amortization, certain aircraft maintenance, materials and supplies, third-party operating leases, and other general overhead expenses, such as crew variable expense, professional fees, travel, and training. Substantially all the Controllable Costs are subject to the Controllable Cost Guardrail and related reconciliation.

4. *Pass-Through Revenue*

Jazz receives Pass-Through Revenue, which is based on Pass-Through Costs reimbursed by Air Canada.

Pass-Through Costs include airport and navigation fees, third-party ground handling, certain aircraft maintenance, materials and supplies, aircraft parking, interrupted trips and baggage delivery, station supplies for processing passengers, certain third-party facilities, certain voluntary employee separation program costs and capital expenditures incurred by Jazz at certain airports and hangar facilities. Jazz does not incur fuel or food and beverage costs related to CPA flying, as these are charged directly to Air Canada.

5. *Aircraft leasing under the CPA*

Jazz earns aircraft leasing revenue under the CPA from the following owned assets: 34 Dash 8-400s, eight CRJ900s, 14 Dash 8-300s and five spare engines. Jazz is investing in the Extended Service Program for the Dash 8-300s it owns, and as the life extensions are completed, the aircraft start to earn aircraft leasing revenue under the CPA. Jazz plans to complete the ESP on one additional Dash 8-300 in the second half of 2020, with an additional three anticipated for completion by the end of 2022. Once Jazz has completed the ESP on all of its Dash 8-300s, Jazz will have a total of 18 Dash 8-300s earning leasing revenue under the CPA (refer to Section 4 - Outlook).

Over the 16 year remaining term of the CPA from January 1, 2020, a minimum of $1.4 billion in aircraft leasing revenue is expected to be generated, accounting for approximately 65% of the total minimum revenues (leasing revenue plus fixed fees), anticipated over the remaining term. The revenue estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA. A foreign exchange rate of $1.3000 (based on the long-term average historical rate which is reviewed and adjusted annually) was used in the calculation of the estimates. (Refer to Section 24 - Caution regarding forward-looking information.)

Jazz incurs two types of costs under the CPA:

1) Controllable Costs - which are offset by Controllable Revenue (see discussion above).
2) Pass-Through Costs - which are offset by Pass-Through Revenue (see discussion above).

Aircraft fleet under the CPA

From January 1, 2020 through December 31, 2025, Jazz will continue to gradually reduce to the minimum number of Covered Aircraft of 105. From January 1, 2026 through December 31, 2035, Air Canada determines the composition of the fleet of Covered Aircraft on the condition that the fleet must have a minimum of 80 aircraft with 75-78 seats. (Refer to Section 24 - Caution regarding forward-looking information.)

3 STRATEGY

Chorus' collaborative long-term partnership with Air Canada and its diversified aircraft leasing portfolio, along with its specialty MRO and contract flying capabilities gives it unique capabilities to transition aircraft.

Chorus' long-term strategy remains focused on providing an integrated and comprehensive suite of regional aviation services, including aircraft leasing and support services, to customers around the world by drawing on Chorus' expertise in all areas of regional aviation operations.

Chorus' business was founded on the CPA, a contract pursuant to which Jazz provides substantially all of its capacity to Air Canada in order to operate regional airline services under the Air Canada Express brand. The CPA was amended and extended effective January 1, 2019 and has a term expiring on December 31, 2035. Prior to the impact of COVID-19, Chorus provided approximately 80% of the Air Canada Express network capacity.

Under the CPA, Air Canada manages all commercial aspects of the Air Canada Express operation and assumes the related risks, including ticket prices and passenger demand. Costs such as fuel, navigation fees, airport landing and terminal fees are all borne by Air Canada. The risk of erosion to Chorus' profit margin under the CPA is minimized by the +/- $2.0 million Controllable Cost Guardrail, combined with the minimum fleet and aircraft leasing commitments to 2035 with opportunities for growth.

Chorus takes a process-driven approach to building its leasing business and utilizes several risk mitigation strategies that analyze the risks associated with a potential aircraft transaction. Risk mitigation is employed throughout an aircraft leasing transaction by ensuring, wherever possible, the following:

- on a portfolio basis, Chorus' strategy is to ensure the majority of the aircraft debt is paid within the term of the first lease;
- the economics of the transaction are preserved by swapping variable rate debt to fixed interest rates or by aligning lease rates with changes in variable interest rates;
- aircraft leases and the associated debt are primarily denominated in the same currency thus reducing foreign exchange risk to a minimum; and
- aircraft residual value risk is mitigated through careful consideration as to the aircraft types acquired, limiting aircraft type concentration and maintaining a diversified customer base operating in various geographic locations.

The Chorus team is highly experienced in managing every stage of a regional aircraft's life-cycle, and in every technical facet of the regional aviation operations. Chorus offers a full suite of flying operations, including special mission services, maintenance, repair and overhaul modifications, and parts provisioning to regional aircraft owners and operators around the world. These capabilities differentiate Chorus from its competition.

The following table reflects Chorus' committed transactions which have been announced to date by customer and aircraft type.

(unaudited)		Turboprops			Regional Jets			
Segment and customer	Aircraft committed	Dash 8-300	Dash 8-400	ATR	A220-300	CRJ	Embraer	75-78 seat aircraft[1]
Regional Aircraft Leasing								
Aeromexico[2]	3						✓	
Air Nostrum	4					✓		
airBaltic	5				✓			
Azul Airlines[3]	5			✓			✓	
CityJet[4]	—							
Croatia Airlines	2		✓					
Ethiopian Airlines	5		✓					
Indigo	8			✓				
Jambojet	3		✓					
KLM Cityhopper	1						✓	
Malindo Air	4			✓				
Philippine Airlines	3		✓					
SpiceJet	5		✓					
Virgin Australia[5]	—							
Wings Air	1			✓				
Undisclosed customer	2			✓				
Under current lease	51	—	18	18	5	4	6	—
Aircraft to be remarketed	13	—	5	6	—	2	—	—
	64	—	23	24	5	6	6	—
Regional Aviation Services[6]	71	18	34	—	—	14	—	5
Total	135	18	57	24	5	20	6	5

(1) Aircraft Leasing under the CPA includes five 75-78 seat aircraft type anticipated to be added in 2025.
(2) On June 30, 2020, Aeromexico filed for voluntary Chapter 11 petitions in the United States in order to implement a financial restructuring.
(3) Azul Airlines aircraft breakdown: three ATR72-600s and two E195s.
(4) On April 17, 2020, CityJet entered an examinership process in Ireland. CAC is in the process of repossessing two CRJ900s previously on lease to CityJet pursuant to a negotiated termination agreement which provides for the early termination of the leases and return of the aircraft to CAC.
(5) Virgin Australia entered into 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.
(6) The Regional Aviation Services segment includes only the Covered Aircraft leased under the CPA fleet.

4 OUTLOOK

The discussion that follows includes forward-looking information. This outlook is provided for the purpose of providing information about current expectations for 2020 and beyond. This information may not be appropriate for other purposes. (Refer to Section 24 - Caution regarding forward-looking information.)

The COVID-19 pandemic and resulting government restrictions have created unprecedented challenges for the aviation industry and global cancellations are 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 and its leasing of aircraft to airline customers globally. The full extent of the duration and therefore the impact of this pandemic are unknown.

Regional Aviation Services:

Since March 31, 2020, Jazz implemented significant permanent and temporary employee reductions impacting 65% of its workforce. Contingent upon qualification, Jazz plans to utilize the CEWS for the remainder of the program to December 31, 2020.

Jazz expects to operate between approximately 20% to 30% of its capacity in the third and fourth quarters of 2020 compared to the same periods in 2019. In accordance with the CPA, the Fixed Margin does not vary with the number of aircraft and is fixed for 2020 based on agreed annual amounts.

As of June 30, 2020, the Controllable Cost Guardrail receivable from Air Canada was $17.6 million. Chorus expects the receivable to be between $20.0 and $40.0 million to the end of 2020.

Due to the economic impact of COVID-19, Chorus delayed the delivery of six of the nine CRJ900s until December 2020. Chorus began earning lease revenue from the three delivered CRJ900s in June 2020.

Voyageur continues to provide overseas humanitarian flights and cargo services, and the air ambulance operation in New Brunswick. Voyageur’s MRO and parts sales operations experienced lower demand during the quarter due to the impact of COVID-19. Contingent upon qualification, Voyageur plans to utilize the CEWS for the remainder of the program to December 31, 2020. MRO services demand has subsequently increased necessitating the return of employees previously on temporary layoff. Voyageur currently represents less than 10% of Chorus’ consolidated revenue and net income.

Regional Aircraft Leasing:

Chorus has received requests from substantially all of its Regional Aircraft Leasing segment customers for some form of temporary rent relief, as they cope with an unprecedented reduction in demand. The period of relief most commonly spans three to 12 months with repayment terms typically between 12 to 24 months. As of June 30, 2020, CAC's lease deferral receivable was $38.4 million. These deferrals are estimated to increase Chorus’ trade receivables to approximately $60.0 million by the end of the year. Chorus received $10.4 million or approximately 28% of lease revenue billed in the second quarter from its lessees. Chorus received approximately 38% of its lease revenue billed in July 2020. Consistent with market norms, these leases are generally for a fixed term, contain an absolute payment obligation on the part of the lessee, and cannot be terminated early for convenience.

Subsequent to June 30, 2020, Chorus extended a loan deferral program, with its largest lender, that allows Chorus to defer scheduled payments under certain aircraft loans to the end of the year for those lessees so long as the rent under the corresponding leases is deferred. Repayment of the deferrals is required over the course of the subsequent 12 months. The balance deferred as of June 30, 2020 was US $12.8 million and the total amount that could be deferred by December 31, 2020 is estimated to be up to US $30.4 million.

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 effect 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. CAC holds security packages in respect of these aircraft. Under the related loan agreements, CAC has 24 months to remarket these aircraft, failing which CAC may be required to repay the debt outstanding on the aircraft. CAC holds security packages in respect of these aircraft. The average remaining lease terms for these aircraft was four years. As at June 30, 2020, CAC's long-term debt related to these aircraft was US $28.5 million.

Flybe ceased operating and was placed in administration on March 5, 2020. CAC had three ATR72-600s and five Dash 8-400s on lease to Flybe with remaining lease terms between two and four years. 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 administration. As at June 30, 2020, Chorus' long-term debt associated with these aircraft was US $35.7 million and US $10.6 million for three ATR72-600s and two Dash 8-400s, respectively. Three of these Dash 8-400s are unencumbered (refer to Section 8 - Capital Structure).

Aeromexico filed for voluntary Chapter 11 petitions in the United States on June 30, 2020 in order to implement a financial restructuring. CAC leases three E190s to Aeromexico which remain under lease during administration. CAC holds security packages in respect of these aircraft. The average remaining lease terms for these aircraft is 2.5 years. CAC will have six months to remarket two of the aircraft and nine months for the other 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, CAC's long-term debt related to these aircraft was US $35.7 million.

CAC is in the process of repossessing two CRJ900s previously on lease to CityJet pursuant to a negotiated termination agreement which provides for the early termination of the leases and return of the aircraft to CAC. CAC has not recorded an impairment charge on these aircraft. The average remaining lease terms for these aircraft was eight years. As at June 30, 2020, CAC's long-term debt related to these aircraft was US $29.6 million. CAC has 24 months to remarket the aircraft, failing which CAC may be required to repay the debt outstanding on the aircraft.

Prior to second quarter 2020, Chorus generated approximately US $7.3 million per quarter in lease revenue from aircraft leased to Flybe, CityJet, Virgin Australia and Aeromexico.

The following table provides the number of closed and pending and/or delayed transactions announced to-date:

(unaudited)	Completed Transactions			Pending/Delayed Transactions[1]		Committed Transactions		
Customer	**2016 - Q1 2020**	**Q2 2020**	**Total**	**Q3 2020**	**Q4 2020 and thereafter**	**2016 - Q1 2020**	**Increase (Decrease)**	**Total 2016 - 2020[2]**
Aeromexico[3]	3		3			3		3
Air Nostrum	4		4			4		4
airBaltic	2		2	1	2	5		5
Azul Airlines	5		5			5		5
CityJet[4]	2		2	(2)		2	(2)	—
Croatia Airlines	2		2			2		2
Ethiopian Airlines	5		5			5		5
Indigo	8		8			8		8
Jambojet	3		3			3	—	3
KLM Cityhopper	1		1			1		1
Malindo Air	4		4			4		4
Philippine Airlines	3		3			3		3
SpiceJet	5		5			5		5
Virgin Australia[5]	3		3	(3)		3	(3)	—
Wings Air	1		1			1	—	1
Undisclosed customer	—		—		2	2	—	2
Aircraft to be remarketed	8		8	5		8	5	13
Total Regional Aircraft Leasing	**59**	**—**	**59**	**1**	**4**	**64**	**—**	**64**
Total Regional Aviation Services[6]	**53**	**3**	**56**	**—**	**15**	**71**	**—**	**71**
Chorus Total Aircraft	**112**	**3**	**115**	**1**	**19**	**135**	**—**	**135**

(1) As of August 12, 2020, there were 64 committed aircraft in the Regional Aircraft Leasing segment. These lease commitments are subject to satisfaction of customary conditions precedent to closing including receipt of financing for the aircraft.
(2) Total announced transactions as of August 12, 2020.
(3) On June 30, 2020, Aeromexico filed for voluntary Chapter 11 petitions in the United States in order to implement a financial restructuring.
(4) On April 17, 2020, CityJet entered an examinership process in Ireland. CAC is in the process of repossessing two CRJ900s previously on lease to CityJet pursuant to a negotiated termination agreement which provides for the early termination of the leases and return of the aircraft to CAC.
(5) Virgin Australia entered into 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.
(6) The Regional Aviation Services segment's commitments include the following pending and delayed transactions: six CRJ900s, four Dash 8-300s that will undergo the ESP planned for between 2020 - 2022, and five 75-78 seat aircraft, all of which are intended to earn leasing revenue under the CPA. All pending acquisitions and lease commitments are subject to satisfaction of customary conditions precedent to closing.

Capital expenditures in 2020, including capitalized major maintenance overhauls but excluding expenditures for the acquisition of aircraft and the ESP, are expected to be between $23.0 million and $29.0 million. Aircraft related acquisitions and ESP capital expenditures in 2020 are expected to be between $481.0 million and $487.0 million[1.]

(unaudited) *(expressed in thousands of Canadian dollars)*	**Planned 2020**(1) **$**	**Actual** **Six months ended June 30, 2020** **$**	**Actual** **Year ended December 31, 2019** **$**
Capital expenditures, excluding aircraft acquisitions and ESP	16,000 to 19,000	7,778	31,547
Capitalized major maintenance overhauls	7,000 to 10,000	4,996	14,444
Aircraft related acquisitions and ESP	481,000 to 487,000	91,361	829,710
	504,000 to 516,000	104,135	875,701

(1) The 2020 plan includes two ESPs and nine CRJ900s in the Regional Aviation Services segment as well as two ATR72-600s and three A220-300s for the Regional Aircraft Leasing segment all of which have been converted using a foreign exchange rate of $1.3628, the June 30, 2020 closing day rate from the Bank of Canada. It excludes any potential additional investments in third-party aircraft, beyond these already committed. All pending acquisitions and lease commitments are subject to satisfaction of customary conditions precedent to closing.

5 FLEET

The following table provides the total number of aircraft in Chorus' fleet as at June 30, 2020 and December 31, 2019.

(unaudited)	December 31, 2019	2020 Fleet Changes Additions	Removals	Transfers	June 30, 2020	Owned
Regional Aircraft Leasing						
Third-Party Leased Aircraft						
CRJ900s	2	—	—	—	2	2
CRJ1000s	4	—	—	—	4	4
Dash 8-400s	24	—	—	(1)	23	23
E190s	4	—	—	—	4	4
E195s	2	—	—	—	2	2
ATR72-600s	22	—	—	—	22	22
A220-300s	2	—	—	—	2	2
Total Regional Aircraft Leasing	60	—	—	(1)	59	59
Regional Aviation Services						
Covered Aircraft Leased Under the CPA						
Dash 8-400s	34	—	—	—	34	34
CRJ900s	5	3	—	—	8	8
Dash 8-300s	13	—	—	1	14	14
	52	3	—	1	56	56
Other Covered Aircraft						
CRJ200s	17	2	—	—	19	—
CRJ900s	21	—	—	—	21	—
Dash 8-100s	6	—	—	(6)	—	—
Dash 8-300s(1)	10	—	—	(1)	9	5
Dash 8-400s	10	—	—	—	10	—
Total Other Covered Aircraft	64	2	—	(7)	59	5
Jazz Charter Aircraft						
Dash 8-300s	1	—	—	—	1	1
Total Jazz Charter Aircraft	1	—	—	—	1	1
Voyageur Aircraft						
CRJ200s	7	—	—	—	7	7
King Air 200s	2	—	—	—	2	2
Dash 8-100s(2)	5	—	—	—	5	5
Dash 8-300s(3)	6	—	—	—	6	6
Dash 8-400s	—			1	1	1
Total Voyageur Aircraft	20	—	—	1	21	21
Non-Operational Aircraft						
Dash 8-100s(4)	16	—	(4)	6	18	18
Total Non-Operational Aircraft	16	—	(4)	6	18	18
Total Regional Aviation Services	153	5	(4)	1	155	101
Total Aircraft	213	2	(4)	—	214	160

(1) One aircraft underwent ESP and moved to Covered Aircraft leased under the CPA.
(2) Includes three aircraft leased to a third party.
(3) Includes one aircraft leased to a third party.
(4) Chorus plans to sell or part-out these aircraft.

6 CONSOLIDATED FINANCIAL ANALYSIS

This section provides detailed information and analysis about Chorus' performance for the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019. It focuses on Chorus' consolidated operating results and provides financial information for Chorus' operating segments. For further discussion and analysis of Chorus' business segments, refer to Section 7 - Segmented Analysis.

	Three months ended June 30,				Six months ended June 30,			
(unaudited) *(expressed in thousands of Canadian dollars)*	**2020** $	**2019** $	**Change** $	**Change** %	**2020** $	**2019** $	**Change** $	**Change** %
Operating revenue[1]	184,214	332,520	(148,306)	(44.6)	542,238	676,387	(134,149)	(19.8)
Operating expenses[1]	150,531	282,159	(131,628)	(46.7)	461,863	585,907	(124,044)	(21.2)
Operating income	33,683	50,361	(16,678)	(33.1)	80,375	90,480	(10,105)	(11.2)
Net interest expense	(21,368)	(18,199)	(3,169)	(17.4)	(41,575)	(33,940)	(7,635)	(22.5)
Foreign exchange gain (loss)	18,467	11,576	6,891	(59.5)	(20,965)	25,826	(46,791)	181.2
Other (loss) gain[2]	(390)	1,430	(1,820)	(127.3)	(374)	1,466	(1,840)	(125.5)
Earnings before income tax	30,392	45,168	(14,776)	(32.7)	17,461	83,832	(66,371)	(79.2)
Income tax expense	(1,227)	(6,227)	5,000	80.3	(5,590)	(11,444)	5,854	51.2
Net income	29,165	38,941	(9,776)	(25.1)	11,871	72,388	(60,517)	(83.6)
Adjusted EBITDA[1][3]	91,042	85,720	5,322	6.2	179,622	160,444	19,178	12.0
Adjusted EBT[3]	25,914	30,880	(4,966)	(16.1)	55,152	55,146	6	—
Adjusted net income[3]	21,644	24,156	(2,512)	(10.4)	45,465	42,557	2,908	6.8

(1) Year-to-date and first quarter operating revenue and expenses increased by $8.1 million and $8.0 million, respectively due to a reclassification of the impairment on aircraft and repossession costs from revenue, which previously offset the related security packages recovered, to depreciation, amortization and impairment and other expenses.
(2) Other includes gain on disposal of property and equipment.
(3) These are non-GAAP financial measures – refer to Section 18 for disclosures on non-GAAP financial measures.

For the three and six months ended June 30, 2020, consolidated operating revenue decreased 44.6% and 19.8%, compared to the same periods last year.

The decrease in revenue for the three and six months ended June 30, 2020 over the comparative periods was attributable to a decrease in revenue in the Regional Aviation Services segment related to the decline in Controllable Revenue, Pass-Through Revenue and other revenue due to decreased third-party MRO activity and reduced contract flying in Voyageur as a result of the economic impact of COVID-19. This decrease was partially offset by an increase in aircraft earning lease revenue in the Regional Aircraft Leasing segment.

Operating expenses decreased for the three and six months ended June 30, 2020 over the comparative periods with the decrease related to lower salaries, wages and benefits due to the CEWS government grant, lower stock-based compensation, decreased engine overhaul maintenance events and decreased Pass-Through Costs; partially offset by expected credit loss and inventory provisions in Voyageur in the Regional Aviation Services segment. These decreases were offset by higher depreciation, aircraft impairments, lease repossession costs and an expected credit loss provision related to management's assessment of its lessees' credit risk in the Regional Aircraft Leasing segment.

Net interest expense increased 17.4% and 22.5% for the three and six months ended June 30, 2020 compared to the same periods last year due to additional long-term borrowings related to aircraft purchases throughout 2019 in the Regional Aircraft Leasing segment and the 5.75% Unsecured Debentures and the unsecured revolving credit facility in the Regional Aviation Services segment.

Foreign exchange gain increased for the three months ended June 30, 2020 compared to the same period last year primarily related to the change in unrealized foreign exchange on long-term debt of $6.3 million in the Regional Aviation Services segment. Foreign exchange loss increased for the six months ended June 30, 2020 compared to the same period last year primarily related to the change in unrealized foreign exchange on long-term debt of $48.8 million in the Regional Aviation Services segment. The Regional Aviation Services segment manages the majority of its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. As a result, due to the nature of the underlying associated revenue stream provided by the CPA, the unrealized foreign exchange losses/gains on long-term debt and lease liability do not materially affect current or future cash flows. The Regional Aircraft Leasing segment's functional currency is the US dollar.

Income taxes decreased for the three and six months ended June 30, 2020 compared to the same periods last year. The decrease was due to a reduction in EBT combined with a decrease in certain provincial tax rates and non-deductible expenses.

7 SEGMENTED ANALYSIS

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

(unaudited) (in thousands of Canadian dollars)	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
Other (loss) gain(1)	(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**
Operating income (loss)	34,143	(460)	33,683	35,076	15,285	50,361
Items related to COVID-19:						
Impairment provisions(2)	—	9,540	9,540	—	—	—
Lease repossession costs(2)(3)	—	8,008	8,008	—	—	—
Other items:						
Depreciation, amortization excluding impairment(2)	22,098	17,332	39,430	22,660	10,892	33,552
Employee separation(2)	381	—	381	1,807	—	1,807
Adjusted EBITDA(4)	**56,622**	**34,420**	**91,042**	**59,543**	**26,177**	**85,720**
Earnings (loss) before income tax	41,783	(11,391)	30,392	39,814	5,354	45,168
Items related to COVID-19:						
Impairment provisions(2)	—	9,540	9,540	—	—	—
Lease repossession costs(2)(3)	—	8,008	8,008	—	—	—
Other items:						
Unrealized foreign exchange gain	(21,100)	(1,307)	(22,407)	(16,095)	—	(16,095)
Employee separation program(2)	381	—	381	1,807	—	1,807
Adjusted EBT(4)	**21,064**	**4,850**	**25,914**	**25,526**	**5,354**	**30,880**

(1) Other includes (loss) gain on disposal of property and equipment.
(2) Included in operating expenses.
(3) Lease repossession costs (recorded in operating expenses) are net of security packages recovered (recorded in operating revenue) of $0.2 million.
(4) These are non-GAAP financial measures – refer to Section 18 for disclosures on non-GAAP financial measures.

(unaudited) (in thousands of Canadian dollars)	For the six months ended June 30, 2020 Regional Aviation Services $	Regional Aircraft Leasing $	Total $	For the six months ended June 30, 2019 Regional Aviation Services $	Regional Aircraft Leasing $	Total $
Operating revenue[1]	453,476	88,762	542,238	620,377	56,010	676,387
Operating expenses[1]	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
Other (loss) gain[2]	(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**
Operating income	59,145	21,230	80,375	62,435	28,045	90,480
Items related to COVID-19:						
Impairment provisions[3]	—	15,453	15,453	—	—	—
Lease repossession costs[3][4]	—	1,985	1,985	—	—	—
Other items:						
Depreciation, amortization excluding impairment[3]	43,390	34,155	77,545	45,702	20,100	65,802
Employee separation[3]	4,264	—	4,264	2,162	—	2,162
Signing bonus[3]	—	—	—	2,000	—	2,000
Adjusted EBITDA[5]	**106,799**	**72,823**	**179,622**	**112,299**	**48,145**	**160,444**
Earnings (loss) before income tax	19,048	(1,587)	17,461	72,662	11,170	83,832
Items related to COVID-19:						
Impairment provisions[3]	—	15,453	15,453	—	—	—
Lease repossession costs[3][4]	—	1,985	1,985	—	—	—
Other items:						
Unrealized foreign exchange loss (gain)	16,454	(465)	15,989	(32,848)	—	(32,848)
Employee separation program[3]	4,264	—	4,264	2,162	—	2,162
Signing bonus[3]	—	—	—	2,000	—	2,000
Adjusted EBT[5]	**39,766**	**15,386**	**55,152**	**43,976**	**11,170**	**55,146**

(1) Year-to-date and first quarter operating revenue and expenses increased by $8.1 million and $8.0 million, respectively due to a reclassification of the impairment on aircraft and repossession costs from revenue, which previously offset the related security packages recovered, to depreciation, amortization and impairment and other expenses.
(2) Other includes gain on disposal of property and equipment.
(3) Included in operating expenses.
(4) Lease repossession costs (recorded in operating expenses) are net of security packages recovered (recorded in operating revenue) of $8.3 million.
(5) These are non-GAAP financial measures – refer to Section 18 for disclosures on non-GAAP financial measures.

Regional Aviation Services Analysis

The Regional Aviation Services segment reported quarterly and year-to-date operating income of $34.1 million and $59.1 million, a decrease of $0.9 million and $3.3 million, respectively compared to the same periods last year.

The results for the quarter were impacted by:

- a reduction in other revenue due to a decrease in third-party MRO activity and reduced contract flying in Voyageur due to the economic impact of COVID-19;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of $2.9 million over the previous period; and
- expected credit loss and inventory provisions of $1.3 million in Voyageur; partially offset by
- decreased employee separation program costs;
- decreased stock-based compensation of $2.6 million due to the change in the Share price inclusive of the change in fair value of the Total Return Swap (refer to Section 8 - Capital Structure);
- increased aircraft leasing under the CPA attributable to additional revenue earned from six incremental Dash 8-300s and three incremental CRJ900s in 2020 versus 2019; and
- decreased general administrative expenses.

The year-to-date results were impacted by:

- a reduction in other revenue due to a decrease in third-party MRO activity and reduced contract flying in Jazz and Voyageur due to the economic impact of COVID-19;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of $1.3 million over the previous period;
- expected credit loss and inventory provisions of $1.3 million in Voyageur; and
- increased employee separation program costs; partially offset by
- decreased stock-based compensation of $5.2 million due to the change in the Share price inclusive of the change in fair value of the Total Return Swap (refer to Section 8 - Capital Structure);
- decreased signing bonuses as a result of collective agreement changes of $2.0 million;
- increased aircraft leasing under the CPA attributable to additional revenue earned from six incremental Dash 8-300s and three incremental CRJ900s in 2020 versus 2019; and
- decreased general administrative expenses.

Non-Operating Expenses

The strengthening of the Canadian dollar versus the US dollar resulted in higher foreign exchange gains quarter-over-quarter. The weakening of the Canadian dollar versus the US dollar resulted in foreign exchange gains versus foreign exchange losses year-over-year. These gains/losses are primarily unrealized and are related to US dollar loans, but also includes foreign exchange on working capital. Chorus manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. As a result, due to the nature of the underlying associated revenue stream provided by the CPA, the unrealized foreign exchange losses/gains on long-term debt and lease liabilities do not materially affect current or future cash flows.

Adjusted EBITDA

Adjusted EBITDA decreased $2.9 million for the three months ended June 30, 2020 compared to the same period last year due to:

- decreased operating income described above excluding depreciation expense; and
- decreased employee separation program costs.

Adjusted EBITDA decreased $5.5 million for the six months ended June 30, 2020 compared to the same period last year due to:

- decreased operating income described above excluding depreciation expense; and
- decreased signing bonuses; offset by
- increased employee separation program costs.

Portfolio of Aircraft Leasing under the CPA

- Current fleet of 56 aircraft and five spare engines
- Future committed aircraft of six CRJ900s,[1] four ESPs between 2020 and 2022 and five 75-78 seat aircraft anticipated to be delivered in 2025
- Current net book value of $913.9 million[2]
- Approximately $1,424.6 million in future contracted lease revenue[3,4]
- Current weighted average fleet age of 7.2 years[2,5]
- Current weighted average remaining lease term of 8.3 years[2,5]
- 100% debt is fixed rate or hedged with swap
- Current weighted average cost of borrowing of 3.48%

1 Chorus purchased three CRJ900s in June 2020 and has delayed the purchase of the remaining six aircraft until December 2020.
2 This includes only the 56 aircraft and five spare engines.
3 The estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA as at January 1, 2019. A foreign exchange rate of $1.3000 (based on the long-term average historical rate which is reviewed and adjusted annually) was used in the calculation of the estimates.
4 Refer to Section 24 - Caution regarding forward-looking information.
5 Fleet age and remaining lease term is calculated based on the weighted-average of the aircraft net book value.

Regional Aircraft Leasing Analysis

Operating Income

Operating income decreased by $15.7 million for the three months ended June 30, 2020 compared to the prior period primarily due to:

- an impairment charge of $9.5 million and lease repossession costs of $8.0 million based on management's assessment of the economic impact of COVID-19 on its overall leasing portfolio which has a net book value of $1.5 billion (refer to Section 12 - Critical Accounting Estimates);
- increased depreciation expense as a result of additional aircraft; and
- expected credit loss provision of $1.1 million related to management's assessment of its lessees' credit risk related to the lease deferral agreements; partially offset by
- increased revenue due to the growth in additional aircraft on lease, earned from the equivalent of 51 aircraft (2019 - 35).

Operating income decreased by $6.8 million for the six months ended June 30, 2020 compared to the prior period primarily due to:

- based on management's assessment of the economic impact of COVID-19 on its overall leasing portfolio with a net book value of $1.5 billion, Chorus recorded an impairment of $15.5 million and lease repossession costs net of security packages recovered of $2.0 million (refer to Section 12 - Critical Accounting Estimates);
- increased depreciation expense as a result of additional aircraft; and
- an expected credit loss provision of $1.1 million related to management's assessment of its lessees' credit risk; partially offset by
- increased revenue due to the growth in additional aircraft on lease, earned from the equivalent of 54 aircraft for the six months ended June 30, 2020 (2019 - 38).

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 recorded in the quarter. CAC holds security packages in respect of these aircraft.

On March 5, 2020, Flybe ceased operations and was placed in administration. CAC had three ATR72-600s and five Dash 8-400s on lease to Flybe which had remaining lease terms between two and four years. CAC recorded an impairment on three ATR72-600s on lease to Flybe of $5.9 million and lease repossession costs of $6.2 million to operating expense for the six months ended June 30, 2020. The impairment and lease repossession costs were offset by CAC's recovery of its security package which was recorded to operating revenue for the six months ended June 30, 2020 resulting in a net charge of $3.8 million. There was no impairment recorded on the five Dash 8-400s.

Non-Operating Expenses

Net interest expense increased for the three and six months ended June 30, 2020 due to the increase in the number of financed aircraft.

Adjusted EBT

Adjusted EBT decreased by 9.4% for the three months ended June 30, 2020 as a result of lower leasing margins due to the loss of leasing revenue from Flybe and an expected credit loss provision offset by additional aircraft on lease earning revenue.

Adjusted EBT increased 37.7% for the six months ended June 30, 2020 primarily as a result of additional aircraft on lease earning revenue partially offset by the loss of leasing revenue from Flybe and an expected credit loss provision recorded in the quarter.

Portfolio

Committed Fleet[1]

- Committed fleet of 64 aircraft, including the eight Flybe aircraft and two CityJet aircraft to be remarketed[1]
- Approximately US $1.3 billion aircraft portfolio[1,3]
- Approximately US $805.0 million in future contracted lease revenue[1,3]

Current Fleet *(as at June 30, 2020)*

- Current weighted average fleet age of 3.7 years[2]
- The Regional Aircraft Leasing segment has limited net exposure to changes in the interest rates due to its debt and contract terms of 96.3% fixed rate debt (inclusive of floating rate debt that is fixed through the use of swaps) and the remaining 3.7% floating rate debt (the majority of which have leases that float on the same basis as the debt)
- Current weighted average cost of borrowing of 4.10%[4]

[1] Includes all aircraft which have been delivered as well as pending acquisitions and future deliveries for which CAC has received lease commitments.
[2] Fleet age is calculated based on the weighted-average of aircraft net book value.
[3] Refer to Section 24 - Caution regarding forward-looking information.
[4] Reflects actual borrowings as at June 30, 2020 only.

8 CAPITAL STRUCTURE

Chorus' capital structure currently consists primarily of a combination of equity consisting of Shares and debt consisting of the 6.00% Debentures, the 5.75% Unsecured Debentures, senior secured amortizing facilities, revolving loan facilities and lease liabilities.

Chorus' objective when managing its capital structure is to maintain adequate liquidity and flexibility, while obtaining the lowest cost of capital available. It manages foreign exchange and interest rate risk in its capital structure by borrowing when appropriate in currencies other than the Canadian dollar to align with underlying revenue streams and fixing interest rates on its debt.

Chorus uses debt to lower its cost of capital. The amount of debt available to Chorus is a function of earnings and/or equity, tangible asset backing, ability to service the debt and market accepted norms for businesses in this sector.

Chorus maintains flexibility in its capital structure by regularly reviewing forecasts, multi-year business plans and making any required changes to its debt and equity facilities on a proactive basis. These changes can include issuing or repurchasing equity, issuing new secured or unsecured debt, modifying the term of existing debt facilities or repaying existing debt from surplus cash or proceeds from the sale of surplus assets.

Chorus' capital structure was as follows as at June 30, 2020 and December 31, 2019.

(unaudited) *(expressed in thousands of Canadian dollars)*	June 30, 2020 $	December 31 2019 $	Change $
Equity			
Capital	288,475	281,849	6,626
Contributed surplus	1,039,832	1,039,832	—
Deficit	(730,490)	(716,036)	(14,454)
Exchange differences on foreign operations	16,141	(3,633)	19,774
Equity component of Convertible Units	2,981	2,981	—
	616,939	604,993	11,946
Long-term debt	2,072,878	1,823,130	249,748
Lease liabilities	13,512	16,316	(2,804)
Total capital	2,703,329	2,444,439	258,890

As at July 31, 2020 and December 31, 2019, the issued and outstanding Shares of Chorus were as follows:

(unaudited)	July 31, 2020	December 31, 2019
Total issued and outstanding Shares	161,867,388	160,450,995
Shares potentially issuable Stock-based compensation plans and warrants	3,272,363	3,081,590
Total outstanding and potentially dilutive Shares	165,139,751	163,532,585

In addition, up to 24,242,424 Shares are issuable at an exercise price of $8.25 upon the exercise of the Warrants. Furthermore, Shares are issuable to participants in the Corporation's DRIP (as defined below) each time a dividend is declared and paid on the Shares.

In December 2019, Chorus raised gross proceeds of $86.3 million from the issuance of the 5.75% Unsecured Debentures. 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.

Dividend Reinvestment Plan ("DRIP")

On April 6, 2020 Chorus announced the suspension of its DRIP following payment of the previously declared dividend payable on April 17, 2020.

Chorus had implemented the DRIP effective February 1, 2018, to provide 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 the Corporation from treasury, and the proceeds received by the Corporation were used for general corporate purposes.

The price for Shares purchased under the DRIP was equal to 100% of the average market price; however, the Corporation had the option, from time to time, to offer a discount of up to 5% from the average market price for Shares purchased under the DRIP.

During the six months ended June 30, 2020, 1,416,393 Shares were issued under the DRIP at a weighted average price of $4.98 per Share. As at June 30, 2020, the Corporation had issued 5,791,876 Shares under the DRIP since inception.

Long-term debt

Long-term debt consists of the following:

(unaudited) *(expressed in thousands of Canadian dollars)*	**June 30, 2020** **$**	**December 31, 2019** **$**
Secured long-term debt and revolving credit facility		
Amortizing term loans		
Secured by aircraft	1,468,121	1,389,286
Secured by engines	8,519	8,900
Revolving credit facility	154,305	150,944
Nova Scotia Jobs Fund loan - secured by office building	8,000	8,000
Operating credit facility	30,000	—
6.0% Debentures	200,000	200,000
	1,868,945	1,757,130
Unsecured long-term debt		
5.75% Unsecured Debentures	86,250	86,250
Unsecured Revolving Credit Facility	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
Current portion(1)	196,097	164,554
	1,876,781	1,658,576

(1) The current portion of long-term debt in the above table includes deferred financing fees of $3.1 million for the period ended June 30, 2020 (December 31, 2019 - $2.9 million).

The principal attributes of Chorus' long-term debt facilities are summarized below. For full details, of the terms of the 6.0% Debentures, the Warrants, the 5.75% Unsecured Debentures and the operating credit facility, please refer to the relevant agreements and indentures which are available on SEDAR at www.sedar.com.

Amortizing term loans

Chorus' aircraft amortizing term loans are 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 the aircraft and engines financed by the loans, as well as an assignment of any leases in respect thereof.

Subsequent to June 30, 2020, Chorus extended a loan deferral program with its largest lender that allows Chorus to defer scheduled payments under certain aircraft loans to the end of the year for those lessees so long as the rent under the corresponding leases is deferred. Repayment of the deferrals is required over the subsequent 12 months. The balance deferred as of June 30, 2020 was US $12.8 million and the total amount that could be deferred by December 31, 2020 is estimated to be up to US $30.4 million.

Flybe ceased operating and was placed in administration on March 5, 2020. CAC had three ATR72-600s and five Dash 8-400s on lease to Flybe with remaining lease terms between two and four years. 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 administration. As at June 30, 2020, Chorus' long-term debt associated with these aircraft was US $35.7 million and US $10.6 million for three ATR72-600s and two Dash 8-400s, respectively. Three of these Dash 8-400s are unencumbered.

The engine loans are 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.

Chorus' revolving credit facility for aircraft acquisitions includes a series of term loans repayable in instalments, bearing floating interest fixed via swap agreements 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. To the extent these loans are repaid during the revolving period, Chorus may re-draw on this facility. 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%.

Chorus has an office building loan that is repayable in annual instalments of $1.0 million, bearing interest at a fixed rate of 3.33%, and matures on 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.

Financial Covenants under amortizing term loans

A description of the principal financial covenants in Chorus' debt agreements is set out below:

Amortizing term loans have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing Inc. and any entity controlled directly or indirectly by either of them), Voyageur and 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 the Corporation is deemed not to be a change of control of Jazz for purposes of these financing agreements so long as the Corporation's 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 Jazz Leasing 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 Jazz Leasing under facilities under which Jazz Leasing is the borrower.

Chorus' largest lender has secured aircraft loans which accounts for 68% of its consolidated amortizing debt. Some of these loans with the Jazz Group and Voyageur and subsidiaries of CAC contain cross collateralization provisions such that one company may become liable for the other's debt. As of June 30, 2020, the Jazz Group and Voyageur had approximately 38% of its largest lender's loans cross provisioned in relation to Chorus' consolidated amortizing debt. CAC and its subsidiaries had approximately 15% of its largest lender's loans cross provisioned in relation to Chorus' consolidated amortizing debt with the remaining 47% having no cross provisions.

As at June 30, 2020, Chorus was in compliance with all of these financial covenants.

Convertible Units

In December 2016, Chorus entered into a subscription agreement with Fairfax for an investment of $200.0 million 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 $196.0 million.

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 TSX under the symbol CHR.DB.

5.75% Unsecured Debentures

In December 2019, Chorus issued $86.3 million aggregate principal amount 5.75% Unsecured Debentures which bear interest at a rate of 5.75% per annum, 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 $82.4 million, net of $3.9 million 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.

Total scheduled principal payments on long-term debt, excluding unamortized deferred financing fees, are as follows:

(unaudited) *(expressed in thousands of Canadian dollars)*	$
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
	2,091,475

Revolving loan facilities

Operating credit - $75.0 million

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 facility of $75.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis.

As at June 30, 2020, $30.0 million was drawn under the facility. Chorus has provided letters of credit totaling $9.6 million 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 the Corporation undergoes a change of control without the lender’s consent.

Revolving credit facility for aircraft acquisitions - US $200.0 million

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 $200.0 million. The reduction in size of the facility removes an unused portion on which Chorus had been paying standby fees. As of June 30, 2020, $154.3 million (US $113.2 million) was drawn on the facility.

All loans under this facility are repayable at a rate of 5% 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 $5.0 million 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.

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 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 - US $100.0 million

On April 28, 2020, Chorus obtained a US $100.0 million unsecured revolving credit facility through EDC 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 any event of defaults that would be triggered upon the acceleration of Chorus indebtedness in excess of US $10.0 million, 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.

Covenant Default Risk

Chorus' debt agreements contain financial and non-financial 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, 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.

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. 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% was 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 $14.1 million liability at June 30, 2020 ($2.4 million 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 $0.8 million and $10.5 million respectively, net of tax (June 30, 2019 - comprehensive loss of

$2.7 million and $3.4 million respectively, 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 $278.1 million and 10 derivative agreements which referenced notional amounts totaling $237.2 million 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 considering all relevant factors, including credit margin, term and basis. The risk management objective is to minimize the 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 period ended June 30, 2020.

Foreign Exchange Rate Risk

Chorus receives revenue and incurs expenses in U.S. dollars, Canadian dollars and 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, obligations under finance leases 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 as the related lease revenues.

The amount of US dollar denominated assets was $112.5 million and US denominated liabilities was $794.7 million 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 $6.8 million. A 1¢ change in the Euro versus Canadian dollar exchange rate would not have a material impact on unrealized gains or losses.

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 $10.3 million liability at June 30, 2020 and is recorded in other long-term liabilities ($0.7 million 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 $0.2 million and ($15.2) million, including ($4.2) million related to settlement, has been recorded in operating income, respectively (June 30, 2019 - $nil). For additional information, please refer to note 3(h) and 3(i), Significant Accounting Polices, of the audited consolidated financial statements of Chorus for the year ended December 31, 2019.

9 LIQUIDITY

Chorus' liquidity needs are primarily related to funding ongoing operations, planned capital expenditures including investment in aircraft acquisitions for purposes of business growth and diversification, and principal and interest payments related to long-term borrowings.

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' liquidity was approximately $189.0 million including cash of $153.4 million and $35.4 million of available room on a committed revolving debt facility. In the second half of 2020, Chorus expects its liquidity to be relatively constant.

The positive cash provided by operations, before net changes in non-cash balances related to operations, for the quarter was offset by the following key liquidity movements:

- Increased CAC lease receivables of $25.7 million, excluding the long-term portion of $2.6 million, primarily related to lease deferral agreements partially offset by an increase in loan payment deferrals of $17.4 million (US $12.8 million) and a reduction in restricted cash of $8.3 million.
- Increased receivable related to the CEWS government grant of $25.5 million.
- Reduction in accounts payable of $48.4 million due to the significantly reduced airline operations, semi-annual lease payments of $10.6 million on aircraft leased from third parties in the CPA and the reduction of commodity tax payables of $14.9 million.
- Capital required on three CRJ900s delivered in the quarter of $8.4 million.
- Increased inventory of $8.1 million primarily for part sales.
- Capital expenditures, including capitalized major maintenance overhauls but excluding expenditures for the acquisition of aircraft and the ESP of $5.3 million.

Chorus has implemented a number of measures to further bolster liquidity given the uncertainty related to the duration and impact of the COVID-19 pandemic. These include cost reduction programs that encompass temporary and permanent employee layoffs, pay reductions for members of the executive, management team and Board of Directors, as well as the reduction in non-essential capital expenditures. In addition, Chorus undertook the following actions:

- Added and fully drew on a US $100.0 million unsecured revolving credit facility during the second quarter (refer to Section 8 - Capital Structure).
- Suspended dividends (refer to Section 8 - Capital Structure).
- Secured a loan payment deferral agreement with one of its largest lenders totaling up to US $30.4 million (principal of US $21.2 million plus estimated interest of US $9.2 million) which is repayable over 12 months commencing December 31, 2020. As of June 30, 2020, the principal and interest deferral was US $12.8 million.
- Secured financing of US $18.0 million on two previously unsecured aircraft.
- Released restricted cash of US $6.9 million on July 30, 2020 with the execution of a lease deferral arrangement.
- Received cash from the sale of a Dash 8-300 on July 27,2020 of US $3.7 million.

Chorus anticipates having sufficient liquidity to fund ongoing operations, planned capital expenditures, and principal and interest payments related to long-term borrowings. For greater certainty, this includes the ability to manage the repossession and remarketing of the aircraft previously on lease to Flybe and CityJet and manage rent deferrals with its leasing customers. (Refer to Section 24 - Caution regarding forward-looking information.)

Working Capital

Chorus' working capital is typically not a good measure of its liquidity due to the fact that current liabilities include the current portion of long-term debt, whereas current assets do not include the current portion of the long-term aircraft lease receivables as aircraft lease revenue is recorded as it is earned on a monthly basis.

Chorus' working capital deficit as reflected on the June 30, 2020 balance sheet was $11.3 million (December 31, 2019 - $136.4 million). The current portion of contracted aircraft lease receivables as at June 30, 2020 is estimated to be approximately $293.2 million converted to CAD at the June 30, 2020 rate of 1.3628. Working capital adjusted for the current portion of estimated long-term aircraft lease receivables reflects a surplus of approximately $304.5 million. (Refer to Section 24 - Caution regarding forward-looking information.)

Leverage

Chorus has reviewed market-acceptable ranges for leverage in the airline and aircraft leasing industries, and intends to stay within those ranges, with changes for relatively short periods of time, to allow for accretive investments.

Chorus' leverage ratio (measured as Adjusted net debt to trailing 12-month Adjusted EBITDA) was 5.4 as at June 30, 2020 (December 31, 2019 - 5.1). Leverage increased in 2020 due to additional long-term debt, a significant increase in the US dollar exchange rate to 1.3628 at June 30, 2020 versus 1.2988 at December 31, 2019, which increased long-term debt by approximately $70.4 million. (Refer to Section 18 - Non-GAAP Financial Measures.)

Cash Flows

The following table provides information on Chorus' cash flows for the three and six months ended June 30, 2020 and June 30, 2019.

	Three months ended June 30,		**Six months ended June 30,**	
(unaudited) *(expressed in thousands of Canadian dollars)*	**2020** **$**	**2019** **$**	**2020** **$**	**2019** **$**
Cash (used in) provided by operating activities	(28,183)	57,088	20,794	107,046
Cash provided by financing activities	174,658	152,726	147,450	220,846
Cash used in investing activities	(82,664)	(146,616)	(107,946)	(288,606)
Cash flow from operating, financing and investing activities	63,811	63,198	60,298	39,286
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 figures in the preceding table exclude restricted cash of $40.1 million as at June 30, 2020. (December 31, 2019 - $26.7 million).

For the three months ended June 30, 2020, restricted cash decreased by $8.3 million, due to the execution of lease deferral agreements which released restricted cash in the Regional Aircraft Leasing segment. Restricted cash requirements will decrease as deferral agreements are finalized.

For the six months ended June 30, 2020, restricted cash increased by $13.0 million, excluding the increase related to foreign exchange of $0.4 million, due to restricted cash covenants related to late lease payments in the Regional Aircraft Leasing segment. Restricted cash requirements will decrease as deferral agreements are finalized.

Cash (used in) provided by operating activities

Chorus had cash outflows from operations of $28.2 million for the three months ended June 30, 2020, compared to cash inflows from operations of $57.1 million for the three months ended June 30, 2019. The significant working capital change was primarily due to the economic impacts of COVID-19 on the airline industry. Accounts receivable increased $41.9 million primarily due to increased receivables related to the lease deferral agreements, combined with the increase in the receivables from Air Canada and the CEWS program. Accounts payable decreased $48.4 million in line with the significant decrease in operating expenses and reduced commodity taxes. Chorus expects the current working capital position to be relatively constant to the end of the year, returning to typical levels as airline travel returns to more typical levels.

Chorus generated positive operating income and cash flows from operations producing $20.8 million for the six months ended June 30, 2020, compared to $107.0 million for the six months ended June 30, 2019. The decrease was primarily due to changes in working capital offset by increased operating income. Accounts receivable increased $43.1 million primarily due to lease deferral agreements, combined with the increase in the receivables from Air Canada and the CEWS program. Account payable decreased $34.8 million primarily due to reduced operating expenses and reduced commodity taxes.

Cash provided by financing activities

Cash provided by financing activities for the three months ended June 30, 2020 was $174.7 million, comprised primarily of $214.7 million of borrowings, net of financing fees on new loans related to aircraft acquisitions and a draw on the unsecured revolving credit facility, offset by scheduled payments on long-term borrowings of $33.5 million and cash dividends paid of $4.9 million (net of $1.6 million related to the DRIP).

Cash provided by financing activities for the three months ended June 30, 2019 was $152.7 million, comprised primarily of $200.7 million of borrowings, net of financing fees on new loans related to aircraft acquisitions and $4.5 million from proceeds on stock options exercised; offset by scheduled payments on long-term borrowings of $36.4 million and cash dividends paid of $14.2 million (net of $3.2 million related to the DRIP).

Cash provided by financing activities for the six months ended June 30, 2020 was $147.5 million, comprised primarily of $244.6 million of borrowings, net of financing fees on new loans related to aircraft acquisitions and a draw on the unsecured revolving credit facility, offset by scheduled payments on long-term borrowings of $75.4 million and cash dividends paid of $18.7 million (net of $7.3 million related to the DRIP).

Cash provided by financing activities for the six months ended June 30, 2019 was $220.8 million comprised primarily of $215.7 million of borrowings, net of financing fees on new loans related to aircraft acquisitions, net proceeds received from the issuance of Shares in the amount of $97.3 million and $8.8 million from proceeds on stock options exercised, offset by scheduled payments on long-term borrowings of $69.2 million and cash dividends paid of $27.9 million (net of $8.8 million related to the DRIP).

Cash used in investing activities

Cash used in investing activities for the three months ended June 30, 2020 was $82.7 million, which includes capital expenditures of $94.2 million for the acquisition of three aircraft, completion of one ESP aircraft as well as major maintenance overhauls and other capital expenditures and increased security deposits and maintenance reserves of $1.8 million related to leased aircraft. This was offset by decreased restricted cash of $8.3 million, excluding the decrease related to foreign exchange of $1.6 million.

Cash used in investing activities for the three months ended June 30, 2019 was $146.6 million which included capital expenditures of $153.0 million for the acquisition of six aircraft as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $2.4 million. This was offset by increased security deposits and maintenance reserves of $7.0 million related to leased aircraft.

Cash used in investing activities for the six months ended June 30, 2020 was $107.9 million, which includes capital expenditures of $104.1 million for the acquisition of three aircraft, completion of one ESP aircraft as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $13.0 million, excluding the increase related to foreign exchange of $0.4 million. This was offset by increased security deposits and maintenance reserves of $6.5 million related to leased aircraft.

Cash used in investing activities for the six months ended June 30, 2019 was $288.6 million, which included capital expenditures of $317.5 million for the acquisition of eleven aircraft as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $2.3 million. This was offset by increased security deposits and maintenance reserves of $27.8 million related to leased aircraft.

Capital expenditures

The following table provides a breakdown of capital expenditures on a quarter-over-quarter and year-over-year basis.

(unaudited) *(expressed in thousands of Canadian dollars)*	Three months ended June 30,			Six months ended June 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Capital expenditures, excluding aircraft acquisitions and ESP	4,271	8,097	(3,826)	7,778	17,408	(9,630)
Capitalized major maintenance overhauls	1,044	5,447	(4,403)	4,996	7,594	(2,598)
Aircraft acquisitions and ESP(1)(2	88,835	139,406	(50,571)	91,361	292,505	(201,144)
Total capital expenditures	94,150	152,950	(58,800)	104,135	317,507	(213,372)

(1) 2020 includes the acquisition of three CRJ900s and one ESP.
(2) 2019 includes the acquisition of eight Q400s, three ATR 72-600s and aircraft deposits.

Commitments for capital expenditures

Chorus' pending aircraft transactions as at June 30, 2020 are as follows:

- Purchase and lease of six CRJ900s to Air Canada under the CPA which have been delayed to December 2020.
- Purchase and lease of two ATR72-600s to an undisclosed customer with deliveries expected before the end of 2020.
- Purchase and lease of three A220-300s to airBaltic with deliveries expected in the third and fourth quarters of 2020.

Chorus entered into an agreement to be the launch customer for the ESP, which is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). The program began in April 2017 and 14 aircraft were completed as of June 30, 2020. The cost for each aircraft that undergoes the program includes the parts and anticipated labour costs to complete the service bulletin. The anticipated cost (a portion of which will be incurred in US dollars) for the years 2020, 2021 and 2022 is expected to be approximately $4.0 million, per annum (US dollar amounts were converted to Canadian dollars at 1.3628, the June 30, 2020 closing day rate from the Bank of Canada). In connection with the issuance of the Convertible Units and the granting of certain aircraft security to the holders thereof, Chorus is required to complete the ESP for 15 Dash 8-300s by no later than December 31, 2020 and a further three Dash 8-300s by no later than December 31, 2022, for a total investment commitment of at least $56.9 million, which includes amounts previously spent in 2015 to 2019. (Refer to Section 24 - Caution regarding forward-looking information.)

The aggregate amount to be paid on account of the foregoing capital commitments beyond June 30, 2020 through 2022 is expected to be between $387.0 million and $397.0 million funded from existing and new debt facilities as well as available cash resources. (US dollar amounts were converted to Canadian dollars at 1.3628, the June 30, 2020 closing day rate from the Bank of Canada.) All pending acquisitions and lease commitments are subject to the satisfaction of customary conditions precedent to closing. (Refer to Section 24 - Caution regarding forward-looking information.)

Five 75-78 seat aircraft anticipated in or about 2025 pursuant to the CPA are not included in the preceding capital commitments.

Dividends

On April 6, 2020 Chorus suspended its monthly dividend of $0.04 per Share and the DRIP following the payment of the dividends payable on April 17, 2020 to Shareholders of record on March 31, 2020. No time period has been set for the resumption of a dividend and no commitment has been provided on the amount of any possible future dividends. Dividends are subject to the discretion of Chorus' Board of Directors.

Chorus declared dividends of $nil and $19.5 million for the three and six months ended June 30, 2020, respectively (2019 - $19.2 million and $37.5 million respectively).

For the three and six months ended June 30, 2020, Chorus paid dividends net of the Shares issued under the DRIP of $4.9 million and $18.7 million respectively (2019 - $14.2 million and $27.9 million respectively). (See Section 8 - Capital Structure for details of Chorus' dividend reinvestment plan.)

10 RISK FACTORS

For a more detailed description of the possible risk factors associated with Chorus' business, including its dependence on the CPA, the aviation industry, the aircraft leasing business carried on by CAC, and the Voyageur business refer to the Section entitled “Risk Factors” in Chorus’ Annual Information Form dated February 12, 2020.

COVID–19

COVID-19 has resulted in governments around the world enacting emergency measures to contain the spread of the virus. For the aviation industry, it has led to strict travel restrictions and global cancellations impacting all airlines around the world. Chorus’ business model does not directly expose it to the market risks ordinarily faced by airlines; however, substantially all its revenue is derived from airline customers, through its CPA, its leasing of aircraft to airline customers globally and its charter operations.

Economic Outlook for Airline Industry

Global debt and equity capital markets have experienced significant volatility and weakness as a result of COVID-19 and resulting government restrictions. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of COVID-19 and resulting government restrictions 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 COVID-19 and resulting government restrictions may, directly or indirectly, adversely affect Chorus' operations, financial results and condition in future periods are also subject to significant uncertainty. The negative impact on global debt and equity markets, including the trading price of the Chorus' securities, may negatively impact Chorus' ability to access capital markets at a reasonable cost. Furthermore, if the COVID-19 pandemic has a prolonged, negative impact on Chorus' financial condition and growth prospects, Chorus may experience difficulty retaining and attracting key personnel. Any of these factors could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

Risks Relating Specifically to Chorus' Dependence on CPA

The payments to Chorus under the CPA are dependent on the financial strength of Air Canada, which is currently impacted by COVID-19 and resulting government restrictions. Chorus anticipates the receivables from Air Canada could increase due to uncertainty surrounding the flying schedule. As a majority of Chorus' revenues is derived from the CPA (refer to Section 11 - Economic Dependence), if Air Canada is not able to make full payment of amounts owing, it could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. For a more detailed description of the risk factors associated with Chorus' economic dependence on Air Canada refer to the section entitled "Risk Factors – Risks Relating Specifically to Chorus' Dependence on CPA" in Chorus' Annual Information Form dated February 12, 2020.

Third Party Credit Risk

CAC has entered into rent deferral arrangements with substantially all of its lessees which will reduce Chorus' cash flow over the period of the 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 CAC 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 could significantly increase which could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

Loan Prepayment

The terms of CAC's aircraft loans typically allow the lender to cause CAC to terminate the leases and remarket the aircraft if the lessee commits a default that has not been cured or waived. Upon terminating a lease, Chorus will typically have a prescribed period of time ranging from six to 24 months during which to place the aircraft on lease with another operator on terms acceptable to the lender, failing which Chorus is required to pay the principal amount outstanding under the loan (including accrued and unpaid interest, swap breakage and other costs, if any). If this were to occur, and the lender did not extend the deadline for repayment, Chorus would be required to incur loan repayment obligations earlier than anticipated, putting further strain on Chorus' liquidity and increasing the risk of loan defaults and associated cross-defaults. Any such default could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

Aircraft Repossession and Remarketing

The COVID-19 pandemic has caused liquidity challenges for many of Chorus' lessees. If it becomes necessary for Chorus to repossess aircraft from its lessees due to their inability to meet their obligations under the leases, Chorus may face significant obstacles to repossessing its aircraft due to governmental travel restrictions that could make the movement of technical crews and aircraft into or out of a jurisdiction impossible or impractical. In addition, Chorus may experience difficulty finding new lessees or buyers for the aircraft, which could result in a prolonged remarketing period and/or a sale or re-lease of the aircraft at historically-depressed prices or lease rates.

Aircraft Valuation

The carrying value for Chorus' owned aircraft reflects best estimates as at June 30, 2020. COVID-19 related travel restrictions have grounded aircraft and caused significant liquidity issues for most airlines. The duration of COVID-19 related travel restrictions could materially impact aircraft values and the assumptions and estimates used to determine the value of its fleet. Chorus reviews aircraft valuations whenever an event or change in circumstance indicates that the carrying value of the aircraft may not be recoverable. Any such change in aircraft valuation could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. Please refer to Section 12 – Critical Accounting Estimates for more detailed disclosure on aircraft valuation.

Several of Chorus' leasing customers are undergoing some type of court supervised restructuring process and it is possible that others might also seek to restructure. If any of Chorus' leases are rejected during the restructuring process and its aircraft returned, Chorus may be required to recognize additional impairment charges which could be material, both individually and in aggregate. Please refer to Section 4 – Outlook, specifically Regional Aircraft Leasing segment for more detailed disclosure related to Chorus' leasing customers.

In addition, the COVID-19 pandemic has elevated certain risks to Chorus' operations including, without limitation, the following risks discussed in the Section entitled, "Risk Factors" in Chorus' Annual Information Form dated February 12, 2020: "Dependence on the CPA", "Leverage and Restrictive Covenants in Current and Future Indebtedness", "Defaults and Cross-Defaults Under Indebtedness", "Access to Capital/Refinancing Risk", "Third Party Credit Risk", "Changes in Law, Litigation and Regulatory Proceedings", "Reliance on Key Personnel", "Maintenance and Obsolescence of Leased Aircraft", "Lessee Maintenance Obligations in Respect of Leased Aircraft", "Transaction Completion Risk", "Foreign Exchange Rate Risk", "Interest Rate Risk" and "Suppliers".

11 ECONOMIC DEPENDENCE

Chorus and Air Canada are parties to the CPA under which Air Canada currently purchases substantially all of Jazz's fleet capacity on the Covered Aircraft. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on the CPA. (Refer to Section 2 - About Chorus and note 21 of the audited consolidated financial statements of Chorus for the years ended December 31, 2019 and 2018.)

12 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates and judgments may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates.[1]

[1] (Refer to Section 24 - Caution regarding forward-looking information.) The significant accounting policies of Chorus are described in note 3 of the audited consolidated financial statements of Chorus for the years ended December 31, 2019 and 2018.

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 $2.0 million 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 approximately $7.0 million 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.

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 (December 31, 2019 - 5.6%).

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.

Based on management's assessment of the global economic impact of COVID-19 on its overall Regional Aircraft Leasing segment's portfolio with a net book value of $1.5 billion, Chorus recorded aircraft impairment provisions of $9.5 million and $15.5 million for the three and six months ended June 30, 2020.

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 $1.9 million (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.

13 CHANGES IN ACCOUNTING STANDARDS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2019 consolidated financial statements, except for the following:

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 $53.4 million related to the CEWS for the three months ended June 30, 2020.

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 Section 8 - Capital Structure entitled, "Interest Rate Risk" for further details.

14 OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Chorus' off-balance sheet arrangements is disclosed in Section 9 of Chorus' annual MD&A dated February 12, 2020. There have been no material changes to Chorus' off-balance sheet arrangements from what was disclosed at that time.

15 FAIR VALUE OF FINANCIAL INSTRUMENTS

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, lease receivables, Total Return Swap, accounts payable and accrued liabilities, dividends payable, long-term incentive plan liability, interest rate swaps, long-term debt and lease liabilities.

The carrying amounts reported in the statement of financial position for cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, dividends payable, unsecured revolving credit facility and the operating credit facility approximate fair values based on the immediate or short-term maturities of these financial instruments. Assets and liabilities, such as commodity taxes and deferred lease inducements, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded.

The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- Lease receivables

  At June 30, 2020, the lease receivables had a fair value of $12.1 million versus a carrying value of $11.1 million. Chorus' annual cash flows have been discounted at the relevant market interest rates.

- Amortizing term loans

  At June 30, 2020, the term loans had a fair value of $1,708.8 million versus a carrying value of $1,638.9 million, excluding deferred financing fees of $10.6 million. 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 $193.1 million versus a carrying value of $198.1 million, excluding deferred financing fees of $2.5 million. The fair value was calculated by valuing warrants held within Convertible Units and 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 $65.6 million versus a carrying value of $86.3 million, excluding deferred financing fees of $3.5 million. 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 $14.1 million. 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 $10.3 million. The fair value of Total Return Swap, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

16 RELATED PARTY TRANSACTIONS

As at June 30, 2020, Chorus had no transactions with related parties as defined in the CPA Canada Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements or otherwise not material to Chorus and/or the individuals involved.

17 CONTROLS AND PROCEDURES

Chorus' disclosure controls and procedures ("DC&P") have been designed to provide reasonable assurance that the relevant information is recorded, processed, summarized and reported to its President and Chief Executive Officer ("CEO"), its Chief Financial Officer ("CFO") and its Disclosure Policy committee in a timely basis to ensure appropriate and timely decisions are made regarding public disclosure.

The internal controls over financial reporting ("ICFR") have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In the Chorus' 2019 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and operational effectiveness of both the DC&P and the ICFR.

In Chorus' second quarter 2020 filings, the CEO and CFO also certified, as required by National Instrument 52-109, the appropriateness of the financial disclosures, the design of both the DC&P and the ICFR based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO - 2013).

Due to inherent limitations, the ICFR and DC&P can only provide reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There has been no change in Chorus' internal control over financial reporting that occurred during the second quarter of fiscal 2020 that has materially affected Chorus' ICFR. Management continues to monitor the impact of COVID-19 on Chorus' control environment however at this time it's not anticipated that there will be any material impact to ICFR.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A and the unaudited interim condensed consolidated financial statements of Chorus for June 30, 2020 and approved these documents prior to their release.

18 NON-GAAP FINANCIAL MEASURES

Chorus uses certain non-GAAP financial measures, described below, to evaluate and assess performance. These non-GAAP 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.

Adjusted Net Income, Adjusted EBT and Adjusted EBITDA

Due to the economic impact of COVID-19 on the global airline industry, Chorus revised its definition of Adjusted net income in the second quarter of 2020 to exclude impairment provisions and lease repossession costs net of security packages recovered and the applicable tax expense (recovery) caused by the pandemic to facilitate transparency and comparability of its results.

Adjusted net income and Adjusted net income per Share are used by Chorus to assess performance without the effects of unrealized foreign exchange gains or losses on long-term debt and lease liability related to aircraft, signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages recovered, strategic advisory fees and the applicable tax expense (recovery). Chorus manages its exposure to currency risk on such long-term debt by billing the lease payments within the CPA in the underlying currency (US dollars) related to the aircraft debt. These items are excluded because they affect the comparability of Chorus' financial results, period-over-period, and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are non-recurring due to ongoing currency fluctuations between the Canadian and US dollar. (Refer to Section 24 - Caution regarding forward-looking information.)

Due to the economic impact of COVID-19 on the global airline industry, Chorus revised its definition of Adjusted EBT and Adjusted EBITDA in 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 EBT and EBITDA 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.

EBT is defined as earnings before income tax. Adjusted EBT (EBT before signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages recovered, strategic advisory fees and other items such as foreign exchange gains and losses) is a non-GAAP financial measure used by Chorus as a supplemental financial measure of operational performance. Management believes Adjusted EBT assists investors in comparing Chorus' performance by excluding items, which it does not believe will re-occur over the longer-term (such as signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages recovered and strategic advisory fees) as well as items that are non-cash in nature such as foreign exchange gains and losses.

EBITDA is defined as earnings before net interest expense, income taxes, depreciation, amortization and impairment and is a non-GAAP financial measure that is used frequently by companies in the aviation industry as a measure of performance. Adjusted EBITDA (EBITDA before signing bonuses, employee separation program costs, strategic advisory fees, impairment provisions, lease repossession costs net of security packages recovered net of security packages recovered and other items such as foreign exchange gains or losses) is a non-GAAP financial measure used by Chorus as a supplemental financial measure of operational performance. Management believes Adjusted EBITDA assists investors in comparing Chorus' performance by excluding items, which it does not believe will re-occur over the longer-term (such as signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages recovered and strategic advisory fees) as well as items that are non-cash in nature such as foreign exchange gains and losses. Adjusted EBITDA 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.

(unaudited) *(expressed in thousands of Canadian dollars, except per Share amounts)*	**Three months ended June 30,**			**Six months ended June 30,**		
	2020 **$**	**2019** **$**	**Change** **$**	**2020** **$**	**2019** **$**	**Change** **$**
Net income	**29,165**	**38,941**	**(9,776)**	**11,871**	**72,388**	**(60,517)**
Add (Deduct) items to get to Adjusted net income						
Items related to COVID-19						
Impairment provisions	9,540	—	9,540	15,453	—	15,453
Lease repossession costs[1]	8,008	—	8,008	1,985	—	1,985
Other items						
Unrealized foreign exchange (gain) loss	(22,407)	(16,095)	(6,312)	15,989	(32,848)	48,837
Employee separation program	381	1,807	(1,426)	4,264	2,162	2,102
Signing bonuses	—	—	—	—	2,000	(2,000)
Tax recovery on adjusted items	(3,043)	(497)	(2,546)	(4,097)	(1,145)	(2,952)
	(7,521)	(14,785)	7,264	33,594	(29,831)	63,425
Adjusted net income	**21,644**	**24,156**	**(2,512)**	**45,465**	**42,557**	**2,908**
Adjusted net income per Share - basic	**0.13**	**0.15**	**(0.02)**	**0.28**	**0.28**	**—**
Add items to get to Adjusted EBT						
Income tax expense	1,227	6,227	(5,000)	5,590	11,444	(5,854)
Tax recovery on adjusted items	3,043	497	2,546	4,097	1,145	2,952
Adjusted EBT	**25,914**	**30,880**	**(4,966)**	**55,152**	**55,146**	**6**
Add (Deduct) items to get to Adjusted EBITDA						
Net interest expense	21,368	18,199	3,169	41,575	33,940	7,635
Depreciation and amortization excluding impairment[2]	39,430	33,552	5,878	77,545	65,802	11,743
Foreign exchange loss	3,940	4,519	(579)	4,976	7,022	(2,046)
Loss (gain) on disposal of property and equipment	390	(1,430)	1,820	374	(1,466)	1,840
	65,128	54,840	10,288	124,470	105,298	19,172
Adjusted EBITDA	**91,042**	**85,720**	**5,322**	**179,622**	**160,444**	**19,178**

(1) Lease repossession costs (recorded in operating expenses) are net of the Flybe security package recovered (recorded in revenue) of $0.2 million and $8.3 million for the three and six months ended June 30, 2020.

(2) Year-to-date and first quarter operating revenue and expenses increased by $8.1 million and $8.0 million, respectively due to a reclassification of the impairment on aircraft and repossession costs from revenue, which previously offset the related security recovered packages, to depreciation, amortization and impairment and other expenses.

Adjusted Net Debt to Adjusted EBITDA

Adjusted net debt to trailing 12-month Adjusted EBITDA leverage ratio (also referred to as "leverage ratio" in this MD&A) is commonly used in the airline industry and is used by Chorus as a means to measure financial leverage. Leverage ratio is calculated by dividing Adjusted net debt by trailing 12-month Adjusted EBITDA. Leverage is not a recognized measure under GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes leverage to be a useful term when discussing liquidity and does monitor and manage leverage. In addition, as leverage is a measure frequently analyzed for public companies, Chorus has calculated the amount to assist readers in this review. Leverage should not be construed as a measure of cash flows.

(unaudited) *(expressed in thousands of Canadian dollars)*	**June 30, 2020** **$**	**December 31, 2019** **$**	**Change** **$**
Long-term debt (including current portion)	2,086,390	1,839,446	246,944
Less: Cash	(153,410)	(87,167)	(66,243)
Net debt	1,932,980	1,752,279	180,701
Adjusted net debt	1,932,980	1,752,279	180,701
Adjusted EBITDA	360,897	341,719	19,178
Leverage ratio	5.4	5.1	0.3

Adjusted net debt is a non-GAAP financial measure used by Chorus and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of capital management by Chorus and provides management with a measure of its net indebtedness.

As at June 30, 2020, Adjusted net debt increased from $1,752.3 million to $1,933.0 million, representing an increase of $180.7 million or 10.3% from December 31, 2019. The increase was primarily related to increased long-term borrowings of $244.6 million, net of financing fees comprised of new loans related to aircraft acquisitions of $80.0 million, unsecured revolving credit facility $135.0 million and an operating credit facility $30.0 million, and the impact of a higher US dollar exchange rate which increased long-term debt by approximately $70.4 million, offset by $78.9 million in scheduled payments on long-term borrowings and lease liabilities.

Chorus' leverage ratio (Adjusted net debt to trailing 12-month Adjusted EBITDA) was 5.4 as at June 30, 2020 (December 31, 2019 - 5.1). Leverage increased for June 30, 2020 compared to year ended December 31, 2019, due to new long-term debt, the increase in the US dollar exchange rate at June 30, 2020 of 1.3628 and the US dollar earnings increasing on a trailing basis.

chorus aviation inc.

Adjusted Cash Provided by Operating Activities

Adjusted Cash Provided by Operating Activities is defined as cash provided by operating activities less net changes in non-cash balances related to operations and capital expenditures excluding aircraft acquisitions and ESP. Management believes that this metric reflects Chorus' capacity to invest in growth investments and service debt and dividend payments.

	Three months ended June 30,			Six months ended June 30,		
(unaudited) *(expressed in thousands of Canadian dollars)*	**2020** **$**	**2019** **$**	**Change** **$**	**2020** **$**	**2019** **$**	**Change** **$**
Cash (Used in) Provided by Operating Activities	(28,183)	57,088	(85,271)	20,794	107,046	(86,252)
Add (Deduct)						
Net changes in non-cash balances related to operations	91,460	9,429	82,031	107,629	15,436	92,193
Capital expenditures, excluding aircraft acquisitions and ESP	(4,271)	(8,097)	3,826	(7,778)	(17,408)	9,630
Capitalized major maintenance overhauls	(1,044)	(5,447)	4,403	(4,996)	(7,594)	2,598
Adjusted Cash Provided by Operating Activities	**57,962**	**52,973**	**4,989**	**115,649**	**97,480**	**18,169**

Return on Invested Capital

Return on Invested Capital is a non-GAAP financial measure commonly used to assess the efficiency with which a company allocates its capital to generate returns. Return is calculated based on Chorus' earnings before tax, excluding special items and finance costs. Invested capital includes average long-term debt, average lease liabilities, average Shareholders' equity and off-balance sheet aircraft operating leases for aircraft for which Chorus holds the head lease.

	Trailing twelve months ended		
(unaudited) *(expressed in thousands of Canadian dollars)*	**June 30, 2020 $**	**December 31, 2019 $**	**Change $**
Income before income taxes	91,889	158,260	(66,371)
Unrealized foreign exchange loss (gain)	7,532	(41,305)	48,837
	99,421	116,955	(17,534)
Add:			
Finance costs	81,677	74,820	6,857
	181,098	191,775	(10,677)
Invested capital:			
Average long-term debt(1)	1,804,118	1,650,903	153,215
Average lease liabilities(2)	16,080	19,473	(3,393)
Average Shareholders' equity	597,170	517,400	79,770
	2,417,368	2,187,776	229,592
Return on invested capital	7.5%	8.8%	(1.3)%

(1) Average long-term debt includes the current portion and long-term portion.
(2) Average lease liabilities includes the current portion and long-term portion.

During the first half of 2020, the average return on invested capital decreased from 8.8% to 7.5%. The decrease is due to the increase in the unsecured revolving credit facility, the operating credit facility and new long-term debt for the acquisition of aircraft versus December 31, 2019 relative to the invested capital. In addition, income before income taxes decreased primarily due to the lease repossession costs net of security packages recovered and impairment provisions, lower lease margins due to the loss of Flybe revenue, and the expected credit loss provision recorded in the quarter.

chorus aviation inc.

19 SUMMARY OF QUARTERLY FINANCIAL RESULTS

The following table summarizes quarterly financial results and major operating statistics of Chorus for the previous eight quarters.

(unaudited)	**Q2 2020**	**Q1 2020**	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**	**Q4 2018**	**Q3 2018**
Chorus								
Total revenue[1] ($000)	184,214	358,024	338,606	351,454	332,520	343,867	333,724	341,993
Net income (loss) ($000)	29,165	(17,294)	36,577	24,195	38,941	33,447	2,237	43,649
Adjusted net income[2] ($000)	21,644	23,821	23,267	29,154	24,156	18,401	35,263	30,463
Adjusted EBITDA[1][2] ($000)	91,042	88,580	88,636	92,639	85,720	74,724	92,056	86,851
Net income (loss) per Share, basic ($)	0.18	(0.11)	0.23	0.15	0.25	0.22	0.02	0.31
Net income (loss) per Share, diluted ($)	0.18	(0.11)	0.23	0.15	0.24	0.22	0.02	0.31
Adjusted net income,[2] per Share - basic ($)	0.13	0.15	0.15	0.18	0.15	0.12	0.25	0.22
FTE employees (end of period)	2,164	4,973	4,910	4,985	4,938	4,851	4,826	4,949
Number of aircraft (end of period)	214	211	213	199	184	179	174	171
Jazz								
Departures	4,894	50,817	56,299	60,111	56,415	54,738	57,798	62,584
Block Hours	6,776	77,454	84,950	90,540	82,938	83,799	87,838	95,891
Billable Block Hours	38,187	90,499	87,532	91,391	83,903	88,386	89,980	96,879

(1) Q1 2020 operating revenue and expenses increased by $8.1 million and $8.0 million, respectively due to a reclassification of the impairment on aircraft and repossession costs, which was netted against security packages recovered, related to the Flybe leases from revenue to depreciation, amortization and impairment and other expenses.

(2) These are non-GAAP financial measures. Refer to Section 18 – Non-GAAP Financial Measures.

20 REGIONAL AVIATION SERVICES REVENUE

(unaudited (expressed in thousands of Canadian dollars)	Three months ended June 30,				Six months ended June 30,			
	2020	**2019**	**Change**	**Change**	**2020**	**2019**	**Change**	**Change**
	$	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Controllable Revenue	67,505	172,722	(105,217)	(60.9)	255,962	363,728	(107,766)	(29.6)
Pass-Through Revenue	13,168	51,314	(38,146)	(74.3)	59,834	103,206	(43,372)	(42.0)
Fixed Margin	18,810	18,810	—	—	37,620	37,620	—	—
Incentive Revenue	307	517	(210)	(40.6)	615	1,125	(510)	(45.3)
	99,790	243,363	(143,573)	(59.0)	354,031	505,679	(151,648)	(30.0)
Aircraft leasing under the CPA	34,950	32,668	2,282	7.0	68,411	65,109	3,302	5.1
Other[(1)]	10,900	26,351	(15,451)	(58.6)	31,034	49,589	(18,555)	(37.4)
	145,640	302,382	(156,742)	(51.8)	453,476	620,377	(166,901)	(26.9)

(1) Other includes charter, contract flying, MRO and other.

21 CONSOLIDATED STATEMENTS OF INCOME

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	$	$	$	$
Operating revenue[1]	184,214	332,520	542,238	676,387
Operating expenses				
Salaries, wages and benefits	54,205	114,738	190,180	242,700
Depreciation, amortization and impairment[1]	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[1]	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				
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

(1) Year-to-date and first quarter operating revenue and expenses increased by $8.1 million and $8.0 million, respectively due to a reclassification of the impairment on aircraft and repossession costs from revenue, which previously offset the related security packages recovered to depreciation, amortization and impairment and other expenses.

22 ADDITIONAL INFORMATION

Additional information relating to Chorus, including Chorus' Annual Information Form, is available on SEDAR at www.sedar.com or on Chorus' website at www.chorusaviation.ca, under "Reports".

23 GLOSSARY OF TERMS

"**2015 CPA**" means the amended and restated capacity purchase agreement effective January 1, 2015, between Air Canada and Jazz, as amended;

"**2019 CPA Amendments**" means the amendments to, including the extension of the term of, the 2015 CPA described in the Corporation's Material Change Report dated January 24, 2019;

"**5.75% Unsecured Debentures**" means the 5.75% Senior Unsecured Debentures of the Corporation due December 31, 2024;

"**6.00% Debentures**" means the 6.00% Senior Debentures of the Corporation due December 31, 2024;

"**A220-300**" means Airbus A220-300;

"**ATR72-600**" means the ATR 72-600 aircraft manufactured by Avions de Transport Régional G.I.E.;

"**Billable Block Hours**" mean actual Block Hours flown and Block Hours related to weather and air traffic control cancellations, and commercial cancellations and commercial ferry flights, under the CPA;

"**Block Hours**" mean the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60;

"**CACC**" means Chorus Aviation Capital Corp. (formerly, Chorus Aviation Holdings Inc.), a corporation incorporated under the *Canada Business Corporations Act* on November 28, 2013, including its subsidiaries. CACC is a subsidiary of the Corporation;

"**CACIL**" means Chorus Aviation Capital (Ireland) Limited, a private company limited by shares incorporated under the *Companies Act 2014* (Ireland) on March 15, 2017. CACIL is a subsidiary of the Corporation;

"**Chorus**" means, as the context may require, the Corporation and its current and former subsidiaries;

"**Chorus Aviation Capital**" or "**CAC**" means CACC and its subsidiaries;

"**Chorus Aviation Leasing**" means Chorus Aviation Leasing Inc., a corporation incorporated under the *Canada Business Corporations Act* on November 28, 2013. Chorus Aviation Leasing is a subsidiary of the Corporation;

"**Controllable Costs**" means for any period, all costs and expenses incurred and paid by Jazz other than Pass-Through Costs;

"**Controllable Cost Guardrail**" means the provision which limits Jazz's exposure to $2.0 million annually for variances between the Controllable Revenue Jazz receives from Air Canada to cover annually negotiated Controllable Costs and Jazz's actual Controllable Costs incurred in performing its services for Air Canada;

"**Controllable Revenue**" means revenue earned by Jazz under the CPA for rates established in respect of Controllable Costs;

"**Convertible Units**" means the convertible debt units issued by the Corporation to Fairfax in 2017 for gross proceeds of $200.0 million, each such unit comprising a $1,000 6.00% Debenture and 121.2122121 Warrants;

"**Corporation**" means Chorus Aviation Inc., a corporation incorporated under the *Canada Business Corporations Act* on September 27, 2010;

"**Covered Aircraft**" means the aircraft whose capacity Air Canada purchases from Jazz under the CPA;

"**COVID-19**" means the novel strain of coronavirus, which was declared a pandemic by the World Health Organization ("WHO") on March 11, 2020;

"**CPA**" means the 2015 CPA, as amended and extended by the 2019 CPA Amendments, and as may be further amended;

"**CPA Canada Handbook**" means the Chartered Professional Accountants of Canada Handbook - Accounting - Part 1, which incorporates IFRS as issued by the IASB;

"**CRJ200**", "**CRJ900**" and "**CRJ1000**" means, respectively, Bombardier CRJ 200, CRJ 705, CRJ 900, and CRJ 1000 regional jet aircraft, and “**CRJ aircraft**” means all of the foregoing;

"**Dash 8-100**", "**Dash 8-300**" and "**Dash 8-400**" means, respectively, De Havilland Dash 8-100, Dash 8-300 and Dash 8-400 (formerly the “Q400”) turboprop aircraft, and “**Dash Aircraft**” means all of the foregoing;

"**Departure**" means one take off of an aircraft;

"**EBITDA**" means earnings before net interest expense, income taxes, depreciation, amortization and impairment and is a non-GAAP financial measure that is used frequently by companies in the aviation industry as a measure of performance;

"**E190**" and "**E195**" means, respectively, Embraer E190 and Embraer E195 E jet aircraft;

"**Extended Service Program**" or "**ESP**" refers to the life extension program for extending the service life of Dash 8-300s by 50% (or approximately 15 years);

"**Fairfax**" means Fairfax Financial Holdings Limited and/or certain of its subsidiaries;

"**Fixed Margin**" means the fixed fee under the CPA that, is paid to Jazz by Air Canada for the operation of the Covered Aircraft under the CPA;

"**FTE**" means full-time equivalents in respect of employee staffing levels;

"**GAAP**" means generally accepted accounting principles in Canada after the adoption of IFRS;

"**IASB**" means the International Accounting Standards Board;

"**IFRS**" means International Financial Reporting Standards;

"**Jazz**" means Jazz Aviation LP, a limited partnership established under the laws of the Province of Ontario on November 18, 2010. Jazz is a subsidiary of the Corporation;

"**Jazz Leasing**" means Jazz Leasing Inc., the successor by amalgamation to Jazz Leasing Inc. and Jazz Aircraft Financing Inc. under the *Canada Business Corporations Act* on December 31, 2016. Jazz Leasing is a subsidiary of the Corporation;

"**King Air 200**" means Beechcraft King Air 200 turboprop aircraft;

"**LIBOR**" means London Interbank Offered Rate;

"**MD&A**" means Chorus’ management’s discussion and analysis of results of operations and financial condition;

"**MRO**" means maintenance, repair and overhaul;

"**On-time performance**" means the percentage of flights that arrive within 15 minutes of their scheduled time;

"**Pass-Through Costs**" means costs incurred directly by Jazz that are passed-through to Air Canada and fully reimbursed under the CPA;

"**Pass-Through Revenue**" means revenue received by Jazz under the CPA in payment of Pass-Through Costs;

"**Performance Incentives**" mean compensation to Jazz, under the CPA, for achieving established performance targets, being: controllable on-time performance, controllable flight completion, passengers arriving with luggage and customer service;

"**Q400**" means the Bombardier Q400 turboprop aircraft (now known as the Dash 8-400);

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval;

"**Shareholders**" mean holders of Shares;

"**Shares**" mean the Class B Voting Shares and Class A Variable Voting Shares in the capital of the Corporation;

"**Total Return Swap**" means the equity derivative contract entered into by the Corporation;

"**TSX**" means the Toronto Stock Exchange;

"**Voyageur**" means Voyageur Aviation Corp., the successor by amalgamation to Voyageur Aviation Corp., Voyageur Airways Limited, Voyageur Aerotech Inc., Voyageur Avparts Inc., Chorus Holdings II Inc., and North Bay Leasing Inc. under the *Business Corporations Act* (Ontario) on January 1, 2019. Voyageur is a subsidiary of the Corporation; and

"**Warrants**" means warrants exercisable to acquire Shares at a price of $8.25 per Share.

24 CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A includes ‘forward-looking information’. Forward-looking information is identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, and similar terms and phrases, including references to assumptions. Such information may involve but is not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking information relates to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking information, by its nature, is based on assumptions, including those referenced below, and is subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, among other things, external events, changing market conditions and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from those indicated in the forward-looking information.

Examples of forward-looking information in this MD&A include the discussion in the Outlook section, as well as statements regarding expectations as to Chorus’ future liquidity and financial strength and contracted revenues, the recovery of domestic air traffic in Canada and around the world, Chorus’ future growth and the completion of pending transactions referenced in the Outlook section. Actual results may differ materially from results indicated in forward-looking information for a number of reasons, including a prolonged duration of the COVID-19 outbreak and/or further restrictive measures to contain its spread, the evolving impact of COVID-19 on Chorus’ contractual counterparties, changes in aviation industry and general economic conditions, the continued payment (in whole or in part) of amounts due under the CPA, Chorus’ ability to pay its indebtedness and otherwise remain in compliance with its debt covenants, the risk of cross defaults under debt agreements and other significant contracts, the risk of asset impairments and provisions for expected credit losses, the delay or non-delivery of the remaining six new CRJ900 aircraft to Chorus for operation and lease under the CPA, as well as the factors identified in the Risk Factors section of this MD&A, in the Risk Factors section of Chorus’ Annual Information Form dated February 12, 2020, and in Chorus’ public disclosure record available at www.sedar.com. The forward-looking statements contained in this MD&A represent Chorus’ expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. Chorus disclaims any intention or obligation to update or revise such statements to reflect new information, subsequent events or otherwise, except as required by applicable securities laws. Readers are cautioned that the foregoing factors and risks are not exhaustive.