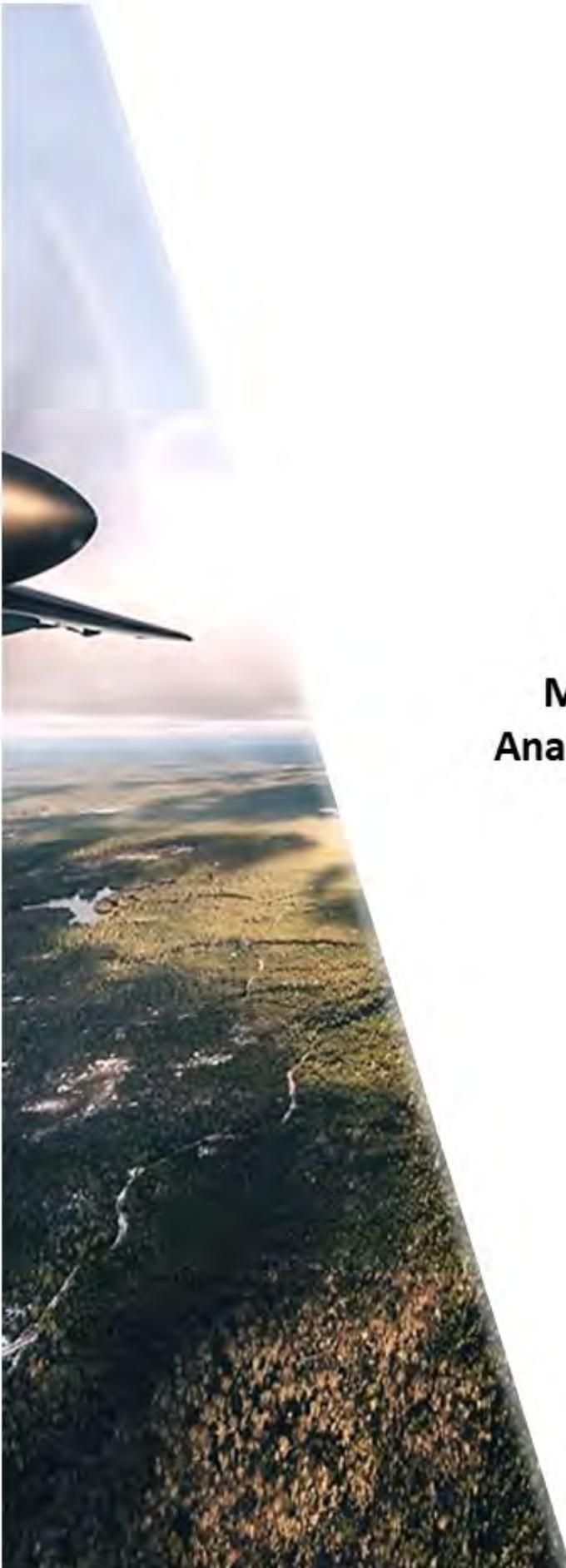




Third Quarter 2020

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

November 10, 2020



INTRODUCTION

<i>Section</i>	<i>Page</i>	<i>Section</i>	<i>Page</i>		
1	OVERVIEW	3	13	CHANGES IN ACCOUNTING STANDARDS.....	40
2	ABOUT CHORUS.....	6	14	OFF-BALANCE SHEET ARRANGEMENTS.....	41
3	STRATEGY.....	9	15	FAIR VALUE OF FINANCIAL INSTRUMENTS..	41
4	OUTLOOK	11	16	RELATED PARTY TRANSACTIONS.....	42
5	FLEET	15	17	CONTROLS AND PROCEDURES.....	42
6	CONSOLIDATED FINANCIAL ANALYSIS	16	18	NON-GAAP FINANCIAL MEASURES.....	43
7	SEGMENTED ANALYSIS	18	19	SUMMARY OF QUARTERLY FINANCIAL RESULTS.....	49
8	CAPITAL STRUCTURE.....	23	20	REGIONAL AVIATION SERVICES REVENUE..	50
9	LIQUIDITY.....	31	21	CONSOLIDATED STATEMENTS OF INCOME	51
10	RISK FACTORS.....	36	22	ADDITIONAL INFORMATION.....	51
11	ECONOMIC DEPENDENCE	38	23	GLOSSARY OF TERMS.....	52
12	CRITICAL ACCOUNTING ESTIMATES	38	24	CAUTION REGARDING FORWARD-LOOKING INFORMATION.....	54

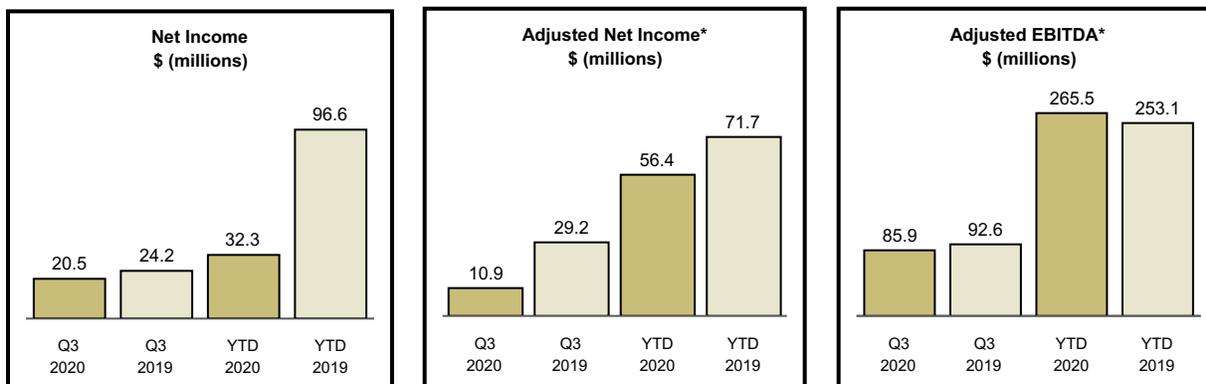
In this MD&A, references to Chorus refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to Jazz. Please refer to Section 23 - Glossary of Terms for definition 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 nine months ended September 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 November 10, 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



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

Q3 2020 Financial Highlights:

- Net income of \$20.5 million, or \$0.13 per basic Share, a quarter-over-quarter decrease of \$3.7 million due to the impact of COVID-19 on results, offset by the change in unrealized foreign exchange of \$24.9 million.
- Adjusted net income of \$10.9 million, or \$0.07 per basic Share, a decrease of \$18.2 million quarter-over-quarter, primarily due to the impact of COVID-19 on results.
- Adjusted EBITDA of \$85.9 million decreased \$6.8 million quarter-over-quarter, primarily due to the impact of COVID-19 on results.
- Liquidity of approximately \$218.0 million, an increase of \$30.0 million over second quarter 2020.

While Chorus continues to deal with the impact of COVID-19, it has seen some encouraging signs since the second quarter 2020, including:

- Increased flying under the CPA to approximately 23%⁽¹⁾ in the third quarter from 10% during the second quarter, along with the re-opening of limited operations at 20 airports;
- Increased flying under the CPA resulting in a recall of approximately 900 furloughed employees in the third quarter; and
- Collected approximately 50% of lease revenue billed in the third quarter from its lessees, excluding repossessed aircraft, a 22 percentage point improvement over second quarter.

Despite these encouraging signs, the duration and long-term effects of the COVID-19 pandemic are unknown at this time. Airlines are currently operating with historically low passenger volumes and revenues, which is stressing their liquidity the longer the pandemic and associated travel restrictions persist. Chorus believes passenger demand for air service will only recover when passengers are confident that their health and safety are protected during travel and government imposed quarantine requirements are eliminated or significantly reduced (refer to Section 10 – Risk Factors).

Chorus' continued focus remains on the safety of employees and passengers, maximizing available liquidity, protecting assets and preserving operations.

¹ These flying percentages are relative to 2019.

Liquidity

As of September 30, 2020, Chorus' liquidity was approximately \$218.0 million including cash of \$182.4 million and \$35.2 million of available room on its operating credit facility. Liquidity improved in the third quarter by approximately \$30.0 million primarily due to positive operating cash flows, working capital improvements resulting from increased flight operations and the financing of previously unencumbered aircraft.

In the fourth quarter, Chorus expects its liquidity to be relatively constant as it continues with its measures to bolster its liquidity given the uncertainty related to the duration and impact of the COVID-19 pandemic including (refer to Section 9 - Liquidity):

- Executing and extending a loan deferral program with its largest lender that allows CAC to defer scheduled payments under certain aircraft loans to the end of 2020, so long as the rent under the corresponding lease is deferred. Repayment of the deferrals is required over the course of 2021. In the fourth quarter of 2020 and year-to-date 2020, the estimated cash preservation from the program is US \$10.1 million and US \$20.1 million, respectively (refer to Section 4 - Outlook);
- Continuation of the overhead cost reduction programs at Jazz that encompass temporary and permanent layoffs, as well as pay reductions for members of the Jazz and Chorus executive, management team and Board of Directors;
- Continuation of the suspension of Chorus' dividends (refer to Section 8 - Capital Structure); and
- Reducing non-essential capital expenditures.

Third Quarter Highlights:

Regional Aviation Services:

- Chorus began earning leasing revenue under the CPA on three CRJ900s purchased at the end of June 2020.
- Jazz and Voyageur utilized the Canada Emergency Wage Subsidy ("CEWS") program and netted the \$43.5 million government grant against salaries, wages and benefits expense in the quarter. Jazz's portion of the CEWS was \$41.5 million and reduces the receivable in respect of the Controllable Cost Guardrail under the CPA. Contingent upon qualification, Jazz and Voyageur plan to utilize the CEWS for the remainder of the program until June 2021.

Regional Aircraft Leasing:

- CAC delivered a new A220-300 under a long-term lease to airBaltic.
- Chorus recorded a general aircraft impairment provision of \$11.2 million during the quarter 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 \$4.1 million during the quarter related to deferred lease rental arrangements between CAC and its customers (refer to Sections 7 - Segmented Analysis and 12 - Critical Accounting Estimates).
- CAC continues to manage and execute rent deferral arrangements for third-party lessees that provide short-term rent relief, typically between three and 12 months, with repayment terms typically approximating two years.
- As previously reported, 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. The aircraft currently remain in Aeromexico's operation, however, there can be no assurance that CAC's aircraft will be retained by Aeromexico.

Third Quarter Summary

In the third quarter of 2020, Chorus reported Adjusted EBITDA of \$85.9 million, a decrease of \$6.8 million over the third quarter of 2019.

The Regional Aircraft Leasing segment's Adjusted EBITDA decreased by \$4.0 million primarily due to a \$4.1 million expected credit loss provision related to management's assessment of Chorus' lessee credit risk and lower lease margins attributable to the loss of revenue due to the repossession of aircraft from Flybe, CityJet and Virgin Australia partially offset by growth in aircraft earning leasing revenue.

The Regional Aviation Services segment's Adjusted EBITDA decreased by \$2.8 million. The third quarter results were impacted by:

- a decrease in capitalization of major maintenance overhauls on owned aircraft operated under the CPA of \$2.7 million over the previous period; and
- a reduction in other revenue due to a decrease in third-party MRO activity and reduced contract flying resulting from the economic impact of COVID-19; partially offset by
- a decrease in stock-based compensation of \$1.7 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);
- an increase in aircraft leasing under the CPA primarily related to additional revenue earned from five incremental Dash 8-300s and three incremental CRJ900s in 2020 versus 2019; and
- a decrease in general administrative expenses.

Adjusted net income was \$10.9 million for the quarter, a decrease of \$18.2 million due to:

- a \$6.8 million decrease in Adjusted EBITDA as previously described;
- an increase in depreciation of \$4.5 million primarily related to additional aircraft in the Regional Aircraft Leasing segment;
- an increase in net interest costs of \$7.6 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
- an increase of \$3.0 million in realized foreign exchange and unrealized foreign exchange losses on working capital; offset by
- a \$3.0 million decrease in adjusted income tax expense resulting from a reduction in EBT and a change in permanent tax differences of \$4.4 million offset by tax recovery on adjusted items of \$1.5 million; and
- a reduction in loss on the disposal of property and equipment of \$0.6 million over the prior quarter.

Net income decreased \$3.7 million due to the previously noted decrease in Adjusted net income of \$18.2 million, general impairment provisions of \$11.2 million and lease repossession costs of \$0.7 million; offset by the change in net unrealized foreign exchange on long-term debt of \$24.9 million and tax recovery on adjusted items of \$1.5 million.

Year-to-date Summary

Chorus reported Adjusted EBITDA of \$265.5 million for 2020, an increase of \$12.4 million over 2019.

The Regional Aircraft Leasing segment's Adjusted EBITDA increased by \$20.7 million which was primarily due to the growth in aircraft earning leasing revenue partially offset by a \$5.2 million expected credit loss provision related to management's assessment of Chorus' lessee credit risk and lower lease margins attributable to the loss of revenue due to the repossession of aircraft from Flybe, CityJet and Virgin Australia.

The Regional Aviation Services segment's Adjusted EBITDA decreased by \$8.3 million. The 2020 results were impacted by:

- a reduction in other revenue due to a decrease in third-party MRO activity, reduced part sales and reduced contract flying resulting from the economic impact of COVID-19;
- a decrease in capitalization of major maintenance overhauls on owned aircraft operated under the CPA of \$4.0 million over the previous period; and
- expected credit loss and inventory provisions of \$1.3 million in Voyageur; partially offset by
- a decrease in stock-based compensation of \$6.8 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);
- an increase in aircraft leasing under the CPA primarily related to additional revenue earned from five incremental Dash 8-300s and three incremental CRJ900s in 2020 versus 2019; and
- a decrease in general administrative expenses.

Adjusted net income was \$56.4 million year-to-date, a decrease over 2019 of \$15.3 million due to:

- an increase in depreciation of \$16.2 million primarily related to additional aircraft in the Regional Aircraft Leasing segment;
- an increase in net interest costs of \$15.2 million primarily related to additional aircraft debt in the Regional Aircraft Leasing segment, the 5.75% Unsecured Debentures and the unsecured revolving credit facility;
- an increase of \$1.2 million due to a loss of \$0.6 million versus a gain of \$0.6 million on disposal of property and equipment; and
- an increase of \$0.9 million in realized foreign exchange and unrealized foreign exchange losses on working capital; partially offset by
- a \$12.4 million increase in Adjusted EBITDA as previously described; and
- a decrease in adjusted income tax expense of \$5.9 million resulting from a reduction in EBT and a change in permanent tax differences of \$10.3 million offset by tax recovery on adjusted items of \$4.4 million.

Net income decreased \$64.3 million over 2019 due to the previously noted decrease of \$15.3 million in Adjusted net income, \$26.6 million on impairment provisions, the change in net unrealized foreign exchange on long-term debt of \$23.9 million, \$2.7 million on lease repossession costs net of security packages realized, and increased employee separation program costs of \$2.1 million; offset by tax recovery on adjusted items of \$4.4 million and decreased signing bonuses of \$2.0 million under 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 encompass every stage of an aircraft's life-cycle, including: aircraft acquisition and leasing; aircraft refurbishment, engineering, modification, repurposing 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 57 aircraft and five spare engines. Chorus will start earning lease revenue in 2021 following delivery by the end of 2020 of an additional six CRJ900s. 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 November 10, 2020, CAC's portfolio of leased aircraft consists of 60 aircraft of which 47 aircraft are on lease to airline customers comprising 18 Dash 8-400s, 16 ATR72-600s, four CRJ1000s, four E190s, two E195s and three A220-300s. CAC owns 13 aircraft that are currently 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 previously 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, 15 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 three additional aircraft 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.

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. The minimum fleet and aircraft leasing commitments to 2035 provide for stability with opportunity 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' transactions that have been announced to date by customer and aircraft type. Lease commitments are subject to satisfaction of customary conditions precedent to closing including receipt by CAC of financing for the aircraft.

(unaudited) Segment and customer	Aircraft committed	Turboprops			Regional Jets			
		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			✓			✓	
Croatia Airlines	2		✓					
Ethiopian Airlines	5		✓					
Indigo	8			✓				
Jambojet	3		✓					
KLM Cityhopper	1						✓	
Malindo Air	4			✓				
Philippine Airlines	3		✓					
SpiceJet	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^{(4) (6)}	71	18	34	—	—	14	—	5
Total⁽⁵⁾⁽⁶⁾	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. The aircraft currently remain in Aeromexico's operation, however, there can be no assurance that CAC's aircraft will be retained by Aeromexico.
- (3) Azul Airlines aircraft breakdown: three ATR72-600s and two E195s.
- (4) The Regional Aviation Services segment includes only the Covered Aircraft leased under the CPA fleet.
- (5) Includes all Regional Aircraft Leasing commitments which have been delivered as well as pending/delayed transactions consisting of two A220-300s to airBaltic and two ATR72-600s to an undisclosed customer.
- (6) The Regional Aviation Services segment's commitments include the following pending transactions: At September 30, 2020, there were six CRJ900s, three Dash 8-300s that will undergo the ESP planned for between 2021 - 2022, and five 75-78 seat aircraft, all of which are intended to earn leasing revenue under the CPA. Between September 30, 2020 and November 10, 2020, Chorus received two of the six pending CRJ900s.

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 passenger aviation industry 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:

Jazz has reduced its furloughed employees from 65% to 45% of its workforce since the end of second quarter 2020 associated with increased operating capacity. Contingent upon qualification, Jazz plans to utilize the CEWS for the remainder of the program, which has been extended into the summer of 2021.

Jazz expects to operate between approximately 20% to 30% of its capacity in the fourth quarter of 2020 and in the first quarter of 2021 compared to the corresponding prior year periods. 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 September 30, 2020, the Controllable Cost Guardrail receivable from Air Canada was \$17.7 million. Chorus expects the receivable to be between \$35.0 million and \$45.0 million by the end of the fourth quarter of 2020.

Chorus purchased and started earning leasing revenue on three CRJ900s delivered under the CPA at the end of June 2020. Due to the economic impact of COVID-19, Chorus deferred the delivery of the remaining six CRJ900s until the fourth quarter of 2020. In addition, in the third quarter Chorus funded the final equity investment for the six CRJ900s scheduled for delivery in the fourth quarter of 2020 and all remaining payments for these aircraft are expected to be provided by secured financing.

Voyageur continues to perform overseas humanitarian flights and cargo services, and the air ambulance operation in New Brunswick. Voyageur's contract flying, charter sales and MRO services revenue all improved over the second quarter of 2020 and is expected to be sustained throughout the fourth quarter. 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 June 2021. 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 for passenger air travel. The period of relief most commonly spans three to 12 months with repayment terms typically approximating two years; however, to the extent that travel restrictions persist, CAC may continue to receive requests for deferral extensions from some of its most impacted customers. As of September 30, 2020, CAC's gross lease receivable was US \$35.9 million. These deferrals are estimated to increase Chorus' gross trade receivables and long-term lease deferral receivables to approximately US \$41.0 million by the end of the year. CAC's gross lease deferral receivable exposure is partially mitigated by security packages held of approximately US \$20.0 million. Chorus collected approximately 50% of lease revenue billed in the third quarter from its lessees, excluding repossessed aircraft, a 22 percentage point improvement over second quarter 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.



In July 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 2020 so long as the lease 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 September 30, 2020 was US \$20.4 million and the total amount that could be deferred by December 31, 2020 is estimated to be US \$30.6 million.

Following voluntary administration on April 20, 2020, Virgin Australia terminated its lease agreements with CAC in early September for three ATR72-600s. The estimated financial impact of this termination (net of CAC's security package) was included in Chorus' general impairment and lease repossession provisions in the second quarter of 2020. CAC has repossessed the aircraft and under the related loan agreements has 24 months to remarket these aircraft, failing which CAC may be required to repay the debt outstanding on the aircraft. The average remaining lease terms for these aircraft was four years. As at September 30, 2020, CAC's long-term debt related to these aircraft was US \$28.5 million.

In the third quarter, CAC repossessed two CRJ900s previously on lease to CityJet pursuant to a negotiated termination agreement. CAC has not recorded an impairment charge on these aircraft due to the realization of its security package. The average remaining lease terms for these aircraft was eight years. As at September 30, 2020, CAC's long-term debt related to these aircraft was US \$29.6 million. Under the related loan agreements, CAC has 24 months from the date of the lease termination to remarket the aircraft, failing which CAC may be required to repay the debt outstanding on the aircraft.

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 currently remain under lease and have average remaining lease terms of 2.2 years. CAC holds security packages under the leases. 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 repudiated, failing which Chorus may be required to repay the debt outstanding on the aircraft. As at September 30, 2020, CAC's long-term debt related to these aircraft was US \$34.9 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 is 24 months and 10 months, respectively. As at September 30, 2020, Chorus' long-term debt associated with these aircraft was US \$35.7 million and US \$10.4 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).

Prior to the third quarter 2020, Chorus generated approximately US \$7.1 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⁽¹⁾ announced to-date:

<i>(unaudited)</i> Customer	Completed Transactions			Pending/Delayed Transactions ⁽¹⁾		Committed Transactions		
	2016 - Q2 2020	Q3 2020	Total	Q4 2020	Q1 2021 and thereafter	2016 - Q2 2020	Increase (Decrease)	Total 2016 - 2020 ⁽²⁾
Aeromexico ⁽³⁾	3		3			3		3
Air Nostrum	4		4			4		4
airBaltic	2	1	3	2		5		5
Azul Airlines	5		5			5		5
CityJet ⁽⁴⁾	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)	—
Wings Air	1		1			1		1
Undisclosed customer	—		—		2	2		2
Aircraft to be remarketed	8	5	13			8	5	13
Total Regional Aircraft Leasing	59	1	60	2	2	64	—	64
Total Regional Aviation Services⁽⁶⁾	56	1	57	6	8	71	—	71
Chorus Total Aircraft	115	2	117	8	10	135	—	135

- (1) All pending acquisitions and 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 November 10, 2020.
- (3) On June 30, 2020, Aeromexico filed for voluntary Chapter 11 petitions in the United States in order to implement a financial restructuring. The aircraft currently remain in Aeromexico's operation, however, there can be no assurance that CAC's aircraft will be retained by Aeromexico.
- (4) On April 17, 2020, CityJet entered an examinership process in Ireland. Pursuant to the negotiated termination agreement, CAC has repossessed the two CRJ900s previously on lease to CityJet and plans to remarket them.
- (5) Virgin Australia entered into voluntary administration on April 20, 2020, and terminated its lease agreements for three ATR72-600s. CAC has repossessed the aircraft and plans to remarket them.
- (6) The Regional Aviation Services segment's commitments include the following pending transactions: At September 30, 2020, there were six CRJ900s, three Dash 8-300s that will undergo the ESP planned for between 2021 - 2022, and five 75-78 seat aircraft, all of which are intended to earn leasing revenue under the CPA. Between September 30, 2020 and November 10, 2020, Chorus received two of the six pending CRJ900s.

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 \$17.0 million and \$23.0 million. Aircraft related acquisitions and ESP capital expenditures in 2020 are expected to be between \$417.0 million and \$426.0 million.¹

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	Planned 2020⁽¹⁾ \$	Actual	
		Nine months ended September 30, 2020 \$	Year ended December 31, 2019 \$
Capital expenditures, excluding aircraft acquisitions and ESP	10,000 to 13,000	9,887	31,547
Capitalized major maintenance overhauls	7,000 to 10,000	6,038	14,444
Aircraft related acquisitions and ESP	417,000 to 426,000	161,403	829,710
	434,000 to 449,000	177,328	875,701

- (1) The 2020 plan includes two ESPs and nine CRJ900s in the Regional Aviation Services segment as well as three A220-300s for the Regional Aircraft Leasing segment all of which have been converted using a foreign exchange rate of \$1.3339, the September 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 September 30, 2020 and December 31, 2019.

(unaudited)	December 31, 2019	2020 Fleet Changes			September 30, 2020	Owned
		Additions	Removals	Transfers		
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	1	—	—	3	3
Total Regional Aircraft Leasing	60	1	—	(1)	60	60
Regional Aviation Services						
Covered Aircraft Leased Under the CPA						
Dash 8-400s	34	—	—	—	34	34
CRJ900s	5	3	—	—	8	8
Dash 8-300s	13	—	—	2	15	15
	52	3	—	2	57	57
Other Covered Aircraft						
CRJ200s	17	2	(4)	—	15	—
CRJ900s	21	—	—	—	21	—
Dash 8-100s	6	—	—	(6)	—	—
Dash 8-300s ⁽¹⁾	10	—	(2)	(2)	6	4
Dash 8-400s	10	—	—	—	10	—
Total Other Covered Aircraft	64	2	(6)	(8)	52	4
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	—	(1)	—	5	5
Dash 8-400s	—	—	—	1	1	1
Total Voyageur Aircraft	20	—	(1)	1	20	20
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	(11)	1	148	100
Total Aircraft	213	6	(11)	—	208	160

(1) Two 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, part-out or operate these aircraft.

6 CONSOLIDATED FINANCIAL ANALYSIS

This section provides detailed information and analysis about Chorus' performance for the three and nine months ended September 30, 2020 compared to the three and nine months ended September 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.

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	Three months ended September 30,				Nine months ended September 30,			
	2020 \$	2019 \$	Change \$	Change %	2020 \$	2019 \$	Change \$	Change %
Operating revenue	196,438	351,454	(155,016)	(44.1)	738,676	1,027,841	(289,165)	(28.1)
Operating expenses	161,049	292,904	(131,855)	(45.0)	622,912	878,811	(255,899)	(29.1)
Operating income	35,389	58,550	(23,161)	(39.6)	115,764	149,030	(33,266)	(22.3)
Net interest expense	(25,706)	(18,098)	(7,608)	(42.0)	(67,281)	(52,038)	(15,243)	(29.3)
Foreign exchange gain (loss)	14,824	(7,114)	21,938	308.4	(6,141)	18,712	(24,853)	132.8
(Loss) gain on property and equipment	(202)	(849)	647	(76.2)	(576)	617	(1,193)	(193.4)
Earnings before income tax	24,305	32,489	(8,184)	(25.2)	41,766	116,321	(74,555)	(64.1)
Income tax expense	(3,847)	(8,294)	4,447	53.6	(9,437)	(19,738)	10,301	52.2
Net income	20,458	24,195	(3,737)	(15.4)	32,329	96,583	(64,254)	(66.5)
Adjusted EBITDA ⁽¹⁾	85,859	92,639	(6,780)	(7.3)	265,482	253,083	12,399	4.9
Adjusted EBT ⁽¹⁾	16,264	37,471	(21,207)	(56.6)	71,417	92,617	(21,200)	(22.9)
Adjusted net income ⁽¹⁾	10,908	29,154	(18,246)	(62.6)	56,374	71,711	(15,337)	(21.4)

(1) These are non-GAAP financial measures – refer to Section 18 for disclosures on non-GAAP financial measures.

For the three and nine months ended September 30, 2020, consolidated operating revenue decreased 44.1% and 28.1%, respectively compared to the same periods last year. Decreased revenue in the Regional Aviation Services segment was attributable to the decline in Controllable Revenue, Pass-Through Revenue and other revenue due to decreased third-party MRO activity, reduced part sales and reduced contract flying as a result of the economic impact of COVID-19. Decreased revenue in the Regional Aircraft Leasing segment was attributable to the loss of revenue due to the repossession of aircraft from Flybe, CityJet and Virgin Australia partially offset by an increase in aircraft earning lease revenue over the prior period.

Operating expenses decreased 45.0% and 29.1% for the three and nine months ended September 30, 2020, respectively over the comparative periods with the decrease related to lower salaries, wages and benefits due to the CEWS government grant and lower FTE's, lower stock-based compensation, decreased engine overhaul maintenance events and decreased Pass-Through Costs. These decreases were offset by higher depreciation, aircraft impairments, lease repossession costs and an expected credit loss provision related to management's assessment of Chorus' lessee credit risk in the Regional Aircraft Leasing segment.

Net interest expense increased 42.0% and 29.3% for the three and nine months ended September 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, 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 September 30, 2020 compared to the same period last year primarily related to the change in unrealized foreign exchange on long-term debt of \$24.9 million in the Regional Aviation Services segment. Foreign exchange loss increased for the nine months ended September 30, 2020 compared to the same period last year primarily related to the change in unrealized foreign exchange on long-term debt of \$23.9 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 nine months ended September 30, 2020 compared to the same periods last year. The decrease was due to a reduction in EBT and a change in permanent tax differences.

7 SEGMENTED ANALYSIS

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

<i>(unaudited)</i> <i>(in thousands of Canadian dollars)</i>	For the three months ended September 30, 2020			For the three months ended September 30, 2019		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	\$	\$	\$	\$	\$	\$
Operating revenue	163,737	32,701	196,438	317,078	34,376	351,454
Operating expenses	125,647	35,402	161,049	276,259	16,645	292,904
Operating income (loss)	38,090	(2,701)	35,389	40,819	17,731	58,550
Net interest expense	(11,384)	(14,322)	(25,706)	(8,533)	(9,565)	(18,098)
Foreign exchange gain (loss)	11,405	3,419	14,824	(7,061)	(53)	(7,114)
Loss on property and equipment	(202)	—	(202)	(849)	—	(849)
Earnings (loss) before income tax	37,909	(13,604)	24,305	24,376	8,113	32,489
Income tax (expense) recovery	(4,648)	801	(3,847)	(7,499)	(795)	(8,294)
Net income (loss)	33,261	(12,803)	20,458	16,877	7,318	24,195
Operating income (loss)	38,090	(2,701)	35,389	40,819	17,731	58,550
<i>Items related to COVID-19:</i>						
Impairment provisions ⁽¹⁾	—	11,161	11,161	—	—	—
Lease repossession costs	—	747	747	—	—	—
<i>Other items:</i>						
Depreciation, amortization excluding impairment ⁽¹⁾	21,491	16,996	38,487	21,553	12,451	34,004
Employee separation ⁽¹⁾	75	—	75	85	—	85
Adjusted EBITDA⁽²⁾	59,656	26,203	85,859	62,457	30,182	92,639
Earnings (loss) before income tax	37,909	(13,604)	24,305	24,376	8,113	32,489
<i>Items related to COVID-19:</i>						
Impairment provisions ⁽¹⁾	—	11,161	11,161	—	—	—
Lease repossession costs	—	747	747	—	—	—
<i>Other items:</i>						
Unrealized foreign exchange (gain) loss	(16,685)	(3,339)	(20,024)	4,897	—	4,897
Employee separation program ⁽¹⁾	75	—	75	85	—	85
Adjusted EBT⁽²⁾	21,299	(5,035)	16,264	29,358	8,113	37,471

(1) Included in operating expenses.

(2) 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 nine months ended September 30, 2020			For the nine months ended September 30, 2019		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	\$	\$	\$	\$	\$	\$
Operating revenue	617,213	121,463	738,676	937,454	90,387	1,027,841
Operating expenses	519,980	102,932	622,912	834,202	44,609	878,811
Operating income	97,233	18,531	115,764	103,252	45,778	149,030
Net interest expense	(29,700)	(37,581)	(67,281)	(25,777)	(26,261)	(52,038)
Foreign exchange (loss) gain	(10,003)	3,862	(6,141)	18,946	(234)	18,712
(Loss) gain on property and equipment	(576)	—	(576)	617	—	617
Earnings (loss) before income tax	56,954	(15,188)	41,766	97,038	19,283	116,321
Income tax (expense) recovery	(11,013)	1,576	(9,437)	(17,451)	(2,287)	(19,738)
Net income (loss)	45,941	(13,612)	32,329	79,587	16,996	96,583
Operating income	97,233	18,531	115,764	103,252	45,778	149,030
<i>Items related to COVID-19:</i>						
Impairment provisions ⁽¹⁾	—	26,614	26,614	—	—	—
Lease repossession costs	—	2,733	2,733	—	—	—
<i>Other items:</i>						
Depreciation, amortization excluding impairment ⁽¹⁾	64,882	51,150	116,032	67,255	32,551	99,806
Employee separation ⁽¹⁾	4,339	—	4,339	2,247	—	2,247
Signing bonus ⁽¹⁾	—	—	—	2,000	—	2,000
Adjusted EBITDA⁽²⁾	166,454	99,028	265,482	174,754	78,329	253,083
Earnings (loss) before income tax	56,954	(15,188)	41,766	97,038	19,283	116,321
<i>Items related to COVID-19:</i>						
Impairment provisions ⁽¹⁾	—	26,614	26,614	—	—	—
Lease repossession costs	—	2,733	2,733	—	—	—
<i>Other items:</i>						
Unrealized foreign exchange gain	(231)	(3,804)	(4,035)	(27,951)	—	(27,951)
Employee separation program ⁽¹⁾	4,339	—	4,339	2,247	—	2,247
Signing bonus ⁽¹⁾	—	—	—	2,000	—	2,000
Adjusted EBT⁽²⁾	61,062	10,355	71,417	73,334	19,283	92,617

(1) Included in operating expenses.

(2) 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 \$38.1 million and \$97.2 million, a decrease of \$2.7 million and \$6.0 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 due to the economic impact of COVID-19; and
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of \$2.7 million over the previous period; partially offset by
- decreased stock-based compensation of \$1.7 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 five 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, reduced part sales and reduced contract flying due to the economic impact of COVID-19;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of \$4.0 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 \$6.8 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 five 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 foreign exchange gains versus foreign exchange losses quarter-over-quarter. The weakening of the Canadian dollar versus the US dollar resulted in foreign exchange losses versus foreign exchange gains 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 \$2.8 million for the three months ended September 30, 2020 compared to the same period last year due to:

- decreased operating income described above excluding depreciation expense.

Adjusted EBITDA decreased \$8.3 million for the nine months ended September 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 57 aircraft and five spare engines
- Future committed aircraft of six CRJ900s¹, three ESPs between 2020 and 2022 and five 75-78 seat aircraft anticipated to be delivered in 2025
- Current net book value of \$907.3 million²
- Approximately \$1,388.0 million in future contracted lease revenue^{3,4}
- Current weighted average fleet age of 7.6 years^{2,5}
- Current weighted average remaining lease term of 8.1 years^{2,5}
- 100% debt is fixed rate or hedged with swap
- Current weighted average cost of borrowing of 3.48%

¹ Chorus purchased two CRJ900s in October 2020. The delivery of the remaining four aircraft will occur before the end of the year.

² This includes only the 57 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 \$20.4 million for the three months ended September 30, 2020 compared to the prior period primarily due to:

- an impairment charge of \$11.2 million and lease repossession costs of \$0.7 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;
- expected credit loss provision of \$4.1 million due to management's assessment of Chorus' lessee credit risk related to the lease deferral agreements; and
- the loss of revenue due to the repossession of aircraft from Flybe, CityJet and Virgin Australia; partially offset by
- increased revenue due to new leases added in the third and fourth quarters of 2019 that are earning higher lease revenue.

Operating income decreased by \$27.2 million for the nine months ended September 30, 2020 compared to the prior period primarily due to:

- an impairment charge of \$26.6 million and lease repossession costs of \$2.7 million, net of security packages, 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 (refer to Section 12 - Critical Accounting Estimates);
- increased depreciation expense as a result of additional aircraft;
- an expected credit loss provision of \$5.2 million related to management's assessment of Chorus' lessee credit risk; and
- the loss of revenue due to the repossession of aircraft from Flybe, CityJet and Virgin Australia; partially offset by
- increased revenue due to the growth in additional aircraft on lease, earned from the equivalent of 51 aircraft for the nine months ended September 30, 2020 (2019 - 37).

Chorus' aircraft impairment is determined in accordance with its policies and is based on any aircraft for which an indicator of impairment is present. Chorus exercises significant judgement in determining impairment estimates and expected credit loss provisions based on management's assessment of expected future events impacting cash flows such as potential restructuring of leases in addition to the creditworthiness of its lessees. During the third quarter of 2020, Chorus recorded a general impairment provision of \$11.2 million. (Refer to Section 12 - Critical Accounting Estimates.)

Following voluntary administration on April 20, 2020, Virgin Australia terminated its lease agreements with CAC in September for three ATR72-600s. CAC has repossessed these aircraft. Chorus recorded impairment and lease repossession provisions, net of security packages realized of \$9.5 million and \$4.1 million, respectively, in the second quarter related to this lease termination.

CAC has repossessed two CRJ900s previously on lease to CityJet pursuant to a negotiated termination agreement. Chorus has not recorded an impairment charge on these aircraft due to the value of its security package.

Flybe ceased operations and was placed in administration on March 5, 2020. 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 \$6.7 million to operating expense for the nine months ended September 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 nine months ended September 30, 2020 resulting in a net charge of \$4.6 million. There was no impairment recorded on the five Dash 8-400s.

Non-Operating Expenses

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

Adjusted EBT

Adjusted EBT decreased by \$13.1 million for the three months ended September 30, 2020 as a result of lower leasing margins attributable to the loss of leasing revenue due to the repossession of aircraft from Flybe, CityJet and Virgin Australia and an expected credit loss provision partially offset by additional aircraft on lease earning revenue.

Adjusted EBT decreased by \$8.9 million for the nine months ended September 30, 2020 primarily as a result of lower leasing margins attributable to the loss of leasing revenue due to the repossession of aircraft from Flybe, CityJet and Virgin Australia and an expected credit loss provision partially offset by additional aircraft on lease earning revenue.

Portfolio

Committed Fleet¹

- Committed fleet of 64 aircraft, including the eight Flybe aircraft, three Virgin Australia aircraft and two CityJet aircraft to be remarketed¹
- 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 September 30, 2020)

- Current weighted average fleet age of 3.7 years²
- The Regional Aircraft Leasing segment has limited net exposure to changes in the interest rates due to its debt and contract terms of 94.5% fixed rate debt (inclusive of floating rate debt that is fixed through the use of swaps) and the remaining 5.5% 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 4.0%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 September 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 September 30, 2020 and December 31, 2019.

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	September 30, 2020	December 31 2019	Change
	\$	\$	\$
Equity			
Capital	288,475	281,849	6,626
Contributed surplus	1,039,832	1,039,832	—
Deficit	(711,233)	(716,036)	4,803
Exchange differences on foreign operations	9,902	(3,633)	13,535
Equity component of Convertible Units	2,981	2,981	—
	629,957	604,993	24,964
Long-term debt	2,076,697	1,823,130	253,567
Lease liabilities	11,712	16,316	(4,604)
Total capital	2,718,366	2,444,439	273,927

As at October 30, 2020 and December 31, 2019, the issued and outstanding Shares of Chorus were as follows:

<i>(unaudited)</i>	October 30, 2020	December 31, 2019
Total issued and outstanding Shares	161,867,388	160,450,995
Shares potentially issuable Stock-based compensation plans and warrants	2,379,754	3,081,590
Total outstanding and potentially dilutive Shares	164,247,142	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 described 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.

During the nine months ended September 30, 2020, 1,416,393 Shares were issued under the DRIP at a weighted average price of \$4.98 per Share. As at September 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:

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	September 30, 2020	December 31, 2019
	\$	\$
Secured long-term debt and revolving credit facility⁽¹⁾		
Amortizing term loans		
Secured by aircraft	1,457,540	1,389,286
Secured by engines	7,932	8,900
Revolving credit facility	172,848	150,944
Nova Scotia Jobs Fund loan - secured by office building	7,000	8,000
Operating credit facility	30,000	—
6.0% Debentures	200,000	200,000
	1,875,320	1,757,130
Unsecured long-term debt⁽¹⁾		
5.75% Unsecured Debentures	86,250	86,250
Unsecured Revolving Credit Facility	133,390	—
	2,094,960	1,843,380
Less:		
Deferred financing fees	(16,422)	(18,131)
Accretion discount on Convertible Units	(1,841)	(2,119)
	2,076,697	1,823,130
Current portion ⁽²⁾	204,021	164,554
	1,872,676	1,658,576

(1) The majority of long-term debt is payable in US dollars and has been converted to Canadian currency at \$1.3339 which was the exchange rate in effect at closing on September 30, 2020 (2019 - \$1.2988).

(2) The current portion of long-term debt in the above table includes deferred financing fees of \$3.3 million for the period ended September 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 3.74%, maturing between June 2021 and September 2032, each secured primarily by the aircraft and engines financed by the loans, as well as an assignment of any leases in respect thereof.

In July 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 2020 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 including interest as of September 30, 2020 was US \$20.4 million and the total amount that could be deferred including interest by December 31, 2020 is estimated to be up to US \$30.6 million.

CAC's amortizing term loans for aircraft require the principal amount to be repaid prior to maturity if the aircraft comes off-lease and is not re-leased in accordance with the loan's requirements within a prescribed remarketing period ranging from six to 24 months (depending on the loan). CAC currently has 13 aircraft that are currently off lease, 10 of which are subject to remarketing periods under term loans:

- Eight aircraft formerly operated by Flybe – Flybe ceased operating and was placed in administration on March 5, 2020, and CAC has repossessed three ATR72-600s and five Dash 8-400s which it had on lease to Flybe. Three of the Dash 8-400s are unencumbered. The remarketing periods for three ATR72-600s and two Dash 8-400s, which are encumbered, are 24 and 10 months, respectively, from the lease termination dates. As at September 30, 2020, Chorus' long-term debt associated with the three ATR72-600s and two Dash 8-400s, was US \$35.7 million and US \$10.4 million, respectively.
- Two aircraft formerly operated by CityJet – CityJet entered examinership on April 17, 2020, and CAC has since repossessed two CRJ900s that it had on lease to CityJet. The remarketing for both aircraft is 24 months from the lease termination dates. As at September 30, 2020, Chorus' long-term debt associated with these aircraft was US \$29.6 million.
- Three aircraft formerly operated by Virgin Australia – Virgin Australia entered administration on April 20, 2020, and CAC has since repossessed three ATR72-600s that it had on lease to Virgin Australia. The remarketing period for all three aircraft is 24 months from the lease termination dates. As at September 30, 2020, Chorus' long-term debt associated with these aircraft was US \$28.5 million.

In addition, 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 currently remain under lease during administration. The average remaining lease terms for these aircraft is 2.2 years. CAC holds security packages in respect of these aircraft. 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 repudiated, failing which Chorus may be required to repay the debt outstanding on the aircraft. As at September 30, 2020, CAC's long-term debt related to these aircraft was US \$34.9 million.

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 2.91%, amortizing to January 2025, each secured primarily by the aircraft financed by the loans and a security assignment of the leases in respect thereof. Floating interest rates have been fixed via swap agreements on a portfolio basis related to these loans at a weighted average rate of 4.63%.

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.

As at September 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:

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	\$
No later than one year	207,334
Later than one year and no later than five years	1,363,470
Later than five years	524,156
	2,094,960

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 September 30, 2020, \$30.0 million was drawn under the facility. Chorus has provided letters of credit totaling \$9.8 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 September 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 September 30, 2020, \$172.8 million (US \$129.6 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 September 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, an event of default that would be triggered upon the acceleration of Chorus indebtedness in excess of US \$10.0 million and an event of default triggered upon an 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.

Chorus' largest lender currently holds approximately 58% of Chorus' consolidated long-term debt. Of this amount, the Corporation owes 11% under the revolving credit facility maturing April 2022, Chorus Aviation Capital (Ireland) Limited owes 40% under aircraft loans, the Jazz Group owes 48% under aircraft loans, and Voyageur owes 1% under aircraft loans. The Corporation's indebtedness under the revolving facility is cross-defaulted to any event of default under any other loan between this lender and the Corporation or any of its subsidiaries. In addition, 27% of Chorus Aviation Capital's indebtedness to this lender is cross-defaulted to any payment default by Jazz Leasing (which is a member of the Jazz Group). Further, all loans with this lender extended to Chorus Aviation Capital are cross-defaulted and cross-collateralized with each other, and all loans with this lender extended to the Jazz Group



are cross-defaulted and cross-collateralized with each other. Finally, all loans with Chorus' largest lender, and indeed with all lenders, contain customary event of default clauses that may be triggered when any other financial indebtedness of the borrowers or guarantors thereunder (subject to prescribed thresholds) is in default or is declared due prior to its scheduled maturity. The foregoing is a general summary only and is qualified in its entirety by the specific terms and conditions of Chorus' loan agreements.

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. Excluding revolving debt facilities not secured by aircraft, at September 30, 2020, 96.7% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 3.3% was floating rate debt. Approximately 30.5% 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 \$13.2 million liability at September 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 nine months ended September 30, 2020, Chorus recognized other comprehensive gain (loss) of \$0.6 million and \$(10.0) million respectively, net of tax (September 30, 2019 - comprehensive loss of \$1.2 million and \$4.6 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 the end of 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 September 30, 2020, Chorus had 22 loans which totaled \$291.5 million and 10 derivative agreements which referenced notional amounts totaling \$230.1 million that will be impacted by the transition from LIBOR to another benchmark rate as they mature after December 31, 2021. Chorus continues to monitor, and plan for, the transition to alternative rates and does not anticipate any 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 September 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 \$120.3 million and US denominated liabilities was \$576.1 million at September 30, 2020. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately \$4.6 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 \$12.5 million liability at September 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 nine months ended September 30, 2020, a corresponding loss of \$2.3 million and \$17.4 million, which includes a settlement of \$4.2 million, has been recorded in operating income, respectively (September 30, 2019 - \$nil). For additional information, please refer to note 3(h) and 3(i), Significant Accounting Policies, of the audited consolidated financial statements of Chorus for the year ended December 31, 2019.

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 September 30, 2020, Chorus' liquidity was approximately \$218.0 million including cash of \$182.4 million and \$35.2 million of available room on a committed revolving debt facility. In the fourth quarter of 2020, Chorus expects its liquidity to be relatively constant.

During the quarter, Chorus generated cash flow from operations of \$79.1 million. Key liquidity movements during the quarter are as follows:

- Increased receivable from Air Canada of \$7.3 million primarily related to increased flying and other activity.
- Increased CAC lease receivables by \$9.5 million to \$47.9 million of which \$27.8 million is the long-term portion, primarily related to lease deferral agreements partially offset by an increase in loan payment deferrals of \$13.5 million.

- Increased restricted cash by \$4.8 million, primarily related to CAC.
- Increased accounts payable of \$20.0 million due to increased interest accruals primarily related to timing of debenture interest payments and the interest associated with a loan deferral program, and increased trade payables associated with increased airline operations over the second quarter 2020.
- Decreased cash of \$31.6 million due to repayment of long-term borrowings.
- Decreased cash of \$13.2 million due to additions of property and equipment, net of financing.
- Increased cash from the sale of a Dash 8-300 on July 27, 2020 of \$5.7 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 has undertaken the following actions in 2020:

- 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).
- Executed and extended a loan payment deferral agreement with one of its largest lenders totaling up to US \$30.6 million (principal of US \$21.4 million plus estimated interest of US \$9.2 million) which is repayable over 12 months commencing January 1, 2021. As of September 30, 2020, the loan deferral including interest was US \$20.4 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 remarket the aircraft previously on lease to Flybe, CityJet and Virgin Australia 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 September 30, 2020 balance sheet was \$8.3 million (December 31, 2019 - \$136.4 million). The current portion of contracted aircraft lease receivables as at September 30, 2020 is estimated to be approximately \$283.1 million converted to CAD at the September 30, 2020 rate of 1.3339. Working capital adjusted for the current portion of estimated long-term aircraft lease receivables reflects a surplus of approximately \$274.9 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 September 30, 2020 (December 31, 2019 - 5.1). Leverage increased in 2020 due to additional borrowings to fund aircraft investments and working capital requirements and a significant increase in the US dollar exchange rate to 1.3339 at September 30, 2020 versus 1.2988 at December 31, 2019, which increased long-term debt by approximately \$41.7 million. (Refer to Section 18 - Non-GAAP Financial Measures.)

Cash Flows

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

	Three months ended September 30,		Nine months ended September 30,	
	2020 \$	2019 \$	2020 \$	2019 \$
<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>				
Cash provided by operating activities	79,058	65,927	99,852	172,973
Cash provided by financing activities	26,940	131,061	174,390	351,907
Cash used in investing activities	(73,429)	(243,978)	(181,375)	(532,584)
Cash flow from operating, financing and investing activities	32,569	(46,990)	92,867	(7,704)
Effect of foreign exchange rate changes on cash	(3,618)	1,244	2,327	(3,048)
Net change in cash during the periods	28,951	(45,746)	95,194	(10,752)
Cash – Beginning of periods	153,410	127,586	87,167	92,592
Cash – End of periods	182,361	81,840	182,361	81,840

The figures in the preceding table exclude restricted cash of \$44.6 million as at September 30, 2020. (December 31, 2019 - \$26.7 million).

For the three and nine months ended September 30, 2020, restricted cash increased by \$4.8 million and \$17.8 million, respectively due to restricted cash covenants related to late lease payments in the Regional Aircraft Leasing segment.

Cash provided by operating activities

Chorus had cash inflows from operations of \$79.1 million for the three months ended September 30, 2020, compared to cash inflows from operations of \$65.9 million for the three months ended September 30, 2019. The working capital change was primarily due to the economic impacts of COVID-19 on the airline industry. CAC lease receivables increased by \$9.5 million and Air Canada receivables increased \$7.3 million. Accounts payable increased \$20.0 million primarily due to increased interest accruals primarily related to timing of debenture interest payments, the interest associated with a loan deferral program and increased trade payables associated with increased airline operations over the second quarter 2020. Chorus expects the current working capital position to be relatively constant to the end of the year. (Refer to Section 24 - Caution Regarding Forward-Looking Information.)

Chorus generated positive operating income and cash flows from operations producing \$99.9 million for the nine months ended September 30, 2020, compared to \$173.0 million for the nine months ended September 30, 2019. The decrease was primarily due to the decrease in net income combined with changes in working capital. Accounts receivable increased \$26.6 million primarily due to lease deferral agreements, combined with the increase in the receivables from Air Canada and the CEWS program. Accounts payable decreased \$14.8 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 September 30, 2020 was \$26.9 million, comprised primarily of \$60.1 million of borrowings, net of financing fees on new loans related to aircraft acquisitions, offset by scheduled payments on long-term borrowings of \$31.6 million.

Cash provided by financing activities for the three months ended September 30, 2019 was \$131.1 million, comprised primarily of \$183.7 million of borrowings, net of financing fees on new loans related to aircraft acquisitions; offset by scheduled payments on long-term borrowings of \$37.8 million and cash dividends paid of \$13.7 million (net of \$5.6 million related to the DRIP).

Cash provided by financing activities for the nine months ended September 30, 2020 was \$174.4 million, comprised primarily of \$304.7 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 \$106.9 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 nine months ended September 30, 2019 was \$351.9 million comprised primarily of \$399.4 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; partially offset by scheduled payments on long-term borrowings of \$107.0 million and cash dividends of \$41.7 million (net of \$14.4 million related to the DRIP).

Cash used in investing activities

Cash used in investing activities for the three months ended September 30, 2020 was \$73.4 million, which includes capital expenditures of \$73.2 million for the acquisition of one aircraft, deposits paid on the six remaining CRJ900s to be purchased in the fourth quarter of 2020, completion of one ESP aircraft as well as major maintenance overhauls and other capital expenditures, increased restricted cash of \$4.8 million and decreased security deposits and maintenance reserves of \$2.5 million related to leased aircraft. This was offset by proceeds on disposal of property and equipment of \$5.7 million.

Cash used in investing activities for the three months ended September 30, 2019 was \$244.0 million which included capital expenditures of \$240.2 million for the acquisition of 12 aircraft, the completion of two ESP aircraft as well as major maintenance overhauls and other capital expenditures and increased restricted cash of \$11.6 million. This was offset by increased security deposits and maintenance reserves of \$7.3 million related to leased aircraft.

Cash used in investing activities for the nine months ended September 30, 2020 was \$181.4 million, which includes capital expenditures of \$177.3 million for the acquisition of four aircraft, deposits paid on the six remaining CRJ900s to be purchased in the fourth quarter of 2020, completion of two ESP aircraft as well as major maintenance overhauls and other capital expenditures and increased restricted cash of \$17.8 million. This was offset by increased security deposits and maintenance reserves of \$4.0 million related to leased aircraft and proceeds on disposal of property and equipment of \$5.8 million.

Cash used in investing activities for the nine months ended September 30, 2019, was \$532.6 million which includes capital expenditures of \$557.7 million for the acquisition of 23 aircraft, the completion of two ESP aircraft, as well as major maintenance overhauls and other capital expenditures and increased restricted cash of \$13.8 million. This was offset by increased security deposits and maintenance reserves of \$35.1 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.

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	Three months ended September 30,			Nine months ended September 30,		
	2020 \$	2019 \$	Change \$	2020 \$	2019 \$	Change \$
Capital expenditures, excluding aircraft acquisitions and ESP	2,109	4,149	(2,040)	9,887	21,557	(11,670)
Capitalized major maintenance overhauls	1,042	4,045	(3,003)	6,038	11,639	(5,601)
Aircraft acquisitions and ESP ⁽¹⁾⁽²⁾	70,042	232,040	(161,998)	161,403	524,545	(363,142)
Total capital expenditures	73,193	240,234	(167,041)	177,328	557,741	(380,413)

(1) 2020 includes the acquisition of three CRJ900s, one A220-300 and two ESPs.

(2) 2019 includes the acquisition of 15 Q400s, eight ATR72-600s, two ESPs and aircraft deposits.

Commitments for capital expenditures

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

- Purchase and lease of six CRJ900s to Air Canada under the CPA with deliveries expected in the fourth quarter of 2020. Chorus funded the final equity investment on the remaining six CRJ900s in the third quarter and all remaining payments for these aircraft are expected to be provided by secured financing.
- Purchase and lease of two ATR72-600s to an undisclosed customer with deliveries expected in the first half of 2021.
- Purchase and lease of two A220-300s to airBaltic with deliveries expected in the fourth quarter 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 15 aircraft were completed as of September 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 1.3339, the September 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 September 30, 2020 through 2022 is expected to be between \$334.0 million and \$344.0 million funded from existing and new debt facilities as well as available cash resources. (US dollar amounts were converted to Canadian dollars at 1.3339, the September 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. Dividends are subject to the discretion of Chorus' Board of Directors, and there can be no assurance that dividends will be resumed.

Chorus declared dividends of \$nil and \$19.5 million for the three and nine months ended September 30, 2020, respectively (2019 - \$19.4 million and \$56.9 million respectively).

For the three and nine months ended September 30, 2020, Chorus paid dividends net of the Shares issued under the DRIP of \$nil and \$18.7 million respectively (2019 - \$13.7 million and \$41.7 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 8 - Capital Structure of this MD&A, the Section entitled "Risk Factors" in Chorus' Annual Information Form dated February 12, 2020, as well as Section 10 - Risk Factors in Chorus' first and second quarter 2020 MD&A.

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 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 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' revenue is derived from the CPA (refer to Section 11 - Economic Dependence), if Air Canada is not able to make full payment of amounts owing, or a dispute with respect to Air Canada's payment obligations were to arise, this 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. Furthermore, if aircraft remain off-lease in excess of the allowable remarketing periods under the relevant loan, Chorus may be required to repay the principal amount of the loan in advance of its maturity date. 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 September 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 nine-month periods ended September 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 \$6.9 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 September 30, 2020 (December 31, 2019 - 5.60%).

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

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 \$11.2 million and \$26.6 million for the three and nine months ended September 30, 2020 (2019 - \$nil).

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 nine months ended September 30, 2020, Chorus recorded a charge related to allowance for impairment of trade and other receivables of \$4.1 million and \$6.0 million, respectively (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 \$43.5 million and \$96.9 million related to the CEWS for the three and nine months ended September 30, 2020 (2019 - \$nil).

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, long-term lease deferral receivables, 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, long-term lease deferral receivables, accounts payable and accrued liabilities, dividends payable, unsecured revolving credit facility and the operating credit facility approximate fair values and are 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 September 30, 2020, the lease receivables had a fair value of \$10.5 million versus a carrying value of \$9.6 million. Chorus' annual cash flows have been discounted at the relevant market interest rates.

- Amortizing term loans

At September 30, 2020, the term loans had a fair value of \$1,703.8 million versus a carrying value of \$1,645.3 million, excluding deferred financing fees of \$10.7 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 September 30, 2020, the Convertible Units had a fair value of \$137.5 million versus a carrying value of \$198.2 million, excluding deferred financing fees of \$2.4 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 September 30, 2020, the 5.75% Unsecured Debentures had a fair value of \$54.3 million versus a carrying value of \$86.3 million, excluding deferred financing fees of \$3.3 million. The fair value is based on quoted prices observed in active markets.

- Interest rate swaps

At September 30, 2020, the interest rate swap liability had a fair value and carrying value of \$13.2 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 September 30, 2020, the Total Return Swap liability had a fair value and carrying value of \$12.5 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 September 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 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' third 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 third 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 September 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 include impairment provisions and lease repossession costs net of security packages realized 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 realized, 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 realized 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 realized, 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 realized 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 realized 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 realized 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.

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars, except per Share amounts)</i>	Three months ended September 30,			Nine months ended September 30,		
	2020 \$	2019 \$	Change \$	2020 \$	2019 \$	Change \$
Net income	20,458	24,195	(3,737)	32,329	96,583	(64,254)
Add (Deduct) items to get to Adjusted net income						
<i>Items related to COVID-19</i>						
Impairment provisions	11,161	—	11,161	26,614	—	26,614
Lease repossession costs	747	—	747	2,733	—	2,733
<i>Other items</i>						
Unrealized foreign exchange (gain) loss	(20,024)	4,897	(24,921)	(4,035)	(27,951)	23,916
Employee separation program	75	85	(10)	4,339	2,247	2,092
Signing bonuses	—	—	—	—	2,000	(2,000)
Tax recovery on adjusted items	(1,509)	(23)	(1,486)	(5,606)	(1,168)	(4,438)
	(9,550)	4,959	(14,509)	24,045	(24,872)	48,917
Adjusted net income	10,908	29,154	(18,246)	56,374	71,711	(15,337)
Adjusted net income per Share - basic	0.07	0.18	(0.11)	0.35	0.46	(0.11)
<i>Add items to get to Adjusted EBT</i>						
Income tax expense	3,847	8,294	(4,447)	9,437	19,738	(10,301)
Tax recovery on adjusted items	1,509	23	1,486	5,606	1,168	4,438
Adjusted EBT	16,264	37,471	(21,207)	71,417	92,617	(21,200)
<i>Add (Deduct) items to get to Adjusted EBITDA</i>						
Net interest expense	25,706	18,098	7,608	67,281	52,038	15,243
Depreciation and amortization excluding impairment	38,487	34,004	4,483	116,032	99,806	16,226
Foreign exchange loss	5,200	2,217	2,983	10,176	9,239	937
Loss (gain) on disposal of property and equipment	202	849	(647)	576	(617)	1,193
	69,595	55,168	14,427	194,065	160,466	33,599
Adjusted EBITDA	85,859	92,639	(6,780)	265,482	253,083	12,399

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.

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	September 30, 2020 \$	December 31, 2019 \$	Change \$
Long-term debt (including current portion)	2,088,409	1,839,446	248,963
Less: Cash	(182,361)	(87,167)	(95,194)
Net debt	1,906,048	1,752,279	153,769
Adjusted net debt	1,906,048	1,752,279	153,769
Adjusted EBITDA	354,117	341,719	12,398
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 September 30, 2020, Adjusted net debt increased from \$1,752.3 million to \$1,906.0 million, representing an increase of \$153.8 million or 8.8% from December 31, 2019. The increase was primarily related to increased long-term borrowings of \$304.7 million, net of financing fees comprised of new loans related to aircraft acquisitions of \$141.1 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 \$41.7 million, offset by \$112.0 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 September 30, 2020 (December 31, 2019 - 5.1). Leverage increased for September 30, 2020 compared to year ended December 31, 2019, due to additional borrowings to fund aircraft investments and working capital requirements and a significant increase in the US dollar exchange rate at September 30, 2020 of 1.3339 which increased long-term debt by approximately \$41.7 million.

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.

<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	Three months ended September 30,			Nine months ended September 30,		
	2020 \$	2019 \$	Change \$	2020 \$	2019 \$	Change \$
Cash Provided by Operating Activities	79,058	65,927	13,131	99,852	172,973	(73,121)
Add (Deduct)						
Net changes in non-cash balances related to operations	(19,425)	3,497	(22,922)	88,204	18,933	69,271
Capital expenditures, excluding aircraft acquisitions and ESP	(2,109)	(4,149)	2,040	(9,887)	(21,557)	11,670
Capitalized major maintenance overhauls	(1,042)	(4,045)	3,003	(6,038)	(11,639)	5,601
Adjusted Cash Provided by Operating Activities	56,482	61,230	(4,748)	172,131	158,710	13,421

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		
	September 30, 2020 \$	December 31, 2019 \$	Change \$
<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>			
Income before income taxes	83,705	158,260	(74,555)
Unrealized foreign exchange gain	(17,389)	(41,305)	23,916
Add:	66,316	116,955	(50,639)
Finance costs	88,718	74,820	13,898
	155,034	191,775	(36,741)
Invested capital:			
Average long-term debt ⁽¹⁾	1,883,034	1,650,903	232,131
Average lease liabilities ⁽²⁾	14,978	19,473	(4,495)
Average Shareholders' equity	605,198	517,400	87,798
	2,503,210	2,187,776	315,434
Return on invested capital	6.2%	8.8%	(2.6)%

(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 2020, the average return on invested capital decreased from 8.8% to 6.2%. 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 realized and impairment provisions, lower lease margins due to the loss of revenue due to the repossession of aircraft from Flybe, CityJet and Virgin Australia and the expected credit loss provision recorded in the year.

19 SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

<i>(unaudited)</i>	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Chorus								
Total revenue (\$000)	196,438	184,214	358,024	338,606	351,454	332,520	343,867	333,724
Net income (loss) (\$000)	20,458	29,165	(17,294)	36,577	24,195	38,941	33,447	2,237
Adjusted net income ⁽¹⁾ (\$000)	10,908	21,644	23,821	23,267	29,154	24,156	18,401	35,263
Adjusted EBITDA ⁽¹⁾ (\$000)	85,859	91,042	88,580	88,636	92,639	85,720	74,724	92,056
Net income (loss) per Share, basic (\$)	0.13	0.18	(0.11)	0.23	0.15	0.25	0.22	0.02
Net income (loss) per Share, diluted (\$)	0.12	0.18	(0.11)	0.23	0.15	0.24	0.22	0.02
Adjusted net income, ⁽¹⁾ per Share - basic (\$)	0.07	0.13	0.15	0.15	0.18	0.15	0.12	0.25
FTE employees (end of period)	2,810	2,164	4,973	4,910	4,985	4,938	4,851	4,826
Number of aircraft (end of period)	208	214	211	213	199	184	179	174
Jazz								
Departures	13,788	4,894	50,817	56,299	60,111	56,415	54,738	57,798
Block Hours	20,447	6,776	77,454	84,950	90,540	82,938	83,799	87,838
Billable Block Hours	26,194	38,187	90,499	87,532	91,391	83,903	88,386	89,980

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

20 REGIONAL AVIATION SERVICES REVENUE

<i>(unaudited expressed in thousands of Canadian dollars)</i>	Three months ended September 30,				Nine months ended September 30,			
	2020 \$	2019 \$	Change \$	Change %	2020 \$	2019 \$	Change \$	Change %
Controllable Revenue	72,105	184,913	(112,808)	(61.0)	328,068	548,639	(220,571)	(40.2)
Pass-Through Revenue	19,616	54,602	(34,986)	(64.1)	79,450	157,809	(78,359)	(49.7)
Fixed Margin	18,810	18,810	—	—	56,430	56,430	—	—
Incentive Revenue	996	289	707	244.6	1,611	1,414	197	13.9
	111,527	258,614	(147,087)	(56.9)	465,559	764,292	(298,733)	(39.1)
Aircraft leasing under the CPA	35,814	32,274	3,540	11.0	104,225	97,383	6,842	7.0
Other ⁽¹⁾	16,396	26,190	(9,794)	(37.4)	47,429	75,779	(28,350)	(37.4)
	163,737	317,078	(153,341)	(48.4)	617,213	937,454	(320,241)	(34.2)

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

21 CONSOLIDATED STATEMENTS OF INCOME

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<i>(unaudited)</i> <i>(expressed in thousands of Canadian dollars)</i>	\$	\$	\$	\$
Operating revenue	196,438	351,454	738,676	1,027,841
Operating expenses				
Salaries, wages and benefits	53,120	115,414	243,300	358,114
Depreciation, amortization and impairment	49,648	34,004	142,646	99,806
Aircraft maintenance materials, supplies and services	17,602	54,068	79,201	160,837
Airport and navigation fees	13,214	45,016	55,964	127,695
Terminal handling services	1,529	4,754	7,859	15,597
Other	25,936	39,648	93,942	116,762
	161,049	292,904	622,912	878,811
Operating income	35,389	58,550	115,764	149,030
Non-operating (expenses) income				
Interest revenue	151	718	860	2,205
Interest expense	(25,857)	(18,816)	(68,141)	(54,243)
(Loss) gain on disposal of property and equipment	(202)	(849)	(576)	617
Foreign exchange gain (loss)	14,824	(7,114)	(6,141)	18,712
	(11,084)	(26,061)	(73,998)	(32,709)
Income before income taxes	24,305	32,489	41,766	116,321
Income tax expense				
Current income tax	(1,917)	(4,287)	(4,986)	(8,727)
Deferred income tax	(1,930)	(4,007)	(4,451)	(11,011)
	(3,847)	(8,294)	(9,437)	(19,738)
Net income	20,458	24,195	32,329	96,583

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 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, the risk of disputes 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 new CRJ900s to Chorus for operation and lease under the CPA, as well as the factors identified in the risk factors in Section 8 - Capital Structure and Section 10 - Risk Factors 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.