chorus aviation inc.

Fourth Quarter and Year-End 2020

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

February 18, 2021

INTRODUCTION

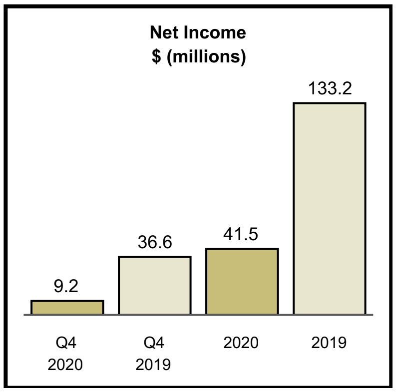
In this MD&A, references to Chorus refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to Jazz. Please refer to Section 24 - Glossary of Terms for definition of capitalized terms and acronyms used in this MD&A.

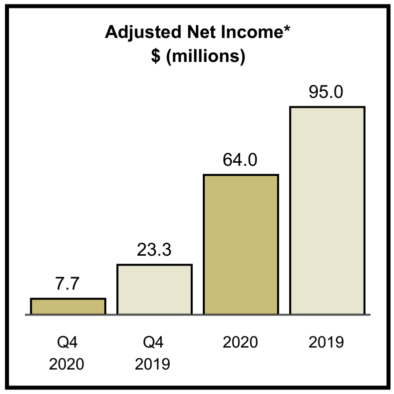
This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2020 and 2019 and Chorus' 2020 Annual Information Form dated February 18, 2021. 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 February 18, 2021.

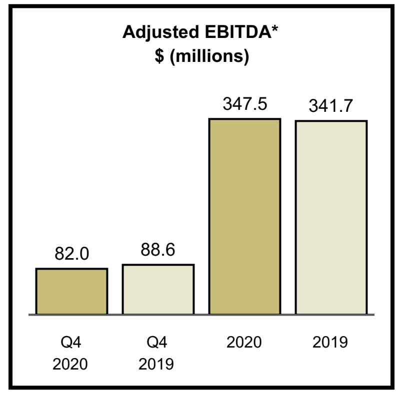
The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to the discussion of specific risks in Section 8 – Capital Structure and Section 10 – Risk Factors.

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.

Q4 2020 Financial Highlights:

- Net income of $9.2 million, or $0.06 per basic Share, a quarter-over-quarter decrease of $27.4 million due to decreased passenger demand related to the impact of global travel restrictions along with health concerns related to COVID-19 and, offset by the change in unrealized foreign exchange of $25.3 million.
- Adjusted net income of $7.7 million, or $0.05 per basic Share, a decrease of $15.6 million quarter-over-quarter, primarily due to the impact of COVID-19 on results.
- Adjusted EBITDA of $82.0 million decreased $6.7 million quarter-over-quarter, primarily due to the impact of COVID-19 on results.
- Liquidity of approximately $201.0 million, a decrease of $17.0 million over third quarter 2020.

2020 Annual Financial Highlights:

- Net income of $41.5 million, or $0.26 per basic Share, a period-over-period decrease of $91.7 million primarily due to decreased passenger demand related to the impact of global travel restrictions along with health concerns related to COVID-19.
- Adjusted net income of $64.0 million, or $0.40 per basic Share, a decrease of $30.9 million period-over-period, primarily due to the impact of COVID-19 on results.
- Adjusted EBITDA of $347.5 million increased $5.7 million period-over-period, primarily due to additional aircraft earning lease revenue offset by the impact of COVID-19 on results.
- Liquidity of approximately $201.0 million, an increase of $49.0 million over December 31, 2019.

While Chorus is encouraged by the development of various COVID-19 vaccines, recent global travel restrictions resulting from outbreaks of new variants of the virus and the resurgence of cases are expected to slow travel recovery and will continue to stress the balance sheets of airlines in 2021. Chorus remains focused on maximizing its available liquidity, protecting its assets and preserving operations and supporting its customers. Chorus is immensely grateful to its employees and business partners for their hard work, collaboration and diligence through this challenging period.

The decreased passenger demand for aviation services due to global travel restrictions and health concerns over traveling impacted Chorus' results in the following predominant ways:

- The RAL segment's Adjusted EBT was significantly down over 2019 due to 13 off-lease aircraft resulting from lease terminations, general aircraft impairment and expected credit loss provisions, and lease return costs in addition to increased finance costs related to additional aircraft debt and additional interest related to the loan deferral program; while the
- The RAS segment's Adjusted EBITDA was largely unaffected by the reductions in contract flying primarily due to the nature of the CPA with the Fixed Margin being set at $75.2 million for 2020 and the nature of the Controllable Cost Guardrail (refer to Section 2- About Chorus).

Chorus' working capital was also adversely impacted on a year-over-year basis by approximately $100.0 million primarily due to increased receivables related to the rent relief arrangements, increased Controllable Cost Guardrail receivable and decreased accounts payable (refer to Section 9 - Liquidity).

Liquidity

As of December 31, 2020, Chorus' liquidity was $201.0 million including cash of $165.7 million and $35.3 million of available room on its operating credit facility. Liquidity decreased from the third quarter by approximately $17.0 million primarily due to the equity funding on two previously committed A220-300s acquired in the fourth quarter as well as working capital requirements.

In 2020, Chorus successfully implemented the following measures as part of its liquidity strategy by:

- Obtaining a US $100.0 million unsecured revolving credit facility for general corporate purposes in the second quarter of 2020. In December 2020 renegotiated certain of the terms by replacing the repayment bullet of the entire facility in April 2022 with repayment due over eight equal instalments of principal and interest starting in July 2022 and ending in April 2024.
- Obtaining a deferral of principal and interest payments of $28.9 million related to certain off-lease aircraft loans and in December 2020 renegotiated the repayment terms from 12 months to 18 months beginning in January 2021.
- Securing the removal of the remarketing period deadline with its largest lender for aircraft repossessed up to April 24, 2021. This eliminates the requirement to repay the principal amount of the loans prior to maturity if the aircraft are not re-leased by the end of the remarketing period so long as Chorus continues to make the regularly scheduled principal and interest payments and otherwise complies with the loan terms (refer to Section 8 Capital Structure).
- Utilizing the Canadian Emergency Wage Subsidy ("CEWS") program in Jazz and Voyageur and netting the $120.5 million government grant against salaries, wages and benefits expense in 2020. Although Jazz received CEWS of $115.6 million, this grant did not contribute to Jazz's operating income as it was either passed onto Air Canada as a reduction in Controllable Costs or paid to inactive employees. The CEWS received for active employees of $63.1 million reduced the amount of the Controllable Cost Guardrail receivable from Air Canada.
- Suspending dividend payments and the Dividend Reinvestment Plan ("DRIP") following the payment of the March 2020 dividend on April 17, 2020. This measure saved approximately $40.0 million in dividend payments in 2020. On an annual basis this measure is estimated to save approximately $55.0 million in annual cash payments, assuming a DRIP participation rate of 29% (refer to Section 8 - Capital Structure).
- Reducing non-essential maintenance and other capital expenditures as a result of reduced flying and other business activity in Jazz and Voyageur.

- Implementing pay reductions for members of the management and administrative team and Board of Directors in 2020.
- Offering voluntary employee separation program packages during the year in order to reduce overhead costs in Jazz.

Chorus currently expects its liquidity to be relatively stable to the end of 2021 as it continues with measures to manage liquidity based on the continuation of the reduction of non-essential capital expenditures, reduction of overhead costs and the utilization of the CEWS by Jazz and Voyageur for the remainder of the program, contingent upon qualification.

Regional Aviation Services

- Chorus purchased and started earning leasing revenue on eight CRJ900s delivered under the CPA in 2020.
- Jazz operated at approximately 35% of its capacity during 2020 compared to the prior year. In accordance with the CPA, the Fixed Margin did not vary with the number of aircraft and was fixed for 2020 based on agreed annual amounts.
- In 2020, due to reduced flying under the CPA, Air Canada discontinued 21 of its regional routes operated by Jazz and closed eight Jazz managed stations. By early February 2021, the number of discontinued routes increased from 21 to 28.

Regional Aircraft Leasing

- CAC delivered three new A220-300s under long-term leases to airBaltic.
- CAC recorded an aircraft general impairment provision of $39.4 million during the quarter and $66.1 million year-to-date 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. CAC also recorded an expected credit loss provision of $3.6 million during the quarter and $8.8 million year-to-date related to rent relief arrangements between CAC and its customers (refer to Sections 7 - Segmented Analysis and 12 - Critical Accounting Estimates).
- 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.
- CAC has implemented rent relief arrangements for substantially all of its customers. With the exception of the rent relief agreements that include lease term extensions, the arrangements typically provide short-term rent relief of between three and twelve months, with repayment terms approximating two years (refer to Section 4 - Outlook).
- CAC collected approximately 60% of its lease revenue billed in the fourth quarter which is a 10% improvement over third quarter 2020.
- CAC is actively remarketing 13 off-lease aircraft resulting from lease terminations (refer to Section 4 - Outlook). The financial impact of these lease terminations and anticipated lease restructurings is included in Chorus' general aircraft impairment, expected credit loss and lease repossession provisions recorded in the year.

Fourth Quarter Summary

In the fourth quarter of 2020, Chorus reported Adjusted EBITDA of $82.0 million, a decrease of $6.7 million relative to the fourth quarter of 2019.

The RAL segment's Adjusted EBITDA decreased by $7.8 million primarily due to a $3.6 million expected credit loss provision and lower lease margins attributable to off-lease aircraft partially offset by additional aircraft earning leasing revenue.

The RAS segment's Adjusted EBITDA increased by $1.1 million. The fourth quarter results were impacted by:

- a decrease in stock-based compensation of $2.5 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 of $3.1 million earned from two incremental Dash 8-300s and eight incremental CRJ900s in 2020 versus 2019; and
- a decrease in general administrative expenses; offset by
- a decrease in capitalization of major maintenance overhauls on owned aircraft operated under the CPA of $1.9 million over the previous period;
- 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; and
- an expected credit loss of $0.6 million.

Adjusted net income was $7.7 million for the quarter, a decrease of $15.6 million due to:

- a $6.7 million decrease in Adjusted EBITDA as previously described;
- an increase in depreciation of $3.0 million primarily related to additional aircraft;
- an increase in net interest costs of $3.8 million primarily related to the 5.75% Unsecured Debentures added in December 2019, new credit facilities and additional aircraft debt; and
- an increase of $6.0 million in realized foreign exchange and unrealized foreign exchange losses on working capital; offset by
- a $3.5 million decrease in adjusted income tax expense resulting from a reduction in EBT of $9.3 million offset by tax recovery on adjusted items of $5.8 million; and
- a decrease in other of $0.4 million.

Net income decreased $27.4 million due to the previously noted decrease in Adjusted net income of $15.6 million, a general aircraft impairment provision of $41.6 million, lease repossession costs of $0.5 million, signing bonuses of $0.5 million, and employee separation program costs of $0.4 million; offset by the change in net unrealized foreign exchange on long-term debt of $25.3 million and tax recovery on adjusted items of $5.8 million.

Annual Summary

Chorus reported Adjusted EBITDA of $347.5 million for 2020, an increase of $5.7 million over 2019.

The RAL segment's Adjusted EBITDA increased by $12.9 million which was primarily due to additional aircraft earning leasing revenue partially offset by a $8.8 million allowance for expected credit loss provision and lower lease margins attributable to off-lease aircraft.

The RAS segment's Adjusted EBITDA decreased by $7.2 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 $5.9 million over the previous period; and
- an expected credit loss provision of $1.5 million; partially offset by
- a decrease in stock-based compensation of $9.3 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 of $9.9 million earned from two incremental Dash 8-300s and eight incremental CRJ900s in 2020 versus 2019; and
- a decrease in general administrative expenses.

Adjusted net income was $64.0 million year-to-date, a decrease over 2019 of $30.9 million due to:

- an increase in depreciation of $19.2 million related to additional aircraft;
- an increase in net interest costs of $19.0 million related to additional aircraft debt, the 5.75% Unsecured Debentures added in December 2019 and new credit facilities;
- an increase of $1.3 million on loss of disposal of property and equipment; and
- an increase of $6.9 million in realized foreign exchange and unrealized foreign exchange losses on working capital; partially offset by
- a $5.7 million increase in Adjusted EBITDA as previously described;
- a decrease in adjusted income tax expense of $9.3 million resulting from a reduction in EBT of $19.6 million offset by tax recovery on adjusted items of $10.3 million; and
- a decrease in other of $0.4 million.

Net income decreased $91.7 million over 2019 due to the previously noted decrease of $30.9 million in Adjusted net income, a general aircraft impairment provision of $68.2 million, $3.2 million on lease repossession costs and increased employee separation program costs of $2.5 million; offset by tax recovery on adjusted items of $10.3 million, decreased signing bonuses of $1.5 million under union collective agreements and the change in net unrealized foreign exchange on long-term debt of $1.4 million.

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, re-purposing and preparation; contract flying; and aircraft and component maintenance, disassembly, and parts provisioning.

Chorus groups its businesses into two reporting segments:

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

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

Jazz is the largest regional airline in Canada and operates more flights into more airports in Canada through its scheduled services under the CPA with Air Canada than any other Canadian airline. Under the CPA, Jazz operates substantially all 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 charter services and specialized contract flying, such as medical, logistical and humanitarian flights, to international and Canadian customers.

b) Aircraft leasing: Jazz currently earns leasing revenue under the CPA from 62 aircraft and five spare engines. Chorus will start earning lease revenue in 2021 on one additional CRJ900 delivered in February 2021. 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 February 18, 2021, CAC's portfolio of leased aircraft consists of 62 aircraft of which 49 aircraft are on lease to airline customers comprising 18 Dash 8-400s, 16 ATR72-600s, four CRJ1000s, four E190s, two E195s and five A220-300s. CAC owns 13 aircraft that are currently off-lease and intends 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 was set for 2020 as an aggregate amount irrespective of the number of Covered Aircraft and thereafter is based on the number of Covered Aircraft 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 Cost Revenue

Jazz is paid Controllable Cost Revenue rates based on Controllable Costs that are estimated using certain variables. Jazz's exposure to variances between the Controllable Cost 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"). Rates are set annually, and Jazz and Air Canada complete an annual reconciliation and payment once the variance, if any, between the Controllable Cost 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 Cost 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, 13 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.

Jazz incurs two types of costs under the CPA:

1) Controllable Costs - which are offset by Controllable Cost 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 25 - 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.

Since the onset of the COVID-19 pandemic, Chorus has been focused on maintaining liquidity. As a result, Chorus has curtailed or deferred previously planned investments in growth. Although Chorus intends to resume reinvesting in growth when it is able, there can be no assurance as to the timing of such resumption or Chorus' ability to access the capital necessary to fund future growth (see Section 10 - Risk Factors).

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 onset of the COVID-19 pandemic, 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 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; 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.

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	3						✓	
Air Nostrum	4					✓		
airBaltic	5				✓			
Azul Airlines(2)	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			✓				
Committed	51	—	18	18	5	4	6	—
Aircraft to be remarketed(3)	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) Azul Airlines aircraft breakdown: three ATR72-600s and two E195s.
(3) CAC is actively remarketing 13 off-lease aircraft resulting from lease terminations.
(4) The RAS segment includes only the Covered Aircraft leased under the CPA fleet.
(5) Includes all RAL commitments which have been delivered as well as two pending ATR72-600 acquisitions for lease to an undisclosed customer.
(6) The RAS segment's commitments include the following pending transactions: At December 31, 2020, there was one CRJ900, three Dash 8-300 ESPs planned for between 2021 - 2022, and five 75-78 seat aircraft, all of which are intended to earn leasing revenue under the CPA.

4 OUTLOOK

The discussion that follows includes forward-looking information. This outlook is provided for the purpose of providing information about current expectations for 2021 and beyond. This information may not be appropriate for other purposes (refer to Section 25 - 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. Chorus continues to work with Air Canada and its leasing customers to help them manage the economic pressures they are facing as a consequence of the sustained reduction in demand for passenger air travel.

Regional Aviation Services:

Jazz expects to operate between approximately 14% to 20% of its capacity in the first quarter of 2021 compared to the first quarter of 2020.

In January 2021, approximately 50% of Jazz employees were furloughed, which is down from its lowest point of 65% in the second quarter of 2020 due to an increase in flying operations. Contingent upon qualification, Jazz plans to utilize the CEWS for the remainder of the program's availability, which has been extended to the end of June 2021.

Jazz earns a Fixed Margin which was set for 2020 as an aggregate amount irrespective of the number of Covered Aircraft and thereafter is based on the number of Covered Aircraft under the CPA. The Fixed Margin under the CPA for 2021 is currently fixed at not less than $64.5 million compared to $74.2 million earned in 2020.

As of December 31, 2020, the Controllable Cost Guardrail receivable from Air Canada was $44.2 million. Chorus expects the receivable to be between $15.0 million and $45.0 million in 2021.

Chorus started earning leasing revenue on five additional CRJ900s delivered under the CPA near the end of the fourth quarter of 2020, bringing the total CRJ900 aircraft received in 2020 to eight. Chorus received the ninth CRJ900 in February 2021.

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 revenues all improved over the third quarter of 2020 and the momentum is expected to be sustained in 2021. Parts sales operations experienced lower demand during the quarter due to the impact of COVID-19. Voyageur currently represents less than 10% of Chorus’ consolidated revenue and net income.

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Regional Aircraft Leasing:

Chorus has received requests from substantially all its RAL segment customers for some form of temporary rent relief, as they cope with an unprecedented reduction in demand for passenger air travel. With the exception of the rent relief agreements that include lease term extensions, the arrangements typically provide short-term rent relief of between three and twelve months, with repayment terms approximating two years. CAC's gross lease receivable was $56.3 million (US $44.2 million) as of December 31, 2020 and is not estimated to materially change by the end of the 2021. CAC's gross lease deferral receivable exposure is partially mitigated by security packages held of approximately US $19.0 million. Chorus collected approximately 60% of lease revenue billed in the fourth quarter from its lessees, excluding repossessed aircraft, a 10 percentage point improvement over the third quarter of 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.

Capital:

In December 2020, Chorus amended the terms of a warehouse credit facility used for aircraft acquisitions to, among other things, cancel the remaining available credit under the facility (and the associated commitment fees), leaving the balance outstanding under the facility at US $127.9 million (CAD $162.8 million).

In December 2020, Chorus amended the terms of the US $100.0 million unsecured revolving credit facility obtained in April 2020, to replace a bullet repayment of the entire facility at maturity in April 2022 with repayment over eight equal instalments of principal and interest starting in July 2022 and ending in April 2024.

In December 2020, Chorus amended the loan deferral program repayment terms from 12 months to 18 months beginning in January 2021. Chorus' loan deferral program with its largest lender allowed it to defer scheduled payments under certain aircraft loans to the end of 2020 so long as the lease rent under the corresponding leases was deferred. The balance deferred as of December 31, 2020 was US $28.9 million.

In December 2020, Chorus also amended the terms of its aircraft loans with its largest lender in order to remove the remarketing period deadline in respect of aircraft repossessed up to April 24, 2021. This eliminates the requirement to repay the principal amount of the loans prior to maturity if the aircraft are not re-leased by the end of the remarketing period so long as Chorus continues to make the regularly scheduled principal and interest payments and otherwise complies with the loan terms (refer to note 2 in the following table).

As of December 31, 2020, Chorus had 13 aircraft off-lease. The aggregate scheduled principal payments on long-term debt, associated with these off-lease aircraft was as follows (refer to Section 8 - Capital Structure):

Aircraft Type	Number of Aircraft	Total Debt	Remarketing Period
		(US$ Millions)	
Dash 8-400	2	10.2	March 2, 2021
Dash 8-400	3	Nil	Not Applicable
CRJ900	2	30.8	Indefinite(1)
ATR72-600	6	66.3	Indefinite(1)
Total	13	107.3	

(1) Loans with remarketing period exemptions provided that Chorus continues to make the regularly scheduled principal and interest payments and otherwise comply with the loan terms.

The following table provides the number of closed and pending/delayed transactions[1] announced to-date:

Customer	Completed Transactions			Pending/Delayed Transactions[1]		Committed Transactions		
	2016 - Q3 2020	Q4 2020	Total	Q1 2021	Q2 2021 and thereafter	2016 - Q3 2020	Increase (Decrease)	Total 2016 - 2020[2]
Aeromexico	3		3			3		3
Air Nostrum	4		4			4		4
airBaltic	3	2	5			5		5
Azul Airlines	5		5			5		5
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
Wings Air	1		1			1		1
Undisclosed customer	—		—		2	2		2
Aircraft to be remarketed[3]	13		13			13		13
Total Regional Aircraft Leasing	**60**	**2**	**62**	**—**	**2**	**64**	**—**	**64**
Total Regional Aviation Services[4]	**57**	**5**	**62**	**1**	**8**	**71**	**—**	**71**
Chorus Total Aircraft	**117**	**7**	**124**	**1**	**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 February 18, 2021.
(3) CAC is actively remarketing 13 off-lease aircraft resulting from lease terminations.
(4) The RAS segment's commitments include the following pending transactions: At December 31, 2020, there was one CRJ900 (received February 2021), three Dash 8-300 ESPs planned for between 2021 - 2022, and five 75-78 seat aircraft, all of which are intended to earn leasing revenue under the CPA.

Capital expenditures in 2021, including capitalized major maintenance overhauls but excluding expenditures for the acquisition of aircraft and the ESP, are expected to be between $32.0 million and $38.0 million. Aircraft related acquisitions and ESP capital expenditures in 2021 are expected to be between $100.0 million and $110.0 million.(1)

		Actual	
(expressed in thousands of Canadian dollars)	**Planned 2021(1)** **$**	**Year ended December 31, 2020** **$**	**Year ended December 31, 2019** **$**
Capital expenditures, excluding aircraft acquisitions and ESP	12,000 to 15,000	11,727	31,547
Capitalized major maintenance overhauls(2)	20,000 to 23,000	7,529	14,444
Aircraft related acquisitions and ESP	100,000 to 110,000	386,881	829,710
	132,000 to 148,000	406,137	875,701

(1) The 2021 plan includes one ESP and one CRJ900 in the RAS segment as well as two ATR72-600s for the RAL segment all of which have been converted using a foreign exchange rate of 1.2732, the December 31, 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.

(2) Planned 2021, Actual 2020 and 2019, includes $18.4 million, $6.1 million and $12.0 million, respectively that will be and have been included in the Controllable Costs.

Acquisition Proposal Update

On October 23, 2020, in response to a request from the Investment Industry Regulatory Organization of Canada, Chorus confirmed that it had received a preliminary, non-binding acquisition proposal from a third party that was subject to a number of significant conditions. That proposal is no longer being considered. However, Chorus is having discussions with the same party regarding a potential investment.

5 FLEET

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

	December 31, 2019	2020 Fleet Changes			December 31, 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	3	—	—	5	5
Total Regional Aircraft Leasing	60	3	—	(1)	62	62
Regional Aviation Services						
Covered Aircraft Leased Under the CPA						
Dash 8-400s	34	—	—	—	34	34
CRJ900s	5	8	—	—	13	13
Dash 8-300s	13	—	—	2	15	15
	52	8	—	2	62	62
Other Covered Aircraft						
CRJ200s	17	2	(4)	—	15	—
CRJ900s	21	—	—	—	21	—
Dash 8-100s	6	—	—	(6)	—	—
Dash 8-300s(1)	10	—	(4)	(2)	4	4
Dash 8-400s	10	—	(1)	—	9	—
Total Other Covered Aircraft	64	2	(9)	(8)	49	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	—	—	2	7	7
Dash 8-300s(3)	6	—	(1)	—	5	5
Dash 8-400s	—	—	—	1	1	1
Total Voyageur Aircraft	20	—	(1)	3	22	22
Non-Operational Aircraft						
Dash 8-100s(4)	16	—	(4)	4	16	16
Total Non-Operational Aircraft	16	—	(4)	4	16	16
Total Regional Aviation Services	153	10	(14)	1	150	105
Total Aircraft	213	13	(14)	—	212	167

(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 months and year ended December 31, 2020 compared to the three months and year ended December 31, 2019. It focuses on Chorus' consolidated operating results and provides financial information for Chorus' operating segments. For further discussion and analysis of Chorus' business segments, refer to Section 7 - Segmented Analysis.

	Three months ended December 31,				Year ended December 31,			
(expressed in thousands of Canadian dollars)	2020 $	2019 $	Change $	Change %	2020 $	2019 $	Change $	Change %
Operating revenue	218,166	338,606	(120,440)	(35.6)	948,721	1,366,447	(417,726)	(30.6)
Operating expenses	219,383	287,173	(67,790)	(23.6)	834,174	1,165,984	(331,810)	(28.5)
Operating (loss) income	(1,217)	51,433	(52,650)	(102.4)	114,547	200,463	(85,916)	(42.9)
Net interest expense	(23,493)	(19,730)	(3,763)	(19.1)	(90,774)	(71,768)	(19,006)	(26.5)
Foreign exchange gain	31,297	11,901	19,396	163.0	25,156	30,613	(5,457)	(17.8)
Loss on property and equipment	(1,370)	(1,665)	295	17.7	(1,946)	(1,048)	(898)	(85.7)
Earnings before income tax	5,217	41,939	(36,722)	(87.6)	46,983	158,260	(111,277)	(70.3)
Income tax recovery (expense)	3,940	(5,362)	9,302	173.5	(5,497)	(25,100)	19,603	78.1
Net income	9,157	36,577	(27,420)	(75.0)	41,486	133,160	(91,674)	(68.8)
Adjusted EBITDA(1)	81,972	88,636	(6,664)	(7.5)	347,454	341,719	5,735	1.7
Adjusted EBT(1)	9,578	28,646	(19,068)	(66.6)	80,995	121,263	(40,268)	(33.2)
Adjusted net income(1)	7,667	23,268	(15,601)	(67.0)	64,041	94,978	(30,937)	(32.6)

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

Consistent with the overall aviation sector, Chorus continues to be challenged by decreased passenger demand related to the impact of global travel restrictions along with health concerns related to COVID-19 which has impacted Chorus' results.

For the three months and year ended December 31, 2020, consolidated operating revenue decreased 35.6% and 30.6%, respectively compared to the same periods last year. Decreased revenue in the RAS segment was attributable to the decline in Controllable Cost 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 RAL segment for the three months ended December 31, 2020 was attributable to the loss of revenue from 13 off-lease aircraft, partially offset by an increase in aircraft earning lease revenue over the prior period. For the year ended December 31, 2020, revenue increased in the RAL segment attributable to an increase in aircraft earning lease revenue over the prior period, partially offset by the loss of revenue from 13 off-lease aircraft.

Operating expenses decreased 23.6% and 28.5% for the three months and year ended December 31, 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, general aircraft impairment and expected credit loss provisions and lease repossession costs.

Net interest expense increased 19.1% and 26.5% for the three months and year ended December 31, 2020 compared to the same periods last year due to additional long-term borrowings related to aircraft acquisitions throughout 2019 and 2020, the loan deferral program in the RAL segment, the 5.75% Unsecured Debentures and the credit facilities in the RAS segment.

Foreign exchange gain increased for the three months and year ended December 31, 2020 compared to the same periods last year primarily related to the change in unrealized foreign exchange on long-term debt of $25.3 million and $1.4 million, respectively. The RAS 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 RAL segment's functional currency is the US dollar.

Income taxes decreased for the three months and year ended December 31, 2020 compared to the same periods last year. The decrease was primarily due to a reduction in EBT.

7 SEGMENTED ANALYSIS

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

	For the three months ended December 31, 2020			For the three months ended December 31, 2019		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
(in thousands of Canadian dollars)	$	$	$	$	$	$
Operating revenue	184,124	34,042	218,166	301,949	36,657	338,606
Operating expenses	153,590	65,793	219,383	268,522	18,651	287,173
Operating income (loss)	30,534	(31,751)	(1,217)	33,427	18,006	51,433
Net interest expense	(11,742)	(11,751)	(23,493)	(8,330)	(11,400)	(19,730)
Foreign exchange gain	28,011	3,286	31,297	10,757	1,144	11,901
Loss on property and equipment	(1,370)	—	(1,370)	(1,270)	(395)	(1,665)
Earnings (loss) before income tax	45,433	(40,216)	5,217	34,584	7,355	41,939
Income tax (expense) recovery	(1,556)	5,496	3,940	(5,802)	440	(5,362)
Net income (loss)	**43,877**	**(34,720)**	**9,157**	**28,782**	**7,795**	**36,577**
Operating income (loss)	30,534	(31,751)	(1,217)	33,427	18,006	51,433
Items related to COVID-19:						
Impairment provisions[1]	2,136	39,447	41,583	—	—	—
Lease repossession costs[1]	—	498	498	—	—	—
Other items:						
Depreciation, amortization excluding impairment[1]	23,037	17,088	40,125	22,090	15,052	37,142
Employee separation[1]	436	—	436	61	—	61
Signing bonus[1]	547	—	547	—	—	—
Adjusted EBITDA[2]	**56,690**	**25,282**	**81,972**	**55,578**	**33,058**	**88,636**
Earnings (loss) before income tax	45,433	(40,216)	5,217	34,584	7,355	41,939
Items related to COVID-19:						
Impairment provisions[1]	2,136	39,447	41,583	—	—	—
Lease repossession costs[1]	—	498	498	—	—	—
Other items:						
Unrealized foreign exchange gain	(35,563)	(3,140)	(38,703)	(13,354)	—	(13,354)
Employee separation program[1]	436	—	436	61	—	61
Signing bonus[1]	547	—	547	—	—	—
Adjusted EBT[2]	**12,989**	**(3,411)**	**9,578**	**21,291**	**7,355**	**28,646**

(1) Included in operating expenses.
(2) These are non-GAAP financial measures – refer to Section 18 for disclosures on non-GAAP financial measures.

chorus aviation inc.

(in thousands of Canadian dollars)	For the year ended December 31, 2020 Regional Aviation Services $	Regional Aircraft Leasing $	Total $	For the year ended December 31, 2019 Regional Aviation Services $	Regional Aircraft Leasing $	Total $
Operating revenue	801,336	147,385	948,721	1,239,404	127,043	1,366,447
Operating expenses	673,569	160,605	834,174	1,102,722	63,262	1,165,984
Operating income (loss)	127,767	(13,220)	114,547	136,682	63,781	200,463
Net interest expense	(41,441)	(49,333)	(90,774)	(34,108)	(37,660)	(71,768)
Foreign exchange gain	18,008	7,148	25,156	29,703	910	30,613
Loss on property and equipment	(1,946)	—	(1,946)	(653)	(395)	(1,048)
Earnings (loss) before income tax	102,388	(55,405)	46,983	131,624	26,636	158,260
Income tax (expense) recovery	(12,569)	7,072	(5,497)	(22,881)	(2,219)	(25,100)
Net income (loss)	**89,819**	**(48,333)**	**41,486**	**108,743**	**24,417**	**133,160**
Operating income (loss)	127,767	(13,220)	114,547	136,682	63,781	200,463
Items related to COVID-19:						
Impairment provisions(1)	2,136	66,061	68,197	—	—	—
Lease repossession costs(1)	—	3,231	3,231	—	—	—
Other items:						
Depreciation, amortization excluding impairment(1)	87,918	68,239	156,157	89,344	47,604	136,948
Employee separation(1)	4,775	—	4,775	2,308	—	2,308
Signing bonus(1)	547	—	547	2,000	—	2,000
Adjusted EBITDA(2)	**223,143**	**124,311**	**347,454**	**230,334**	**111,385**	**341,719**
Earnings (loss) before income tax	102,388	(55,405)	46,983	131,624	26,636	158,260
Items related to COVID-19:						
Impairment provisions(1)	2,136	66,061	68,197	—	—	—
Lease repossession costs(1)	—	3,231	3,231	—	—	—
Other items:						
Unrealized foreign exchange gain	(35,795)	(6,943)	(42,738)	(41,305)	—	(41,305)
Employee separation program(1)	4,775	—	4,775	2,308	—	2,308
Signing bonus(1)	547	—	547	2,000	—	2,000
Adjusted EBT(2)	**74,051**	**6,944**	**80,995**	**94,627**	**26,636**	**121,263**

(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

Operating Income

The RAS segment reported quarterly and annual operating income of $30.5 million and $127.8 million, a decrease of $2.9 million and $8.9 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;
- a general aircraft impairment provision of $2.1 million;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of $1.9 million over the previous period;
- increased employee separation program costs and signing bonuses; and
- an expected credit loss provision of $0.6 million; partially offset by
- decreased stock-based compensation of $2.5 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 of $3.1 million earned from two incremental Dash 8-300s and eight incremental CRJ900s; 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 all of which are due to the economic impact of COVID-19;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of $5.9 million over the previous period;
- a general aircraft impairment provision of $2.1 million;
- an expected credit loss of $1.5 million provision; and
- increased employee separation program costs; partially offset by
- decreased stock-based compensation of $9.3 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;
- increased aircraft leasing under the CPA attributable to additional revenue of $9.9 million earned from two incremental Dash 8-300s and eight incremental CRJ900s; and
- decreased general administrative expenses.

Non-Operating Expenses

The strengthening of the Canadian dollar versus the US dollar resulted in foreign exchange gains quarter-over-quarter and year-over-year. These gains 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 increased $1.1 million for the three months ended December 31, 2020 compared to the same period last year due to:

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

Adjusted EBITDA decreased $7.2 million for the year ended December 31, 2020 compared to the same period last year due to:

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

Portfolio of Aircraft Leasing under the CPA

- Current fleet of 62 aircraft and five spare engines
- Future committed aircraft of one CRJ900 delivered in February 2021, three ESPs between 2021 and 2022 and five 75-78 seat aircraft anticipated to be delivered in 2025
- Current net book value of $1,053.5 million[1]
- Approximately $1,353.3 million in future contracted lease revenue[2,3]
- Current weighted average fleet age of 6.6 years[1,4]
- Current weighted average remaining lease term of 8.5 years[1,4]
- 100% debt is fixed rate or hedged with swap
- Current weighted average cost of borrowing of 3.38%

1 This includes only the 62 aircraft and five spare engines.
2 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.
3 Refer to Section 25 - Caution Regarding Forward-Looking Information.
4 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

The RAL segment reported quarterly and annual operating losses of $31.8 million and 13.2 million, a decrease of $49.8 million and $77.0 million, respectively compared to the same periods last year.

The results for the quarter were impacted by:

- a general aircraft impairment provision of $39.4 million and lease repossession costs of $0.5 million, net of security packages, 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;
- an expected credit loss provision of $3.6 million related to the rent relief arrangements; and
- the loss of revenue due to 13 off-lease aircraft; partially offset by
- increased revenue due to new leases added quarter-over- quarter that are earning additional lease revenue.

The year-to-date results were impacted by:

- a general aircraft impairment provision of $66.1 million and lease repossession costs of $3.2 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 $8.8 million related to the rent relief arrangements; and
- the loss of revenue due to 13 off-lease aircraft; partially offset by
- increased revenue due to the growth in additional aircraft on lease, earned from the equivalent of 50 aircraft for the year ended December 31, 2020 (2019 - 43).

Non-Operating Expenses

Net interest expense increased for the year ended December 31, 2020 due to the increase in the number of financed aircraft and additional interest related to the loan deferral program.

Adjusted EBT

Adjusted EBT decreased by $10.8 million for the three months ended December 31, 2020 as a result of lower leasing margins attributable to the loss of leasing revenue on 13 off-lease aircraft and an expected credit loss provision, partially offset by additional aircraft on lease earning revenue.

Adjusted EBT decreased by $19.7 million for the year ended December 31, 2020 primarily as a result of lower leasing margins attributable to the loss of leasing revenue on 13 off-lease aircraft and an expected credit loss provision, partially offset by additional aircraft on lease earning revenue.

Portfolio

***Committed Fleet*[1]**

- Committed fleet of 64 aircraft, including 13 off-lease aircraft to be remarketed[1]
- Approximately US $1.3 billion aircraft portfolio[1,3]
- Approximately US $814.0 million in future contracted lease revenue[1,3]

Current Fleet *(as at December 31, 2020)*

- Current weighted average fleet age of 3.7 years[2]
- The RAL segment has limited net exposure to changes in the interest rates due to its debt and contract terms of 95.1% fixed rate debt (inclusive of floating rate debt that is fixed through the use of swaps) and the remaining 4.9% 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 3.92%[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 25 - Caution Regarding Forward-Looking Information.
4 Reflects actual borrowings as at December 31, 2020 only.

8 CAPITAL STRUCTURE

Chorus' capital structure currently consists primarily 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 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 December 31, 2020 and December 31, 2019.

(expressed in thousands of Canadian dollars)	**December 31, 2020 $**	**December 31 2019 $**	**Change $**
Equity			
Capital	288,475	281,849	6,626
Contributed surplus	1,039,832	1,039,832	—
Deficit	(684,375)	(716,036)	31,661
Exchange differences on foreign operations	(5,570)	(3,633)	(1,937)
Equity component of Convertible Units	2,981	2,981	—
	641,343	604,993	36,350
Long-term debt	2,182,606	1,823,130	359,476
Lease liabilities	11,985	16,316	(4,331)
Total capital	2,835,934	2,444,439	391,495

As at February 8, 2021 and December 31, 2020, the issued and outstanding Shares of Chorus were as follows:

	February 8, 2021	December 31, 2020
Total issued and outstanding Shares	161,867,388	161,867,388
Shares potentially issuable		
Stock-based compensation plans and Warrants	2,365,837	2,365,837
Total outstanding and potentially dilutive Shares	164,233,225	164,233,225

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.

On February 4, 2019, the Corporation issued 15,561,600 Class B Voting Shares to Air Canada at a price of $6.25 per Share by way of a private placement for total gross proceeds of $97.3 million. Upon closing this transaction, Chorus and Air Canada entered into an Investor Rights Agreement pursuant to which Air Canada acquired the right to nominate a member to the Corporation's Board of Directors and agreed, for a period of 60 months and subject to limited exceptions, to hold its Shares in the Corporation, participate in the Corporation's dividend reinvestment plan and abide by customary standstill provisions. In addition, the Investor Rights Agreement grants Air Canada certain pro-rata pre-emptive rights in respect of the issuance of further Shares by the Corporation. A copy of the Investor Rights Agreement is available on SEDAR at www.sedar.com.

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

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 year ended December 31, 2020, 1,416,393 Shares were issued under the DRIP at a weighted average price of $4.98 per Share. As at December 31, 2020, the Corporation had issued 5,791,876 Shares under the DRIP since inception.

Long-term debt

Long-term debt consists of the following:

(expressed in thousands of Canadian dollars)	December 31, 2020 $	December 31, 2019 $
Secured long-term debt and credit facilities[1]		
Amortizing term loans		
Secured by aircraft	1,579,555	1,389,286
Secured by engines	7,178	8,900
Warehouse credit facility	162,792	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
	1,986,525	1,757,130
Unsecured long-term debt[1]		
5.75% Unsecured Debentures	86,250	86,250
Unsecured Revolving Credit Facility	127,320	—
	2,200,095	1,843,380
Less:		
Deferred financing fees	(15,741)	(18,131)
Accretion discount on Convertible Units	(1,748)	(2,119)
	2,182,606	1,823,130
Current portion[2]	216,796	164,554
	1,965,810	1,658,576

(1) The majority of long-term debt is payable in US dollars and has been converted to Canadian currency at 1.2732 which was the exchange rate in effect at closing on December 31, 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 year ended December 31, 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 3.62%, maturing between June 2021 and December 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 December 2020, Chorus amended the loan deferral program repayment terms from 12 months to 18 months beginning in January 2021. Chorus' loan deferral program with its largest lender allowed it to defer scheduled payments under certain aircraft loans to the end of 2020 so long as the lease rent under the corresponding leases was deferred. The balance deferred as of December 31, 2020 was US $28.9 million.

In December 2020, Chorus also amended the terms of its aircraft loans with its largest lender in order to remove the remarketing period deadline in respect of aircraft repossessed up to April 24, 2021. This eliminates the requirement to repay the principal amount of the loans prior to maturity if the aircraft are not re-leased by the end of the remarketing period so long as Chorus continues to make the regularly scheduled principal and interest payments and otherwise complies with the loan terms (refer to note 2 in the following table).

As of December 31, 2020, Chorus had 13 aircraft off-lease. The aggregate scheduled principal payments on long-term debt, associated with these off-lease aircraft is, as follows:

Aircraft Type	Number of Aircraft	Total Debt	Remarketing Period
		(US$ Millions)	
Dash 8-400	2	10.2	March 2, 2021
Dash 8-400	3	Nil	Not Applicable
CRJ900	2	30.8	Indefinite[1]
ATR72-600	6	66.3	Indefinite[1]
Total	13	107.3	

(1) Loans with remarketing period exemptions provided that Chorus continues to make the regularly scheduled principal and interest payments and otherwise comply with the loan terms.

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' warehouse 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 2.90%, 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 December 31, 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.

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

The related 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.

The related Warrants are 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 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:

(expressed in thousands of Canadian dollars)	$
No later than one year	220,070
Later than one year and no later than five years	1,521,296
Later than five years	458,729
	2,200,095

Loan facilities

Operating credit facility

Chorus has a three-year committed operating credit facility with a maturity date of August 30, 2022. The facility provides Chorus and certain designated subsidiaries (collectively, the "Credit Parties") with a committed facility of $75.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis.

As at December 31, 2020, $30.0 million was drawn under the facility. Chorus has provided letters of credit totaling $9.7 million that reduce the amount available under this facility. The facility bears interest for Canadian dollar advances at US dollar London Interbank Offered Rate ("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 December 31, 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.

Warehouse credit facility for aircraft acquisitions

In December 2020, Chorus amended the terms of its warehouse credit facility for aircraft acquisitions to, among other things, cancel the remaining available credit under the facility (and the associated commitment fees), leaving the balance outstanding under the facility at US $127.9 million (CAD $162.8 million).

All loans under this facility are repayable at a rate of 5.00% annually until January 2021. Starting January 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 December 31, 2020, Chorus was in compliance with these covenants.

Unsecured revolving credit facility

In December 2020, Chorus amended the terms of the US $100.0 million unsecured revolving credit facility obtained in April 2020, to replace a bullet repayment of the entire facility at maturity in April 2022 with repayment over eight equal instalments of principal and interest starting in July 2022 and ending in April 2024. 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 the lender. 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 61% of Chorus' consolidated long-term debt. Of this amount, the Corporation owes 9% under the unsecured revolving credit facility, Chorus Aviation Capital (Ireland) Limited owes 41% under aircraft loans, the Jazz Group owes 49% 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, 23% 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, at December 31, 2020, 97.1% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 2.9% was floating rate debt. Approximately 33% 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 credit facility for aircraft acquisitions, 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 $11.7 million liability at December 31, 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 year ended December 31, 2020, Chorus recognized other comprehensive loss of $0.8 million and $9.2 million respectively, net of tax (December 31, 2019 - comprehensive loss of $1.3 million and $3.3 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 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 December 31, 2020, Chorus had 25 loans which totaled $291.5 million and 11 derivative agreements which referenced notional amounts totaling $235.0 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 December 31, 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 RAS 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 RAL division by borrowing in the same currencies as the related lease revenues.

The amount of US dollar denominated assets was $110.6 million and US denominated liabilities was $656.0 million at December 31, 2020. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $5.5 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 $8.1 million liability at December 31, 2020 and is recorded in other long-term liabilities ($0.7 million asset as at December 31, 2019). During the year ended December 31, 2020, a corresponding loss of $13.0 million, which includes a settlement of $4.2 million, has been recorded in operating income, respectively (December 31, 2019 - $nil). For additional information, please refer to note 3(j) and 3(k), Significant Accounting Policies, of the audited consolidated financial statements of Chorus for the year ended December 31, 2020.

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.

Consistent with the overall aviation sector, Chorus continues to be challenged by decreased passenger demand related to the impact of global travel restrictions along with health concerns related to COVID-19 and has implemented a number of measures to manage its liquidity (refer to Section - 1 - Overview).

As of December 31, 2020, Chorus' liquidity was $201.0 million including cash of $165.7 million and $35.3 million of available room on a committed revolving debt facility. In 2021, Chorus currently expects its liquidity to remain relatively stable based on the measures discussed above.

During the quarter, Chorus generated cash flow from operations of $56.8 million. Key liquidity movements during the quarter are as follows:

- Increased receivable from Air Canada of $28.4 million primarily related to increased flying and other activity.
- Increased CAC lease receivables by $8.4 million to $56.3 million of which $34.3 million is the long-term portion, primarily related to rent relief arrangements.
- Decreased restricted cash by $4.8 million, primarily related to CAC.
- Increased accounts payable of $9.3 million due to increased trade payables and commodity taxes due to the timing of cash payments.
- Decreased cash of $34.4 million due to repayment of long-term borrowings.
- Decreased cash of $33.1 million due to additions of property and equipment, net of financing.

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 off-lease aircraft previously on lease to and manage rent relief with its leasing customers (refer to Section 25 - 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 operating lease receivables as aircraft lease revenue is recorded as it is earned on a monthly basis.

Chorus' working capital deficit as reflected on the December 31, 2020 balance sheet was $1.8 million (December 31, 2019 - $136.4 million). The current portion of contracted aircraft operating lease receivables as at December 31, 2020 is estimated to be approximately $139.7 million converted to CAD at the December 31, 2020 rate of 1.2732. Working capital adjusted for the current portion of estimated long-term aircraft operating lease receivables reflects a surplus of approximately $137.9 million. (Refer to Section 25 - 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 or disruptions such as the current pandemic.

Chorus' leverage ratio (measured as Adjusted net debt to trailing 12-month Adjusted EBITDA) was 5.8 as at December 31, 2020 (December 31, 2019 - 5.1). Leverage increased in 2020 due to additional borrowings to fund aircraft investments and working capital requirements offset by a decrease in the US dollar exchange rate to 1.2732 at December 31, 2020 versus 1.2988 at December 31, 2019, which decreased long-term debt by approximately $31.5 million. (Refer to Section 18 - Non-GAAP Financial Measures.)

Cash Flows

The following table provides information on Chorus' cash flows for the three months and year ended December 31, 2020 and December 31, 2019.

	Three months ended December 31,		Year ended December 31,	
(expressed in thousands of Canadian dollars)	**2020** **$**	**2019** **$**	**2020** **$**	**2019** **$**
Cash provided by operating activities	56,786	88,734	156,638	261,707
Cash provided by financing activities	160,170	140,684	334,560	492,591
Cash used in investing activities	(226,214)	(222,445)	(407,589)	(755,029)
Cash flow from operating, financing and investing activities	(9,258)	6,973	83,609	(731)
Effect of foreign exchange rate changes on cash	(7,386)	(1,646)	(5,059)	(4,694)
Net change in cash during the periods	(16,644)	5,327	78,550	(5,425)
Cash – Beginning of periods	182,361	81,840	87,167	92,592
Cash – End of periods	165,717	87,167	165,717	87,167

The figures in the preceding table exclude restricted cash of $38.5 million as at December 31, 2020. (December 31, 2019 - $26.7 million).

For the three months and year ended December 31, 2020, restricted cash decreased by $4.8 million and increased by $13.1 million, respectively due to restricted cash covenants related to the RAL segment.

Cash provided by operating activities

Consistent with the overall aviation sector, Chorus continues to be challenged by decreased passenger demand related to the impact of global travel restrictions along with health concerns related to COVID-19.

Chorus had cash inflows from operations of $56.8 million for the three months ended December 31, 2020, compared to cash inflows from operations of $88.7 million for the three months ended December 31, 2019. The decrease was primarily due to a decrease in net income combined with changes in working capital of $30.8 million. Receivables increased primarily due to rent relief arrangements, combined with the increase in the receivables from Air Canada and the CEWS program; offset by an accounts payable increase primarily due to increased trade payables and commodity taxes.

Chorus generated positive operating income and cash flows from operations producing $156.6 million for the year ended December 31, 2020, compared to $261.7 million for the year ended December 31, 2019. Chorus' working capital was adversely impacted by COVID-19, on a year-over-year basis, by approximately $100.0 million as follows:

- Increased receivables of $55.6 million primarily due to rent relief arrangements for its customers;
- Increased receivables of $34.8 million due to an increase in the Controllable Cost Guardrail receivable of $27.0 million and an increase of $8.0 million related to the CEWS receivable; and
- Decreased accounts payable of $5.5 million, net of a non-cash reduction to payables resulting from a reclassification of interest payable to long-term debt of $14.0 million related to the loan deferral program.

Chorus' cash flows from operations before non-cash changes in working capital was $261.3 million a reduction from the prior year of $5.0 million.

Cash provided by financing activities

Cash provided by financing activities for the three months ended December 31, 2020 was $160.2 million, comprised primarily of $195.7 million of borrowings, net of financing fees on new loans related to aircraft acquisitions, offset by scheduled payments on long-term borrowings of $34.4 million.

Cash provided by financing activities for the three months ended December 31, 2019 was $140.7 million, comprised primarily of $163.3 million of borrowings, net of financing fees on new loans related to aircraft acquisitions and net proceeds of $82.0 million received from the 5.75% Unsecured Debentures, net of transaction costs, offset by scheduled payments on long-term borrowings of $89.6 million and cash dividends paid of $13.6 million (net of $5.8 million related to the DRIP).

Cash provided by financing activities for the year ended December 31, 2020 was $334.6 million, comprised primarily of $500.3 million of borrowings, net of financing fees on new loans related to aircraft acquisitions and draws on the credit facilities, offset by scheduled payments on long-term borrowings of $141.4 million and cash dividends paid of $18.7 million (net of $7.3 million related to the DRIP).

Cash provided by financing activities for the year ended December 31, 2019 was $492.6 million composed primarily of $562.7 million of borrowings, net of financing fees on new loans related to aircraft acquisitions, net proceeds received from the issuance of Shares in the amount of $97.3 million, net proceeds of $82.0 million received from the 5.75% Unsecured Debentures, net of transaction costs and $9.0 million from proceeds on stock options exercised; partially offset by scheduled payments on long-term borrowings of $196.6 million and cash dividends of $55.3 million (net of $20.2 million related to the DRIP).

Cash used in investing activities

Cash used in investing activities for the three months ended December 31, 2020 was $226.2 million, which includes capital expenditures of $228.8 million for the acquisition of seven aircraft as well as major maintenance overhauls and other capital expenditures and decreased security deposits and maintenance reserves of $4.2 million related to leased aircraft. This was offset by decreased restricted cash of $4.8 million and proceeds on disposal of property and equipment of $1.3 million.

Cash used in investing activities for the three months ended December 31, 2019 was $222.4 million which includes capital expenditures of $318.0 million for the acquisition of 11 aircraft, the completion of three ESP aircraft as well as major maintenance overhauls and other capital expenditures. This was offset by proceeds received on the disposal of property and equipment of $85.3 million, decreased restricted cash of $6.2 million and increased security deposits and maintenance reserves of $2.7 million related to leased aircraft.

Cash used in investing activities for the year ended December 31, 2020 was $407.6 million, which includes capital expenditures of $406.1 million for the acquisition of 11 aircraft, deposits paid on the remaining CRJ900 to be purchased in the first quarter of 2021, completion of two ESP aircraft as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $13.1 million. This was offset by proceeds on disposal of property and equipment of $7.0 million.

Cash used in investing activities for the year ended December 31, 2019, was $755.0 million which includes capital expenditures of $875.7 million for the acquisition of 34 aircraft, the completion of five ESP aircraft, as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $7.7 million. This was offset by proceeds received on the disposal of property and equipment of $85.5 million and increased security deposits and maintenance reserves of $37.8 million related to leased aircraft.

Capital expenditures

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

(expressed in thousands of Canadian dollars)	Three months ended December 31,			Year ended December 31,		
	2020 $	2019 $	Change $	2020 $	2019 $	Change $
Capital expenditures, excluding aircraft acquisitions and ESP	1,840	9,990	(8,150)	11,727	31,547	(19,820)
Capitalized major maintenance overhauls	1,491	2,805	(1,314)	7,529	14,444	(6,915)
Aircraft acquisitions and ESP(1)(2	225,478	305,165	(79,687)	386,881	829,710	(442,829)
Total capital expenditures	228,809	317,960	(89,151)	406,137	875,701	(469,564)

(1) 2020 includes the acquisition of eight CRJ900s, three A220-300s and two ESPs.
(2) 2019 includes the acquisition of 18 Q400s, 14 ATR72-600s, five ESPs, two A220-330s and aircraft deposits.

The 2020 actual aircraft acquisitions and ESP of $386.9 million were lower than anticipated expenditures of $417.0 million to $426.0 million due to the delayed acquisition of one CRJ900 which was delivered in February 2021.

Commitments for capital expenditures

Chorus' pending aircraft transactions as at December 31, 2020 are as follows:

- Purchase and lease of one CRJ900 to Air Canada under the CPA which was delivered in early February 2021. Chorus funded the final equity investment on the remaining CRJ900 in the third quarter of 2020 and the remaining payment for this aircraft was provided by secured financing.
- Purchase and lease of two ATR72-600s to an undisclosed customer with deliveries expected in the first half of 2021.

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 the final three Dash 8-300s by no later than December 31, 2022 for a total additional investment commitment of approximately $4.0 million for both 2021 and 2022 (refer to Section 25 - Caution Regarding Forward-Looking Information).

The aggregate amount to be paid on account of the foregoing capital commitments beyond December 31, 2020 through 2022 is expected to be between $75.0 million and $85.0 million funded from existing and new debt facilities as well as available cash resources. (US dollar amounts were converted to Canadian dollars at 1.2732, the December 31, 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 25 - Caution Regarding Forward-Looking Information.)

The 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 months and year ended December 31, 2020, respectively (2019 - $19.4 million and $76.3 million respectively).

For the three months and year ended December 31, 2020, Chorus paid dividends net of the Shares issued under the DRIP of $nil and $18.7 million respectively (2019 - $13.6 million and $55.3 million respectively). (See Section 8 - Capital Structure for details of Chorus' dividend reinvestment plan.)

Contractual obligations and other commitments

In addition to the commitments for capital expenditures previously noted, as at December 31, 2020, Chorus has commitments related to scheduled payments of principal and interest on long-term debt and lease liabilities for the years 2021 through to 2025 and thereafter, all of which are summarized in the following table.

		Payments Due by Period			
(expressed in thousands of Canadian dollars)	**Total $**	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years $**
Long-term debt	2,550,929	297,906	722,399	1,037,879	492,745
Lease liabilities	13,745	4,391	7,401	1,104	849
	2,564,674	302,297	729,800	1,038,983	493,594

A significant portion of long-term debt and lease liabilities are payable in US dollars and have been converted using a foreign exchange rate of 1.2732.

The foregoing contains forward-looking information and actual contractual obligations and other commitments may vary. These projections are based on certain assumptions including foreign exchange rates and current contractual terms. Please refer to Section 25 - Caution regarding forward-looking information and Section 10 - Risk Factors for risks related to this forward-looking information. The current projections differ from previous projections as a result of new borrowing or leasing and a change in the foreign exchange rate, among other things.

Future lease payments from lessees under operating leases

As at December 31, 2020, Chorus has commitments from aircraft lessees related to scheduled payments under operating leases for aircraft for the years 2021 through to 2025 and thereafter, all of which are summarized in the following table:

		Payments Due by Period			
	Total	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**	**$**	**$**
Operating leases	2,096,750	286,071	567,567	488,039	755,073

A significant portion of lease payments are receivable in US dollars and Euro and have been converted using a foreign exchange rate of 1.2732 and 1.553, respectively.

The foregoing contains forward-looking information and actual future lease payments may vary. These projections are based on certain assumptions including foreign exchange rates and current contractual terms. Please refer to Section 25 - Caution regarding forward-looking information and Section 10 - Risk Factors for risks related to this forward-looking information. The current projections differ from previous projections mainly due to new leasing, lease modifications, rent relief arrangements and changes in the foreign exchange rates.

Off balance sheet arrangements and guarantees

Chorus enters into real estate leases, or operating agreements, which grant a license to Chorus to use certain premises and/or operate at certain airports in the majority of the cities that it serves. It is common in such commercial lease transactions for Chorus, as the lessee, to agree to indemnify the lessor and other related third parties for tort liabilities arising out of or relating to Chorus' use or occupancy of the leased or licensed premises. In certain cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but generally excludes any liabilities caused by their gross negligence or willful misconduct. Chorus also typically indemnifies such parties for any environmental liability arising out of or relating to its use or occupancy of the leased or licensed premises.

In aircraft financing or leasing agreements, Chorus typically indemnifies the financing parties, trustees acting on behalf of such financing parties and other related parties and/or lessors against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, except for their gross negligence or willful misconduct. In addition, in aircraft financing or leasing transactions, including those structured as leveraged leases, Chorus typically provides indemnities in respect of certain tax consequences.

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

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 and the Section entitled “Risk Factors” in Chorus’ Annual Information Form dated February 18, 2021.

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, 2020 and 2019.)

12 CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with GAAP requires management to make judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Significant judgement, estimate and assumption items include employee future benefits, depreciation and amortization of long-lived assets and impairment. These estimates are based on historical experience and management's best knowledge of current events and actions that Chorus may undertake in the future. By their nature, estimates and judgements may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates.[1]

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revisions affect only that period or in the period of revision and future periods if the revision affects both current and future periods.

COVID-19

The COVID-19 pandemic has led to worldwide economic uncertainty with companies around the globe trying to manage through this unprecedented, ever changing event. For the aviation industry, it has led to decreased passenger demand due to strict travel restrictions and health concerns which has impacted all airlines around the world.

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. The duration and impact of the COVID-19 pandemic is unknown at this time. Any estimate of the length and severity of the pandemic is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect Chorus' operations, financial results and condition in future periods are also subject to significant uncertainty.

[1] (Refer to Section 25 - 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, 2020 and 2019.

Employee Future Benefits

Chorus' significant policies related to the Pilot DB Plan, and the SERP DB Plan (collectively referred to as "Pension Benefits"), and the Other Future Employee Benefits are as follows:

- The cost of Pension Benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees. Obligations are attributed to the period beginning on the date the employee joins the plan and ending on the earlier of the date of termination, death or retirement. Actuarial gains and losses on the pension benefits are recognized in full in the period in which they occur in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the interest income on plan assets and the interest arising on the pension liability are included in salaries, wages and benefits in the statement of income.

- Other Employee Benefits consist of two categories of benefits:
  - Medical and dental benefits provided to employees while on long-term disability, and Worker's Compensation and Workers Safety Insurance Board benefits in respect of Ontario employees, are collectively referred to as other long-term benefits. The actuarial gains and losses for this component of Other Employee Benefits are charged to operating expense in the year they occur.
  - Sick leave benefits are paid to certain employees upon or just prior to retirement. The actuarial gains and losses on this component of other employee benefits are charged to other comprehensive income in the year they occur.
- The cost of the Other Employee Benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation, as applicable to each of the categories of benefits.
- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan and other employee benefit plans are recognized immediately in income.
- The registered pension plan is subject to certain minimum funding requirements. The liability, where applicable, in respect of the minimum funding requirement is determined using the projected minimum funding requirements based on actuarial forecasts. The liability in respect of the minimum funding requirement and any subsequent re-measurement of that liability is recognized in other comprehensive income without subsequent reclassification to income.
- The measurement date of each of the plans' assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement. The obligations relating to other employee benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).
- Chorus also maintains several defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable.

The following assumptions were used in valuing the benefit obligations under the plans and the employer's net periodic pension or benefit cost:

- The discount rate used to determine the pension and benefit obligation and the interest income on assets was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.
- The health care inflation used to determine cost of Other Future Employee Benefits costs is based on recent industry experience and long-term expectations. The weighted average health care inflation assumption used for the health care plans is 5.5% per annum for 2020 and 4.0% per annum for 2040 and later years.
- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, which is recognized each period through other comprehensive income.

The following table contains assumptions used in valuing the benefit obligations under this plan and the employer's net periodic pension or benefit cost:

	Fiscal year ended December 31, 2020	2019
Weighted average assumptions used to determine accrued benefit obligation		
- Discount rate	2.0%-2.5%	2.9% - 3.1%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation - Select	5.4%	5.5%
- Health care inflation - Ultimate	4.0%	4.0%
- Year ultimate trend reached	2040	2040
Weighted average assumptions used to determine pension and benefit costs		
- Discount rate	2.9%-3.1%	3.6% - 3.8%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation - Select	5.5%	5.5%
- Health care inflation - Ultimate	4.0%	4.0%
- Year ultimate trend reached	2040	2040

Depreciation and amortization of long-lived assets

Management makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current fair value of the assets, Chorus' fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. These adjustments are accounted for on a prospective basis, through depreciation, amortization and impairment expense. A 10% reduction to the residual values of aircraft would result in an increase of approximately $7.6 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 for impairment 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 disposal and value in use. An impairment charge is recorded if the estimated recoverable amount is less than the carrying amount of the assets being tested. For the quarter and year ended December 31, 2020, Chorus recorded an impairment provision of $41.6 million and $68.2 million, respectively (2019 - $nil).

In assessing recoverable amounts, Chorus makes significant estimates and assumptions about the expected useful lives and the expected residual value of aircraft, supported by estimates received from independent appraisers, for the same or similar aircraft types, and considers contractual cash flows, the creditworthiness of its lessees and Chorus' anticipated utilization of the aircraft. In determining the residual value of the aircraft, Chorus also applies a future inflation rate assumption of 2.0%. 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 disposition, discounted at 7.25% at December 31, 2020 (December 31, 2019 - 5.60%).

The fair value less cost to dispose is estimated with reference to third party market data less cost to dispose. The estimation of value in use for aircraft showing an indicator of impairment requires the use of significant judgement in the assessment of estimated future cash flows associated with the aircraft and its eventual disposition (including potential impacts due to COVID-19). Future cash flows are assumed to occur under current market conditions and/ or current contractual lease agreements and assume adequate time for a sale between a willing buyer and seller. Changes in the expected cash flows, expected residual value, inflation rate and discount rate assumptions could have a material impact on Chorus' conclusion.

Impairment of financial assets

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

Chorus has entered into rent relief arrangements with substantially all 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 lease payments could significantly increase.

Chorus uses the IFRS 9 simplified approach to measure the allowance for ECL which uses a lifetime expected loss for all trade receivables, deferred receivables and long-term receivables by establishing 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. Significant judgements are made in determining these factors. Letters of credit and security deposits held are considered an integral part of trade receivables and considered in the calculation of impairment.

For aircraft rent receivable, Chorus assesses, on a lessee by lessee basis, losses expected with its rent receivables. In determining the allowance for expected credit losses, Chorus takes into account recent payment history and future expectation of default events. Chorus' assessment is subjective due to the forward-looking nature of the situation. As a result, the allowance for ECL is subject to a significant degree of uncertainty and is made based on judgements regarding possible future events which may not prove to be correct due to the significant uncertainty caused by COVID-19.

Due to the COVID-19 pandemic and related government restrictions on travel, during the three months and year ended December 31, 2020, Chorus recorded a charge related to allowance for impairment of trade and other receivables of $4.2 million and $10.3 million, respectively (2019 - $nil), which is included in operating expense.

13 CHANGES IN ACCOUNTING STANDARDS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2020 consolidated financial statements, except for the following:

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 FAIR VALUE OF FINANCIAL INSTRUMENTS

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, ABCP, long-term receivables included in other assets, finance 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 receivables included in other assets, accounts payable and accrued liabilities, dividends payable, and the operating credit facility approximate fair values based on the immediate or short-term maturities of these financial instruments. Assets and liabilities, such as commodity taxes and deferred lease inducements, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded.

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

- Asset Backed Commercial Paper ("ABCP")

  The ABCP is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis.

- Finance lease receivables

  At December 31, 2020, the finance lease receivables had a fair value of $9.2 million versus a carrying value of $8.5 million. Chorus' annual cash flows have been discounted at the relevant market interest rates.

- Amortizing term loans

  At December 31, 2020, the term loans had a fair value of $1,625.1 million versus a carrying value of $1,756.5 million, excluding deferred financing fees of $10.3 million. The fair values were calculated by discounting the future cash flow of the respective long-term debt at relevant market interest rates of similar debt instruments.

- 6.00% Debentures

  At December 31, 2020, the Convertible Units had a fair value of $178.1 million versus a carrying value of $198.3 million, excluding deferred financing fees of $2.3 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 December 31, 2020, the 5.75% Unsecured Debentures had a fair value of $69.2 million versus a carrying value of $86.3 million, excluding deferred financing fees of $3.2 million. The fair value is based on quoted prices observed in active markets.

- Unsecured revolving credit facility

  At December 31, 2020, the unsecured revolving credit facility had a fair value of $121.7 million versus a carrying value of $127.3 million. The fair value of unsecured revolving credit facility is calculated by discounting the future cash flow of the credit facility at a relevant market interest rate.

- Interest rate swaps

  At December 31, 2020, the interest rate swap liability had a fair value and carrying value of $11.7 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 December 31, 2020, the Total Return Swap liability had a fair value and carrying value of $8.1 million. The fair value of Total Return Swap, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

15 PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2021 to 2025:

(expressed in thousands of Canadian dollars)	**2021** **$**	**2022** **$**	**2023** **$**	**2024** **$**	**2025** **$**
Defined benefit pension plans, current service	24,700	23,900	24,200	23,600	23,100
Defined contribution pension plans	12,600	16,500	18,100	18,400	18,900
Projected pension funding obligations	37,300	40,400	42,300	42,000	42,000

Chorus' pension funding obligations for 2020 was $25.3 million for the defined benefit pension plans and $11.2 million for the defined contribution pension plans.

The estimated pension funding obligations shown in the above table are in respect of the defined benefit and defined contribution pension plans sponsored by Chorus. Defined benefit pension plans include the Jazz pilots' registered defined benefit pension plan ("Pilot DB Plan") as well as an unregistered defined benefit supplemental executive retirement plan ("SERP DB Plan") that Chorus sponsors for eligible employees. On January 1, 2015, and February 19, 2014, the Pilot DB Plan and SERP DB Plan, respectively were closed to new entrants. Defined contribution pension plans include a number of defined contribution pension arrangements that Chorus contributes to for its eligible employees.

The funding requirements for the Pilot DB Plan are based on the estimated January 1, 2021 financial position of the plan for funding purposes and an estimate of the pilot payroll over the projection period, and could differ significantly from these estimates. The estimated funding requirements for the SERP DB Plan are based on a funding policy adopted by Chorus and the January 1, 2020 financial position of the plan for funding purposes.

The solvency surplus for the Pilot DB Plan as at January 1, 2020 was $11.3 million compared to a deficiency of $36.6 million as at January 1, 2019.

The January 1, 2020 financial position of the Pilot DB Plan for funding purposes applies an average of the solvency ratio over a three-year period. As at January 1, 2021, the financial position of the Pilot DB Plan on a market value basis is expected to be in a small surplus, while minimum funding levels will continue to be based on an average of solvency ratios over a three-year period.

The foregoing contains forward-looking information and actual pension funding obligations may vary. These projections are based on certain assumptions including actuarial determinations, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees, and are subject to certain risks including changes in economic conditions, investment returns generated by the plan assets and interest rates, each of which may impact the financial position of the pension plans sponsored by Chorus and future required contributions. Please refer to Section 25 - Caution regarding forward-looking information, Section 12 - Critical Accounting Estimates, and Section 10 - Risk Factors for further risks related to this forward-looking information. The current estimated pension funding obligations differ from previous estimates as a result of, among other things, the factors listed above.

16 RELATED PARTY TRANSACTIONS

As at December 31, 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 information required to be disclosed in any public filings is recorded, processed, summarized and reported on a timely basis. Chorus' internal controls over financial reporting ("ICFR") have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. They were both designed based on the framework established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

An evaluation of the design and effectiveness of Chorus' DC&P and ICFR has been conducted by management, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2020, Chorus' disclosure controls and procedures and internal control over financial reporting, as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, are operating effectively.

Due to inherent limitations, ICFR and DC&P can provide only reasonable assurances 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 year ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, Chorus' ICFR. The impact of changes to the business as a result of COVID-19 did not result in any material changes to Chorus' control environment.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A and the consolidated financial statements of Chorus for December 31, 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 25 - 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.

	Three months ended December 31,			Year ended December 31,		
(expressed in thousands of Canadian dollars, except per Share amounts)	**2020 $**	**2019 $**	**Change $**	**2020 $**	**2019 $**	**Change $**
Net income	**9,157**	**36,577**	**(27,420)**	**41,486**	**133,160**	**(91,674)**
Add (Deduct) items to get to Adjusted net income						
Items related to COVID-19						
Impairment provisions	41,583	—	41,583	68,197	—	68,197
Lease repossession costs	498	—	498	3,231	—	3,231
Other items						
Unrealized foreign exchange gain	(38,703)	(13,354)	(25,349)	(42,738)	(41,305)	(1,433)
Employee separation program	436	61	375	4,775	2,308	2,467
Signing bonuses	547	—	547	547	2,000	(1,453)
Tax recovery on adjusted items	(5,851)	(16)	(5,835)	(11,457)	(1,185)	(10,272)
	(1,490)	(13,309)	11,819	22,555	(38,182)	60,737
Adjusted net income	**7,667**	**23,268**	**(15,601)**	**64,041**	**94,978**	**(30,937)**
Adjusted net income per Share - basic	**0.05**	**0.15**	**(0.10)**	**0.40**	**0.61**	**(0.21)**
Add items to get to Adjusted EBT						
Income tax (recovery) expense	(3,940)	5,362	(9,302)	5,497	25,100	(19,603)
Tax recovery on adjusted items	5,851	16	5,835	11,457	1,185	10,272
Adjusted EBT	**9,578**	**28,646**	**(19,068)**	**80,995**	**121,263**	**(40,268)**
Add (Deduct) items to get to Adjusted EBITDA						
Net interest expense	23,493	19,730	3,763	90,774	71,768	19,006
Depreciation and amortization excluding impairment	40,125	37,142	2,983	156,157	136,948	19,209
Foreign exchange loss	7,406	1,453	5,953	17,582	10,692	6,890
Loss on disposal of property and equipment	1,370	1,270	100	1,946	653	1,293
Other	—	395	(395)	—	395	(395)
	72,394	59,990	12,404	266,459	220,456	46,003
Adjusted EBITDA	**81,972**	**88,636**	**(6,664)**	**347,454**	**341,719**	**5,735**

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.

(expressed in thousands of Canadian dollars)	**December 31, 2020 $**	**December 31, 2019 $**	**Change $**
Long-term debt (including current portion)	2,194,591	1,839,446	355,145
Less: Cash	(165,717)	(87,167)	(78,550)
Net debt	2,028,874	1,752,279	276,595
Adjusted net debt	2,028,874	1,752,279	276,595
Adjusted EBITDA	347,454	341,719	5,735
Leverage ratio	5.8	5.1	0.7

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 December 31, 2020, Adjusted net debt increased from $1,752.3 million to $2,028.9 million, representing an increase of $276.6 million or 15.8% from December 31, 2019. The increase was primarily related to increased long-term borrowings of $500.3 million, net of financing fees comprised of new loans related to aircraft acquisitions of $335.3 million, credit facilities of $165.0 million (US $100.0 million unsecured revolving credit facility fully drawn at an exchange rate of 1.3504 in addition to a $30.0 million draw on the operating credit facility), offset by $147.5 million in scheduled payments on long-term borrowings and lease liabilities and the impact of a lower US dollar exchange rate which decreased long-term debt by approximately $31.5 million.

Chorus' leverage ratio (Adjusted net debt to trailing 12-month Adjusted EBITDA) was 5.8 as at December 31, 2020 (December 31, 2019 - 5.1). Leverage increased for December 31, 2020 compared to year ended December 31, 2019, due to additional borrowings to fund aircraft investments and working capital requirements offset by a decrease in the US dollar exchange rate at December 31, 2020 of 1.2732 which decreased long-term debt by approximately $31.5 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.

	Three months ended December 31,			Year ended December 31,		
(expressed in thousands of Canadian dollars)	**2020 $**	**2019 $**	**Change $**	**2020 $**	**2019 $**	**Change $**
Cash Provided by Operating Activities	56,786	88,734	(31,948)	156,638	261,707	(105,069)
Add (Deduct)						
Net changes in non-cash balances related to operations	16,466	(14,305)	30,771	104,670	4,628	100,042
Capital expenditures, excluding aircraft acquisitions and ESP	(1,840)	(9,990)	8,150	(11,727)	(31,547)	19,820
Capitalized major maintenance overhauls	(1,491)	(2,805)	1,314	(7,529)	(14,444)	6,915
Adjusted Cash Provided by Operating Activities	**69,921**	**61,634**	**8,287**	**242,052**	**220,344**	**21,708**

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		
(expressed in thousands of Canadian dollars)	December 31, 2020 $	December 31, 2019 $	Change $
Income before income taxes	46,983	158,260	(111,277)
Unrealized foreign exchange gain	(42,738)	(41,305)	(1,433)
	4,245	116,955	(112,710)
Add:			
Finance costs	91,782	74,820	16,962
	96,027	191,775	(95,748)
Invested capital:			
Average long-term debt(1)	2,002,868	1,650,903	351,965
Average lease liabilities(2)	14,151	19,473	(5,322)
Average Shareholders' equity	623,168	517,400	105,768
	2,640,187	2,187,776	452,411
Return on invested capital	3.6%	8.8%	(5.2)%

(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 3.6%. Income before income taxes excluding foreign exchange gain decreased significantly over 2019 due to the COVID-19 pandemic which has caused decreased passenger demand for aviation services and impacted Chorus' results as follows:

- The RAL segment's income before income taxes excluding foreign exchange gain was significantly down over 2019 due to 13 off-lease aircraft resulting from lease terminations, general aircraft impairment and expected credit loss provisions, and lease return costs in addition to increased finance costs related to additional aircraft debt and additional interest related to the loan deferral program; while the
- The RAS segment's income before incomes taxes excluding foreign exchange gain was largely unaffected by contract flying reductions primarily due to the nature of the CPA with the Fixed Margin being set at $75.2 million for 2020 and the nature of the Controllable Cost Guardrail (refer to Section 2- About Chorus).

In addition, the average return on invested capital was affected by increased long-term debt resulting from the acquisition of new aircraft, new credit facilities as well as an increase related to the loan deferral program.

19 SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Chorus								
Total revenue ($000)	218,166	196,617	184,007	349,931	338,606	351,454	332,520	343,867
Net income (loss) ($000)	9,157	20,458	29,165	(17,294)	36,577	24,195	38,941	33,447
Adjusted net income(1) ($000)	7,667	10,908	21,644	23,822	23,267	29,154	24,156	18,401
Adjusted EBITDA(1) ($000)	81,972	85,859	91,042	88,581	88,636	92,639	85,720	74,724
Net income (loss) per Share, basic ($)	0.06	0.13	0.18	(0.11)	0.23	0.15	0.25	0.22
Net income (loss) per Share, diluted ($)	0.06	0.12	0.18	(0.11)	0.23	0.15	0.24	0.22
Adjusted net income,(1) per Share - basic ($)	0.05	0.07	0.13	0.15	0.15	0.18	0.15	0.12
FTE employees (end of period)	2,875	2,810	2,164	4,973	4,910	4,985	4,938	4,851
Number of aircraft (end of period)	212	208	214	211	213	199	184	179
Jazz								
Departures	13,145	13,788	4,894	50,817	56,299	60,111	56,415	54,738
Block Hours	19,222	20,447	6,776	77,454	84,950	90,540	82,938	83,799
Billable Block Hours	24,246	26,194	38,187	90,499	87,532	91,391	83,903	88,386

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

20 SELECTED ANNUAL INFORMATION

The following table provides selected annual information for Chorus for the years 2018 through to 2020.

	Year ended December 31,		
	2020	2019	2018
(expressed in thousands of Canadian dollars, except per Share amounts)	$	$	$
Revenue	948,721	1,366,447	1,353,287
Operating income	114,547	200,463	216,709
Net income	41,486	133,160	67,430
Cash	165,717	87,167	92,592
Total assets	3,337,686	2,945,694	2,325,281
Total long-term liabilities	2,315,988	1,969,637	1,546,380
Dividends declared	19,520	76,315	66,215
Cash provided by operating activities	156,638	261,707	239,233
Per Share			
Operating income, basic	0.71	1.28	1.59
Net income, basic	0.26	0.85	0.49
Net income, diluted	0.25	0.84	0.48
Dividends declared	0.12	0.48	0.48

2020 Compared to 2019

The 2020 results compared to the 2019 results are discussed throughout the MD&A.

Consistent with the overall aviation sector, Chorus continues to be challenged by decreased passenger demand related to the impact of global travel restrictions along with health concerns related to COVID-19 which has impacted Chorus' results.

Revenue decreased in the RAS segment attributable to the decline in Controllable Cost 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, partially offset by increased revenue in the RAL segment attributable to an increase in aircraft earning lease revenue over the prior period; partially offset by the loss of revenue from 13 off-lease aircraft.

Operating income decreased due to the economic impact of COVID-19 which includes significant general aircraft impairment and expected credit loss provisions in addition to lease repossession costs related to lease terminations.

Net income decreased due to the decreased operating income as discussed above and additional interest expense as a result of new debt related to aircraft acquisitions and draws on credit facilities during 2020.

Cash increased due to funds drawn on credit facilities; offset by equity funding on aircraft acquisitions and working capital requirements.

Total assets increased due to aircraft acquisitions, increased receivables related to rent relief arrangements in the RAL segment and increased Air Canada receivable in the RAS segment.

Total long-term liabilities increased due to additional long-term borrowings related to the acquisition of aircraft noted above and draws on the credit facilities; offset by repayment of long-term debt.

2019 Compared to 2018

The 2019 results compared to the 2018 results are discussed throughout this MD&A.

Revenue increased mainly due to the significant increase in aircraft under lease for the RAL segment, offset by the RAS segment's expected decrease in the same periods due to decreased CPA revenue.

Operating income decreased due to reduced CPA revenue as well as higher stock-based compensation in the RAS segment partially offset by the growth in the RAL segment.

Net income increased primarily related to unrealized foreign exchange gains due to a change in the foreign exchange rate and lower income tax.

Cash decreased primarily as a result of cash used to purchase four aircraft for the RAL segment, partially offset by net proceeds of $82.0 million from the issuance of 5.75% Unsecured Debentures, net of transaction costs.

Total assets increased primarily as a result of the purchase of aircraft related to the RAL segment.

Total long-term liabilities increased primarily as a result of new long-term borrowings related to the acquisition of aircraft noted above, a change in the foreign exchange rate on long-term debt and net proceeds of $82.0 million received from the 5.75% Unsecured Debentures, net of transaction costs; offset by repayment of long-term debt.

21 REGIONAL AVIATION SERVICES REVENUE

(expressed in thousands of Canadian dollars)	Three months ended December 31,				Year ended December 31,			
	2020 $	**2019 $**	**Change $**	**Change %**	**2020 $**	**2019 $**	**Change $**	**Change %**
Controllable Cost Revenue	91,576	173,003	(81,427)	(47.1)	419,644	721,508	(301,864)	(41.8)
Pass-Through Revenue	18,235	54,755	(36,520)	(66.7)	97,685	212,564	(114,879)	(54.0)
Fixed Margin	18,810	18,810	—	—	75,240	75,240	—	—
Incentive Revenue	752	654	98	15.0	2,363	2,068	295	14.3
	129,373	247,222	(117,849)	(47.7)	594,932	1,011,380	(416,448)	(41.2)
Aircraft leasing under the CPA	35,592	32,488	3,104	9.6	139,817	129,871	9,946	7.7
Other[(1)]	19,159	22,239	(3,080)	(13.8)	66,587	98,153	(31,566)	(32.2)
	184,124	301,949	(117,825)	(39.0)	801,336	1,239,404	(438,068)	(35.3)

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

22 CONSOLIDATED STATEMENTS OF INCOME

(expressed in thousands of Canadian dollars)	Year ended December 31, 2020 $	2019 $
Operating revenue	948,721	1,366,447
Operating expenses		
Salaries, wages and benefits	312,978	471,118
Depreciation, amortization and impairment	224,354	136,948
Aircraft maintenance materials, supplies and services	102,362	207,846
Airport and navigation fees	69,438	170,065
Terminal handling services	9,470	20,493
Other	115,572	159,514
	834,174	1,165,984
Operating income	114,547	200,463
Non-operating (expenses) income		
Interest revenue	1,008	3,052
Interest expense	(91,782)	(74,820)
Loss on disposal of property and equipment	(1,946)	(653)
Foreign exchange gain	25,156	30,613
Other	—	(395)
	(67,564)	(42,203)
Income before income taxes	46,983	158,260
Income tax expense		
Current income tax	6,817	(8,416)
Deferred income tax	(12,314)	(16,684)
	(5,497)	(25,100)
Net income	41,486	133,160

23 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".

24 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 Cost 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 Cost 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;

"**EBT**" means earnings before income tax;

"**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);

"**RAL**" means the Regional Aircraft Leasing segment which leases aircraft to its customers through CAC;

"**RAS**" means the Regional Aviation Services segment which includes contract flying, charter operations and maintenance, repair and overhaul services that is carried on by both Jazz and Voyageur as well as corporate expenses;

"**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.

25 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”, “potential”, “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, a failure to conclude transactions (including potential financings) referenced in this MD&A, as well as the factors identified in the risk factors in Section 8 - Capital Structure and Section 10 - Risk Factors of this MD&A 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.