



Third Quarter 2021

Unaudited Interim Condensed
Consolidated Financial Statements

September 30, 2021

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at	
	September 30, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Cash	223,195	165,717
Accounts receivable – trade and other (note 16)	107,453	109,403
Inventories	81,838	81,190
Prepaid expenses and deposits	10,081	11,022
Current portion of finance lease receivables	2,442	2,283
Income tax receivable	461	8,952
	425,470	378,567
Restricted cash (note 15)	70,261	38,493
Finance lease receivables	4,310	6,173
Property and equipment (note 6)	2,638,170	2,771,994
Intangibles	1,681	1,681
Goodwill	7,150	7,150
Deferred income tax asset (note 9)	5,279	2,152
Other long-term assets (note 16)	173,321	131,476
	3,325,642	3,337,686
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	210,273	157,596
Current portion of lease liabilities	3,867	3,613
Current portion of long-term incentive plan	1,042	2,220
Current portion of long-term debt (note 8)	232,991	216,796
Income tax payable	1,384	130
	449,557	380,355
Lease liabilities	7,272	8,372
Long-term debt (note 8)	1,846,493	1,965,810
Deferred income tax liability (note 9)	194,061	209,815
Other long-term liabilities	142,487	131,991
	2,639,870	2,696,343
Equity	685,772	641,343
	3,325,642	3,337,686
Contingencies (note 13)		
Economic dependence (note 14)		
Subsequent events (note 17)		

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital \$	Deficit \$	Exchange differences on foreign operations \$	Contributed surplus \$	Warrants \$	Equity component of convertible units/ debentures \$	Total \$
Balance - December 31, 2019	281,849	(716,036)	(3,633)	1,039,832	—	2,981	604,993
Net income for the period	—	32,329	—	—	—	—	32,329
Other comprehensive (loss) income for the period (net of tax)	—	(8,719)	13,535	—	—	—	4,816
Comprehensive income for the period	—	23,610	13,535	—	—	—	37,145
Dividends	—	(19,520)	—	—	—	—	(19,520)
Dividend reinvestment plan	6,626	713	—	—	—	—	7,339
Balance - September 30, 2020	288,475	(711,233)	9,902	1,039,832	—	2,981	629,957
Net income for the period	—	9,157	—	—	—	—	9,157
Other comprehensive income (loss) for the period (net of tax)	—	17,701	(15,472)	—	—	—	2,229
Comprehensive income (loss) for the period	—	26,858	(15,472)	—	—	—	11,386
Balance - December 31, 2020	288,475	(684,375)	(5,570)	1,039,832	—	2,981	641,343
Net loss for the period	—	(30,644)	—	—	—	—	(30,644)
Other comprehensive (loss) income for the period (net of tax)	—	(1,179)	3,920	—	—	—	2,741
Comprehensive (loss) income for the period	—	(31,823)	3,920	—	—	—	(27,903)
Issuance of shares, net of transaction costs and related tax	68,135	—	—	—	—	—	68,135
Issuance of convertible debentures, net of transaction costs	—	—	—	—	—	2,683	2,683
Warrants issued, net of transaction costs	—	—	—	—	1,514	—	1,514
Balance - September 30, 2021	356,610	(716,198)	(1,650)	1,039,832	1,514	5,664	685,772

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

Unaudited Consolidated Statements of (Loss) Income
For the three and nine-month periods ended September 30, 2021 and 2020

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Operating revenue (note 14)	274,399	196,618	676,759	730,555
Operating expenses (note 14)				
Salaries, wages and benefits	94,360	53,120	258,978	243,300
Depreciation, amortization and impairment	42,680	49,648	149,918	142,646
Aircraft maintenance materials, supplies and services	27,642	17,602	71,913	79,201
Airport and navigation fees	36,903	13,214	62,160	55,964
Terminal handling services	2,494	1,529	4,690	7,859
Other	38,422	26,116	94,685	85,821
	242,501	161,229	642,344	614,791
Operating income	31,898	35,389	34,415	115,764
Non-operating (expenses) income				
Interest revenue	197	151	612	860
Interest expense	(23,092)	(25,857)	(72,380)	(68,141)
Gain (loss) on disposal of property and equipment	2	(202)	1,718	(576)
Foreign exchange (loss) gain	(20,266)	14,824	(5,494)	(6,141)
	(43,159)	(11,084)	(75,544)	(73,998)
(Loss) income before income taxes	(11,261)	24,305	(41,129)	41,766
Income tax (expense) recovery (note 9)				
Current income tax	(1,304)	(1,917)	(5,468)	(4,986)
Deferred income tax	(1,517)	(1,930)	15,953	(4,451)
	(2,821)	(3,847)	10,485	(9,437)
Net (loss) income	(14,082)	20,458	(30,644)	32,329
(Loss) income per share, basic	(0.08)	0.13	(0.18)	0.20
(Loss) income per share, diluted	(0.08)	0.12	(0.18)	0.20

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

Unaudited Consolidated Statements of Comprehensive Income (Loss)
For the three and nine-month periods ended September 30, 2021 and 2020

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Net (loss) income	(14,082)	20,458	(30,644)	32,329
Other comprehensive income (loss)				
<i>Items that will not be subsequently reclassified to the statements of income</i>				
Actuarial gain (loss) on employee benefit liabilities, net of tax expense (recovery) of \$1,536 and (\$2,298) (2020 - (\$653) and \$469)	4,203	(1,766)	(6,202)	1,257
<i>Items that will be subsequently reclassified to the statements of income</i>				
Change in fair value of financial assets and liabilities, net of tax expense (recovery) of \$109 and \$360 (2020 - \$380 and (\$805))	613	565	5,023	(9,976)
Exchange differences on translation of foreign operations (note 12)	13,589	(6,239)	3,920	13,535
Comprehensive income (loss)	4,323	13,018	(27,903)	37,145

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

Unaudited Consolidated Statements of Cash Flows
For the three and nine-month periods ended September 30, 2021 and 2020

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Cash provided by (used in)				
Operating activities				
Net (loss) income	(14,082)	20,458	(30,644)	32,329
Charges (credits) to operations not involving cash				
Depreciation, amortization and impairment	42,680	49,648	149,918	142,646
Inventory provision	—	—	9,090	—
Amortization of accrued transaction and financing fees	1,308	1,127	3,378	3,106
(Gain) loss on disposal of property and equipment	(2)	202	(1,718)	576
Unrealized foreign exchange loss (gain)	20,786	(20,024)	2,022	(4,035)
Realized foreign exchange loss	1,462	2,743	4,394	10,209
Effect of foreign exchange rate changes on cash	(2,565)	3,127	(246)	(398)
Deferred income tax expense (recovery)	1,517	1,930	(15,953)	4,451
Other	534	422	1,730	(828)
	51,638	59,633	121,971	188,056
Net changes in non-cash balances related to operations (note 15)	31,174	19,425	14,059	(88,204)
	82,812	79,058	136,030	99,852
Financing activities				
Repayment of lease liabilities	(966)	(1,555)	(2,898)	(5,037)
Repayment of long-term borrowings	(45,520)	(31,555)	(256,191)	(106,940)
Long-term borrowings, net of financing fees	—	60,050	24,911	304,675
Issuance of shares and warrants, net of transaction costs	—	—	68,560	—
Unsecured debentures, net of transaction costs	80,850	—	150,357	372
Dividends	—	—	—	(18,680)
	34,364	26,940	(15,261)	174,390
Investing activities				
Increase (decrease) in security deposits and maintenance reserves	11,452	(2,455)	22,807	4,026
Additions to property and equipment	(9,020)	(73,193)	(56,260)	(177,328)
Payments received on finance lease receivables	575	1,284	1,677	3,989
Proceeds on disposal of property and equipment	2	5,739	1,718	5,755
Increase in restricted cash	(42,669)	(4,804)	(32,828)	(17,817)
	(39,660)	(73,429)	(62,886)	(181,375)
Effect of foreign exchange rate changes on cash	3,250	(3,618)	(405)	2,327
Net change in cash during the periods	80,766	28,951	57,478	95,194
Cash – Beginning of periods	142,429	153,410	165,717	87,167
Cash – End of periods	223,195	182,361	223,195	182,361

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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

1 General information

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

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

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

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

The CPA was most recently amended on March 1, 2021 (the "CPA Amendments"). The CPA Amendments included (i) the addition of 25 Embraer 175 aircraft to the covered aircraft fleet, which increased the fixed fee margin, (ii) Jazz as the exclusive Air Canada Express operator of 70-78 seat regional capacity until 2025, (iii) Dash 8-300 aircraft exited the covered aircraft fleet and (iv) controllable cost guardrail receivable capped at \$20,000 for the first three quarters with the exception of the controllable cost guardrail of \$2,000. The annual reconciliation is completed subsequent to the fourth quarter at which time the controllable cost guardrail receivable is paid in full. All other material components of the CPA are unchanged. The CPA Amendments became effective on a retroactive basis to January 1, 2021.

Chorus provides aircraft leasing to third-party air operators through its wholly-owned subsidiary Chorus Aviation Capital Corp. and its wholly-owned subsidiaries (collectively, "CAC").

2 Basis of presentation

These financial statements are in compliance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*. Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying Chorus' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2020. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2020.

These financial statements have been authorized for issuance by Chorus' Board of Directors on November 10, 2021.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2020.

Contract assets

Chorus recognized contract assets on the application of IFRS 16, for work performed related to leasehold improvements on contract combination aircraft. As a lease no longer exists for these aircraft, the work is viewed as services provided to Air Canada that are accounted for under IFRS 15.

Contract assets are also recognized when costs are incurred to obtain a contract with a customer that would otherwise not have been incurred. In March 2021, Chorus recorded a contract asset of \$20,000 in connection with the transfer and integration of the Embraer 175 aircraft into the covered aircraft fleet. Chorus will amortize the balance over the remaining life of the CPA contract and has recorded amortization expense of \$334 and \$1,000 for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020 - \$nil).

Government grants and assistance

In response to the economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") program in April 2020. CEWS provides a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, including demonstration of revenue declines as a result of COVID-19. This subsidy was retroactive to March 15, 2020 and ends October 23, 2021. The qualification and application of the CEWS is assessed over multiple four-week application period segments.

In addition, the Government of Canada announced the Canada Emergency Rent Subsidy ("CERS") program in November 2020. CERS provides a rent and property tax subsidy for companies that demonstrate a decline in revenue. This subsidy was retroactive to September 27, 2020 and ends October 23, 2021. The qualification and application of the CERS is assessed over multiple four-week application period segments.

Chorus recognizes government grants when there is reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received. Chorus recognizes government grants as a reduction to the related expense that the grant is intended to offset. Chorus has recognized government grants related to the CEWS of \$13,198 and \$66,999 for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020 - \$43,461 and \$96,878, respectively) and \$214 and \$1,281 related to the CERS for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020 - \$nil).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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

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

Where forgivable loans are provided by governments with forgiveness contingent on meeting certain criteria, the forgivable loan is recorded as an offset to property and equipment and certain expenses when Chorus has met the terms for forgiveness of the loan. Chorus had a forgivable loan from the Northern Ontario Heritage Fund Corporation, for which forgiveness was contingent on meeting certain average employment levels over a three year period commencing on March 1, 2019 to March 1, 2021. These average employment levels were met, and during the nine months ended September 30, 2021, Chorus recorded a credit to property and equipment in the amount of \$2,523 and a credit of \$23 to operating expense.

Critical accounting estimates and judgements

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

COVID-19

The novel strain of the coronavirus ("COVID-19"), which was declared as a pandemic by the World Health Organization on March 11, 2020, 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 led to decreased passenger demand due to strict travel restrictions and health concerns which has impacted airlines around the world. With the increase in the number of fully vaccinated people worldwide, the travel industry has begun its recovery from its lowest points in 2020.

While passenger volumes and revenues have improved in the third quarter of 2021, airlines are still 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.

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

Operating revenue

Under the CPA, Chorus and Air Canada were to re-set certain rates on an annual basis with new rates retroactively applied to the beginning of the year. Due to the impact of COVID-19, Chorus and Air Canada mutually agreed to use interim rates for certain controllable costs to estimate CPA operating revenues during the nine months ended September 30, 2021. Given the nature of the controllable cost guardrail, Chorus' exposure to variances between the controllable cost revenue Chorus receives from Air Canada to cover annually negotiated controllable costs and Chorus' actual controllable costs incurred in performing its services for Air Canada is limited to \$2,000 annually.

Employee future benefits

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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

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

Depreciation and amortization of long-lived assets

Management makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current fair value of the assets, Chorus' fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. These adjustments are accounted for on a prospective basis, through depreciation, amortization and impairment expense. A 10% reduction to the residual values of aircraft would result in an increase of \$6,538 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 three and nine months ended September 30, 2021, Chorus recorded impairment provisions of \$6,333 and \$39,996, respectively, net of recoveries, (three and nine months ended September 30, 2020 - \$11,161 and \$26,614, respectively) (refer to note 6 - Property and equipment).

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 December 31, 2020 value in use was 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%.

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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

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

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 deferral arrangements with substantially all of its lessees. If COVID-19 and associated government restrictions continue for a prolonged period of time, the risks associated with the payment of deferred and future 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 mainly to the COVID-19 pandemic and related government restrictions on travel, for the three and nine months ended September 30, 2021, Chorus recorded a charge related to the allowance for expected credit loss of trade and other receivables of \$915 and \$5,412, respectively (three and nine months ended September 30, 2020 - \$4,110 and \$6,042, respectively), which is included in operating expense.

4 Segmented information

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

Chorus has two reportable operating segments:

- The Regional Aviation Services segment includes contract flying, charter operations and maintenance, repair and overhaul services that is carried on by both Jazz and Voyageur. This segment also includes corporate expenses on various debt instruments, such as interest on secured convertible debentures, unsecured debentures, unsecured convertible debentures, unsecured revolving credit facility and operating credit facility, executive and stock-based compensation and professional fees. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment as it is an important part of the CPA. Aircraft leasing under the CPA currently includes 34 Dash 8-400s and 14 CRJ900s as well as five engines which are owned by Chorus.
- The Regional Aircraft Leasing segment leases aircraft to third parties through CAC. Its current portfolio of leased aircraft includes 53 aircraft comprising 17 ATR72-600s, 21 Dash 8-400s, four CRJ1000s, four E190s, two E195s and five A220-300s. CAC owns nine aircraft that are currently off-lease. Chorus' intention with respect to aircraft currently off-lease is to remarket them for lease (refer to note 8 - Long-term debt).

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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

4 Segmented information (continued)

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

Chorus revised its definition of Adjusted EBT and Adjusted EBITDA in the first quarter of 2021 to include the Dash 8-300 inventory provision, the defined benefit pension curtailment resulting from the pilot early retirement program and integration costs related to the CPA Amendments to facilitate 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.

Adjusted EBITDA refers to earnings before net interest expense, income taxes, depreciation and amortization, impairment provisions, lease repossession costs net of security packages realized, the Dash 8-300 inventory provision, the defined benefit pension curtailment, integration costs, signing bonuses, employee separation program costs, strategic advisory fees and other items such as foreign exchange gains or losses. Adjusted EBT refers to earnings before income tax, signing bonuses, employee separation program costs, strategic advisory fees, impairment provisions, lease repossession costs net of security packages realized, the Dash 8-300 inventory provision, the defined benefit pension curtailment, integration costs and other items such as foreign exchange gains and losses.

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

A significant customer is one that represents 10% or more of each segment revenue earned during the period. For the three and nine months ended September 30, 2021 and September 30, 2020, the Regional Aviation Services segment reported revenue from one significant customer. See note 14 "Economic dependence" for a discussion of transactions between Chorus and Air Canada, and its subsidiary (Air Canada Capital Ltd.). For the three and nine months ended September 30, 2021, there were six leasing customers (three and nine months ended September 30, 2020 - five and four, respectively) that represented 10% or more of the Regional Aircraft Leasing segment revenue.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine-month periods ended September 30, 2021

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

4 Segmented information (continued)

Information regarding the quarterly and year-to-date financial results of each reportable operating segment is as follows:

	For the three months ended September 30, 2021			For the three months ended September 30, 2020		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	\$	\$	\$	\$	\$	\$
Operating revenue	242,896	31,503	274,399	163,737	32,881	196,618
Operating expenses	210,729	31,772	242,501	125,647	35,582	161,229
Operating income (loss)	32,167	(269)	31,898	38,090	(2,701)	35,389
Net interest expense	(12,684)	(10,211)	(22,895)	(11,384)	(14,322)	(25,706)
Foreign exchange (loss) gain	(17,500)	(2,766)	(20,266)	11,405	3,419	14,824
Gain (loss) on disposal of property and equipment	2	—	2	(202)	—	(202)
Earnings (loss) before income tax	1,985	(13,246)	(11,261)	37,909	(13,604)	24,305
Income tax (expense) recovery	(4,504)	1,683	(2,821)	(4,648)	801	(3,847)
Net (loss) income	(2,519)	(11,563)	(14,082)	33,261	(12,803)	20,458

	For the nine months ended September 30, 2021			For the nine months ended September 30, 2020		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	\$	\$	\$	\$	\$	\$
Operating revenue	579,654	97,105	676,759	617,213	113,342	730,555
Operating expenses	562,088	80,256	642,344	519,980	94,811	614,791
Operating income	17,566	16,849	34,415	97,233	18,531	115,764
Net interest expense	(37,537)	(34,231)	(71,768)	(29,700)	(37,581)	(67,281)
Foreign exchange gain (loss)	1,057	(6,551)	(5,494)	(10,003)	3,862	(6,141)
Gain (loss) on disposal of property and equipment	1,718	—	1,718	(576)	—	(576)
(Loss) earnings before income tax	(17,196)	(23,933)	(41,129)	56,954	(15,188)	41,766
Income tax recovery (expense)	7,698	2,787	10,485	(11,013)	1,576	(9,437)
Net (loss) income	(9,498)	(21,146)	(30,644)	45,941	(13,612)	32,329

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

4 Segmented information (continued)

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

	For the three months ended September 30, 2021		For the three months ended September 30, 2020	
	Regional Aviation Services	Regional Aircraft Leasing	Regional Aviation Services	Regional Aircraft Leasing
	\$	\$	\$	\$
Operating income - as reported above	32,167	—	38,090	—
Depreciation and amortization excluding impairment ⁽¹⁾	19,761	—	21,491	—
Employee separation program ⁽¹⁾	—	—	75	—
Adjusted EBITDA⁽²⁾	51,928	—	59,656	—
Loss before income tax	—	(13,246)	—	(13,604)
Unrealized foreign exchange loss (gain)	—	2,575	—	(3,339)
Impairment provisions ⁽¹⁾	—	6,333	—	11,161
Lease repossession costs ⁽¹⁾⁽³⁾	—	3,503	—	747
Adjusted EBT⁽²⁾	—	(835)	—	(5,035)

	For the nine months ended September 30, 2021		For the nine months ended September 30, 2020	
	Regional Aviation Services	Regional Aircraft Leasing	Regional Aviation Services	Regional Aircraft Leasing
	\$	\$	\$	\$
Operating income - as reported above	17,566	—	97,233	—
Depreciation and amortization excluding impairment ⁽¹⁾	60,230	—	64,882	—
Impairment provisions ⁽¹⁾	33,663	—	—	—
Inventory provision ⁽¹⁾	9,090	—	—	—
Employee separation program ⁽¹⁾⁽⁴⁾	26,719	—	4,339	—
Defined benefit pension curtailment ⁽¹⁾	8,868	—	—	—
Integration costs ⁽¹⁾	2,000	—	—	—
Signing bonuses ⁽¹⁾	721	—	—	—
Adjusted EBITDA⁽²⁾	158,857	—	166,454	—
Loss before income tax	—	(23,933)	—	(15,188)
Unrealized foreign exchange loss (gain)	—	6,112	—	(3,804)
Impairment provisions ⁽¹⁾	—	6,333	—	26,614
Lease repossession costs ⁽¹⁾⁽³⁾	—	7,246	—	2,733
Adjusted EBT⁽²⁾	—	(4,242)	—	10,355

(1) Included in operating expenses.

(2) These are non-GAAP financial measures.

(3) Lease repossession costs are net of security packages realized.

(4) Includes \$26,300 related to the pilot early retirement program costs as a part of the CPA Amendments

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

4 Segmented information (continued)

Selected assets and liability information by reportable operating segment:

	As at September 30, 2021			As at December 31, 2020		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	\$	\$	\$	\$	\$	\$
Additions to property and equipment, net of deposits applied ⁽¹⁾	36,496	19,764	56,260	258,244	147,893	406,137
Property and equipment	1,198,251	1,439,919	2,638,170	1,269,084	1,502,910	2,771,994
Long-term debt (excluding lease liabilities)	1,208,459	871,025	2,079,484	1,108,855	1,073,751	2,182,606

(1) Excludes non-cash transactions of foreign currency adjustments of \$26,728 (December 31, 2020 - \$9,368).

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

	Three months ended September 30,				Nine months ended September 30,			
	2021		2020		2021		2020	
	\$	%	\$	%	\$	%	\$	%
Canada	242,896	88.5%	163,737	83.3%	579,654	85.7%	617,213	84.5%
Other ⁽¹⁾	31,503	11.5%	32,881	16.7%	97,105	14.3%	113,342	15.5%
	274,399	100.0%	196,618	100.0%	676,759	100.0%	730,555	100.0%

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

	As at September 30, 2021		As at December 31, 2020	
	\$	%	\$	%
Canada	1,198,251	45.4%	1,269,084	45.8%
Other ⁽¹⁾⁽²⁾	1,439,919	54.6%	1,502,910	54.2%
	2,638,170	100.0%	2,771,994	100.0%

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

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

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5 Revenue from contracts with customers

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes other sources of revenue relating to lease income (including any rights to use specified aircraft that have been identified as lease revenues embedded in the CPA and contract flying service agreements) of \$70,974 and \$211,934 for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020 - \$70,520 and \$228,828 respectively). Revenue is disaggregated primarily by nature and category in the underlying contract.

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Controllable cost revenue	124,712	71,459	279,613	325,494
Fixed margin ⁽¹⁾	16,430	18,387	49,290	54,024
Incentive revenue	421	996	1,547	1,611
CPA pass-through revenue	44,993	19,616	78,615	79,450
Other	16,869	15,640	55,760	41,148
	203,425	126,098	464,825	501,727

(1) Jazz earned a fixed margin which was set for 2020 as an aggregate amount irrespective of the number of covered aircraft. In 2021 and thereafter the fixed margin will be earned based on the number of covered aircraft operated by Jazz under the CPA. The fixed margin does not vary based on flight activity.

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6 Property and equipment

	Flight equipment \$	Facilities \$	Equipment \$	Leaseholds \$	Right-of-use assets \$	Deposits on aircraft \$	Total \$
Year ended December 31, 2020							
Opening net book value	2,508,814	34,073	10,227	5,693	2,778	30,742	2,592,327
Additions	427,072	303	996	2,798	—	19,687	450,856
Right-of-use assets	—	—	—	—	1,814	—	1,814
Deposits applied	—	—	—	—	—	(44,719)	(44,719)
Disposals	(13,296)	—	(150)	—	—	—	(13,446)
Impairment	(68,197)	—	—	—	—	—	(68,197)
Foreign currency adjustment	7,949	—	—	—	1	1,418	9,368
Depreciation	(147,990)	(1,617)	(3,907)	(1,170)	(1,325)	—	(156,009)
Closing net book value	2,714,352	32,759	7,166	7,321	3,268	7,128	2,771,994
Nine months ended September 30, 2021							
Opening net book value	2,714,352	32,759	7,166	7,321	3,268	7,128	2,771,994
Additions	65,673	(2,272)	185	(198)	—	—	63,388
Right-of-use assets	—	—	—	—	2,144	—	2,144
Deposits applied	—	—	—	—	—	(7,128)	(7,128)
Disposals	(7,608)	—	—	—	—	—	(7,608)
Impairment	(48,996)	—	—	—	—	—	(48,996)
Foreign currency adjustment	(26,723)	—	—	—	(5)	—	(26,728)
Depreciation	(103,603)	(1,279)	(2,536)	(249)	(1,229)	—	(108,896)
Closing net book value	2,593,095	29,208	4,815	6,874	4,178	—	2,638,170
At December 31, 2020							
Cost	3,390,149	49,236	81,461	20,472	6,168	7,128	3,554,614
Accumulated depreciation	(675,797)	(16,477)	(74,295)	(13,151)	(2,900)	—	(782,620)
Net book value	2,714,352	32,759	7,166	7,321	3,268	7,128	2,771,994
At September 30, 2021							
Cost	3,407,833	46,811	81,397	20,026	8,314	—	3,564,381
Accumulated depreciation	(814,738)	(17,603)	(76,582)	(13,152)	(4,136)	—	(926,211)
Net book value	2,593,095	29,208	4,815	6,874	4,178	—	2,638,170

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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

6 Property and equipment (continued)

For the three and nine months ended September 30, 2021, Chorus recorded impairment provisions of \$6,333 and \$39,996, respectively, net of \$9,000 recovered from Air Canada, (three and nine months ended September 30, 2020 - \$11,161 and \$26,614, respectively) to income. 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.

During the nine months ended September 30, 2021, Chorus reclassified net book value of \$7,608 from property and equipment to inventory held for resale on the statement of financial position.

7 Credit facilities

Operating credit

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

As at September 30, 2021, \$30,000 was drawn under the facility. Chorus has also provided letters of credit totaling \$10,089 that reduce the amount available under this facility. The facility bears interest for Canadian dollar advances at Canadian Prime or Base Rate US dollar LIBOR plus 1.75% - 3.00% and for US dollar advances at BA Borrowing or LIBOR plus 2.75% - 4.00%.

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, a minimum ratio of EBITDA to fixed charges, and a minimum EBITDA target. As at September 30, 2021, Chorus was in compliance with these covenants.

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

Warehouse credit facility

In December 2020, Chorus amended the terms of this facility, to among other things, cancel the remaining available credit under the facility and eliminate the associated commitment fees. The balance outstanding under the facility at September 30, 2021 was \$94,864 (US \$74,456).

All loans under this facility were repayable at a rate of 5.00% annually until January 21, 2021. Effective January 22, 2021, the loans under this facility are repayable based on a 12 year straight-line full payout schedule, adjusted for the age of the aircraft at the time they were added to the facility, until they mature in January 2025. Chorus may prepay loans under this facility at any time in whole or in part, subject to a US \$5,000 minimum prepayment.

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

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7 Credit facilities (continued)

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

The facility contains covenants that must be met on an ongoing basis. The financial covenants include a minimum amount of cash, tangible net worth, and a maximum debt-to-equity ratio in certain subsidiaries. As at September 30, 2021, Chorus was in compliance with these covenants.

Unsecured revolving credit facility

On April 28, 2020, Chorus obtained a US \$100,000 unsecured revolving credit facility for general corporate purposes, repayable in two years. The facility bears interest at a rate of US dollar LIBOR rate plus 5.00%. On December 24, 2020, Chorus amended the terms of this facility such that amounts drawn on the facility will be repayable in eight quarterly instalments 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 \$10,000 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. In the event that Chorus enters into an agreement with an arm's length lender, prior to April 28, 2022, pursuant to which additional unsecured indebtedness may be incurred (other than to repay, refinance, amend or modify existing indebtedness), Chorus is required to repay this facility in an amount equal to 35% of such additional indebtedness.

In connection with the issuance of the Series C Debentures, Chorus deposited \$29,750 in a restricted cash account in favour of the lender under the unsecured revolving credit facility in exchange for a conditional waiver of the 35% repayment obligation thereunder.

The balance outstanding under this facility at September 30, 2021 was \$127,410 (US \$100,000). As at September 30, 2021, Chorus was in compliance with these financial covenants.

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8 Long-term debt

Long-term debt consists of the following:

	As at	
	September 30, 2021	December 31, 2020
	\$	\$
Secured long-term debt and credit facilities		
Amortizing term loans		
Secured by aircraft ^(1a)	1,394,446	1,579,555
Secured by engines ^(1b)	5,980	7,178
Warehouse credit facility ^(1c)	94,864	162,792
Nova Scotia Jobs Fund loan - secured by office building ⁽²⁾	6,000	7,000
Operating credit facility ⁽³⁾	30,000	30,000
6.00% Debentures ⁽⁴⁾	200,000	200,000
	1,731,290	1,986,525
Unsecured long-term debt		
Series A Debentures ⁽⁵⁾	86,250	86,250
Series B Debentures ⁽⁶⁾	72,500	—
Series C Debentures ⁽⁷⁾	85,000	—
Unsecured revolving credit facility ⁽⁸⁾	127,410	127,320
	2,102,450	2,200,095
Less:		
Deferred financing fees	(18,935)	(15,741)
Accretion discount on convertible units and debentures	(4,031)	(1,748)
	2,079,484	2,182,606
Less: Current portion	232,991	216,796
	1,846,493	1,965,810

The current portion of long-term debt in the above table includes deferred financing fees of \$1,891, for the nine months ended September 30, 2021 (December 31, 2020 - \$3,274). The majority of long-term debt is payable in US dollars and has been converted to Canadian currency at 1.2741 which was the exchange rate in effect at closing on September 30, 2021 (December 31, 2020 - 1.2732).

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8 Long-term debt (continued)

(1) Amortizing term loans

- a) Secured by aircraft - Individual term loans, repayable in instalments, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.52%, maturing between July 2022 and February 2033, each secured primarily by its respective aircraft and engines. The net book value of property and equipment pledged as collateral under these term loans was \$2,122,626 (December 31, 2020 - \$2,209,038).

CAC's amortizing term loans for aircraft require the principal amount to be repaid prior to maturity if the aircraft comes off-lease and is not re-leased in accordance with the loan's requirements within a prescribed remarketing period ranging from six to 24 months (depending on the loan). CAC currently has nine aircraft that are off-lease, seven of which have 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. In December 2020, Chorus amended the terms of certain of its aircraft loans 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.

- b) Secured by engines - Individual term loans, repayable in instalments, bearing fixed and floating interest at a weighted average rate of 4.28%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine. As at September 30, 2021, the net book value of property and equipment pledged as collateral under Dash 8-400 engine financing was \$11,228 (December 31, 2020 - \$11,752).
- c) Warehouse credit facility - Individual term loans, repayable in instalments, bearing floating interest at a weighted average rate of 2.83%, 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 4.82%. As at September 30, 2021, the net book value of property and equipment pledged as collateral under these term loans was \$166,880 (December 31, 2020 - \$266,532).

Financial Covenants under amortizing term loans

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

The principal financial covenants are as follows:

Amortizing term loans have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing Inc. ("JLI") and any entity controlled directly or indirectly by either of them), Voyageur and various subsidiaries of CAC (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.

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8 Long-term debt (continued)

- Voyageur is required to maintain prescribed liquidity levels.
- Subsidiaries of CAC have entered into financing agreements in connection with the acquisition of aircraft. CAC, CACIL and/or JLI have guaranteed the indebtedness under a substantial number of these financing agreements. Under the terms of those financing agreements, the guarantors and/or the borrowers are required to maintain a minimum tangible net worth, observe a maximum consolidated total debt to tangible net worth ratio, observe debt-to-equity covenants, maintain a minimum cash balance, maintain minimum lease rent coverage ratios and/or refrain from paying dividends or other distributions if the debt covenants are breached. Furthermore, the indebtedness under certain of these financing agreements is cross-defaulted to payment defaults by JLI under facilities under which JLI is the borrower.

As at September 30, 2021, Chorus (or as applicable, certain subsidiaries) was in compliance with all of these financial covenants.

Furthermore, most amortizing term loans contain provisions that require the immediate repayment of all amounts outstanding thereunder if the borrower or any guarantor of the loan undergoes a change of control without the lender's consent.

(2) Nova Scotia Jobs Fund loan

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

For the three and nine months ended September 30, 2021, the total interest expense on amortizing term loans and the Nova Scotia Jobs Fund loan, inclusive of deferred financing expense amortization, was \$15,002 and \$49,393, respectively (for the three and nine months ended September 30, 2020 - \$19,022 and \$50,686, respectively).

(3) Operating credit facility

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

The 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.

The facility bears interest for Canadian dollar advances at Canadian Prime or Base Rate US dollar LIBOR plus 1.75% - 3.00% and for US dollar advances at BA Borrowing or LIBOR plus 2.75% - 4.00%. As at September 30, 2021, \$30,000 was drawn under the facility. Chorus has also provided letters of credit totaling \$10,089 that reduce the amount available under this facility.

(4) 6.00% Debentures

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

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8 Long-term debt (continued)

Each convertible unit comprises a \$1.0 senior debenture and 121.21212121 warrants (the "Warrants"). The 6.00% Debentures bear interest at a rate of 6.00% per annum, are currently secured by certain Dash 8-100s and Dash 8-300s and real estate property owned by Chorus (the "Collateral Security"), mature on December 31, 2024 and are redeemable at par at any time after December 31, 2021, except in the event of the satisfaction of certain conditions after a change of control (in which case Chorus may be required to make an offer to repurchase all of the 6.00% Debentures) or the exercise of the Warrants.

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

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

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

The following table illustrates the allocation of the convertible units between debt and equity as at September 30, 2021. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt \$	Equity component of convertible units \$	Total \$
Balance - December 31, 2020	6.0	195,955	2,981	198,936
Accretion expense		680	—	680
Balance - September 30, 2021		196,635	2,981	199,616

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

For the three and nine months ended September 30, 2021, the total interest expense on the convertible units was \$3,259 and \$9,656, respectively (for the three and nine months ended September 30, 2020 - \$3,235 and \$9,631, respectively) which included interest accretion of \$234 and \$680, respectively (for the three and nine months ended September 30, 2020 - \$218 and \$639, respectively).

(5) Series A Debentures

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

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

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8 Long-term debt (continued)

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

The Series A Debentures trade on the TSX under the symbol CHR.DB.A.

For the three and nine months ended September 30, 2021, the total interest expense on the Series A Debentures was \$1,419 and \$4,249, respectively (for the three and nine months ended September 30, 2020 - \$1,408 and \$4,211, respectively) which included interest accretion of \$179 and \$530, respectively (for the three and nine months ended September 30, 2020 - \$168 and \$491, respectively).

(6) Series B Debentures

On April 6, 2021, Chorus issued \$72,500 aggregate principal amount of 6.00% unsecured convertible debentures which bear interest at a rate of 6.00% per annum, and mature on June 30, 2026. Subject to adjustment in certain circumstances, the Series B Debentures are convertible at the holder's option into 157.4803 common shares per \$1.0 principal amount of such debentures, initially representing a conversion price of \$6.35 per share.

Subject to regulatory and stock exchange approvals and compliance with applicable securities laws, and provided no event of default has occurred and is continuing at such time under the indenture governing the Series B Debentures, Chorus may, at its option, elect to satisfy its obligation to pay the principal amount of the Series B Debentures, plus any accrued and unpaid interest, on redemption or at maturity through, in whole or in part, the issuance of common shares at a price equal to 95% of the then current market price (as defined in the indenture). In addition, subject to the aforementioned conditions, Chorus may issue common shares to the trustee under the indenture for the Series B Debentures for sale, with the proceeds used to satisfy the interest payment obligation.

The Series B Debentures trade on the TSX under the symbol CHR.DB.B.

Chorus received proceeds of \$69,507 net of \$2,993 in transaction costs associated with the Series B Debentures. Transaction costs are capitalized and offset against the debt and equity portions of the convertible debentures and amortized over the life of the convertible debentures using the effective interest rate.

For the three and nine months ended September 30, 2021, the total interest expense on the convertible debentures was \$1,313 and \$2,549, respectively (for the three and nine months ended September 30, 2020 - \$nil) which included interest accretion of \$226 and \$434, respectively (for the three and nine months ended September 30, 2020 - \$nil).

The following table illustrates the allocation of the convertible debentures between debt and equity as at September 30, 2021. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt \$	Equity component of convertible debentures \$	Total \$
Balance - December 31, 2020	6.0	—	—	—
		66,824	2,683	69,507
Accretion expense		434	—	434
Balance - September 30, 2021		67,258	2,683	69,941

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For the three and nine-month periods ended September 30, 2021

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8 Long-term debt (continued)

(7) Series C Debentures

On September 27 2021, Chorus issued \$85,000 aggregate principal amount 5.75% unsecured debentures ("Series C Debentures") which bear interest at a rate of 5.75% per annum, are unsecured, and mature on June 30, 2027. The Series C Debentures are not convertible by the holders thereof into common shares at any time.

Subject to regulatory and stock exchange approvals and compliance with applicable securities laws, and provided no event of default has occurred and is continuing at such time under the indenture governing the Series C Debentures, Chorus may, at its option, elect to satisfy its obligation to pay all or a portion of the principal amount of the Series C Debentures on redemption or at maturity through, in whole or in part, the issuance of common shares at a price equal to 95% of the then current market price (as defined in the indenture). In addition, and subject to the aforementioned conditions, Chorus may, at its option, satisfy its obligation to pay interest on the Series C Debentures by delivering common shares to the trustee under the indenture governing the Series C Debentures for sale, with the proceeds used to satisfy the interest payment obligation.

Chorus received proceeds of \$80,850, net of \$4,150 in transaction costs associated with the offering. Transaction costs are capitalized and offset against the Series C Debentures and amortized over the life of the debentures using the effective interest rate.

The Series C Debentures trade on the TSX under the symbol CHR.DB.C.

For the three and nine months ended September 30, 2021, the total interest expense on the Series C Debentures was \$122 (for the three and nine months ended September 30, 2020 - \$nil) which included interest accretion of \$13 (for the three and nine months ended September 30, 2020 - \$nil).

(8) Unsecured revolving credit facility

In December 2020, Chorus amended the terms of the US \$100,000 unsecured revolving credit facility, which was obtained in April 2020 for general corporate purposes, to be payable in eight equal instalments of principal and interest starting in July 2022 and ending in April 2024 from the previous required repayment by April 2022. The facility bears interest at a rate of US dollar LIBOR rate plus 5.00%.

For the three and nine months ended September 30, 2021, the total interest expense on the unsecured revolving credit facility was \$1,667 and \$4,959, respectively (for the three and nine months ended September 30, 2020 - \$1,807 and \$2,329, respectively).

The majority of the following future repayments of long-term debt are payable in US dollars and Euros and have been converted to Canadian dollars at closing rates on September 30, 2021. The timing of future principal payments, excluding unamortized deferred financing fees, is as follows:

	\$
No later than one year	234,881
Later than one year and no later than five years	1,213,105
Later than five years	654,464
	<u>2,102,450</u>

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9 Income taxes

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

	Three months ended September 30,	
	2021	2020
	\$	\$
(Loss) income before income tax	(11,261)	24,305
Income tax (recovery) expense at the statutory tax rates ⁽¹⁾	(1,260)	8,543
Recognition of previously unrecognized cumulative eligible capital	(1,461)	(1,578)
Net impact of capital items ⁽²⁾	4,844	(3,699)
Impact of rate changes	—	276
Other	698	305
Income tax expense	2,821	3,847
Effective tax rate	(25.1)%	15.8%

	Nine months ended September 30,	
	2021	2020
	\$	\$
(Loss) income before income tax	(41,129)	41,766
Income tax (recovery) expense at the statutory tax rates ⁽¹⁾	(7,870)	12,695
Recognition of previously unrecognized cumulative eligible capital	(4,349)	(4,699)
Net impact of capital items ⁽²⁾	372	2,615
Impact of rate changes	—	(840)
Other	1,362	(334)
Income tax (recovery) expense	(10,485)	9,437
Effective tax rate	25.5%	22.6%

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

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9 Income taxes (continued)

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately \$290,329 as at September 30, 2021, related to capital cost allowance on eligible capital property. In accordance with the initial recognition exemption, as outlined in IAS 12 *Income taxes*, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three and nine months ended September 30, 2021, Chorus utilized a total of \$5,362 (\$1,461 tax effected) and \$16,087 (\$4,349 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

10 Dividends

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

Chorus declared dividends of \$nil for the three and nine months ended September 30, 2021, respectively (three and nine months ended September 30, 2020 - \$nil and \$19,520, respectively). Cash dividends paid for the three and nine months ended September 30, 2021 were \$nil, respectively (three and nine months ended September 30, 2020 - \$nil and \$18,680, respectively).

11 Capital stock

a) Common shares

Authorized:

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

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

Issued and outstanding:

	Number of Shares	\$
Shares issued and outstanding December 31, 2019	160,450,995	281,849
Shares issued through dividend reinvestment plan	1,416,393	6,626
Shares issued and outstanding December 31, 2020	161,867,388	288,475
Shares issued through public offering	15,783,500	68,135
Shares issued and outstanding September 30, 2021	177,650,888	356,610

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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11 Capital stock (continued)

Public offering

On April 6, 2021, Chorus completed a public offering of units of Chorus (the "Units"). Each Unit is comprised of one common share and one-half of a common share purchase warrant of Chorus. Pursuant to the issuance of Units, Chorus issued 15,783,500 common shares from treasury and 7,891,750 common share purchase warrants. Each Unit was issued at a price of \$4.60 per Unit for gross proceeds of \$72,604 (\$69,649, net of transactions costs and income tax). The net value allocated to the common shares issued and the common share purchase warrants was \$68,135 and \$1,514, respectively.

The common share purchase warrants entitle the holder to acquire one common share at an exercise price of \$6.20 per common share purchase warrant, until April 6, 2022.

b) Warrants

	Number of warrants	\$
Outstanding, December 31, 2020	24,242,424	—
Warrants issued pursuant to public offering	7,891,750	1,578
Less: warrant transaction costs	—	(64)
Outstanding, September 30, 2021	32,134,174	1,514

In addition, and subject to adjustment in certain circumstances, up to 24,242,424 common shares are issuable at a price of \$8.25 per share upon the exercise of the warrants and up to 7,891,750 common shares are issuable at a price of \$6.20 per share upon the exercise of the common share purchase warrants.

As at September 30, 2021, Chorus had the following warrants outstanding:

Number of warrants	Exercise Price	Expiry Date
24,242,424	8.25	December 31, 2024
7,891,750	6.20	April 6, 2022

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11 Capital stock (continued)

c) Preferred shares

Authorized:

Chorus has authorized up to 80,750,000 preferred shares issuable in series, with the designation, rights, privileges, restrictions and conditions attaching thereto determined, subject to any limitations set out in Chorus articles, by the directors of Chorus ("Preferred Shares").

As at September 30, 2021, there were no issued and outstanding Preferred Shares.

d) Earnings per share

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

	Three months ended September 30,		Nine months ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Numerator				
(Loss) income	(14,082)	20,458	(30,644)	32,329
Denominator				
Weighted average number of shares	177,650,888	161,867,388	172,158,461	161,490,915
Weighted average dilutive shares	2,425,151	1,987,186	2,432,372	2,134,691
Weighted average number of diluted shares	180,076,039	163,854,574	174,590,833	163,625,606

The calculation of the diluted earnings per share excluded 2,034,022 shares related to stock-based compensation for the nine months ended September 30, 2021 as they were anti-dilutive.

12 Financial instruments and fair values

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine-month periods ended September 30, 2021

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

12 Financial instruments and fair values (continued)

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

- Finance lease receivables

At September 30, 2021, the finance lease receivables had a fair value of \$7,209 versus a carrying value of \$6,752. Chorus' annual cash flows have been discounted at the relevant market interest rates.

- Amortizing term loans

At September 30, 2021, long-term debt had a fair value of \$1,340,995 compared to a carrying value of \$1,501,290, excluding deferred financing fees of \$7,587. 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 September 30, 2021, the 6.00% Debentures had a fair value of \$208,619 versus a carrying value of \$198,547, excluding deferred financing fees of \$1,912. 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.

- Series A Debentures

At September 30, 2021, the Series A Debentures had a fair value of \$85,336 versus a carrying value of \$86,250, excluding deferred financing fees of \$2,636. The fair value is based on quoted prices observed in active markets.

- Series B Debentures

At September 30, 2021, the Series B Debentures had a fair value of \$75,400 versus a carrying value of \$69,621, excluding deferred financing fees of \$2,663. The fair value is based on quoted prices observed in active markets.

- Series C Debentures

At September 30, 2021, the Series C Debentures had a fair value of \$82,450 versus a carrying value of \$85,000, excluding deferred financing fees of \$4,137. The fair value is based on quoted prices observed in active markets.

- Unsecured revolving credit facility

At September 30, 2021, the unsecured revolving credit facility had a fair value of \$125,575 versus a carrying value of \$127,410. 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.

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12 Financial instruments and fair values (continued)

- Interest rate swaps

At September 30, 2021, the interest rate swap liability had a fair value and carrying value of \$6,234. The fair value of interest rate swaps, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

- Total return swap

At September 30, 2021, the total return swap liability had a fair value and carrying value of \$1,821. The fair value of total return swap, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

Financial risk factors

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

Interest rate risk

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, as at September 30, 2021, 98.5% of Chorus' debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 1.5% floating rate debt. Approximately 57.3% 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 its aircraft warehouse credit facility, converting a portion of its floating interest rate debt to fixed rates for the average duration of each loan and facility. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. Certain of the interest rate swaps are designated and effective as cash flow hedges.

The fair value of interest rate swaps was a \$6,234 liability at September 30, 2021 (\$11,736 liability as at December 31, 2020) and is recorded in other long-term liabilities. Changes in the fair value of effective interest rate swaps are recorded in other comprehensive income (loss) and ineffective interest rate swaps are recorded in income. During the three and nine months ended September 30, 2021, Chorus recognized other comprehensive gain of \$613 and \$5,023, respectively, net of tax (for the three and nine months ended September 30, 2020 - other comprehensive gain (loss) of \$565 and \$(9,976), respectively, net of tax). During the three and nine months ended September 30, 2021, Chorus recognized a gain of \$20 and a loss of \$1,845, respectively on an ineffective interest rate swap in income (for the three and nine months ended September 30, 2020 - \$nil). 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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12 Financial instruments and fair values (continued)

In July 2017 the U.K. Financial Conduct Authority announced that the LIBOR will be phased out by the end of 2021. At present, USD LIBOR rates will continue to be published until June 2023. Chorus' exposure to changes in LIBOR rates is confined to those loans, credit facilities, and derivative agreements that have floating rates that reference USD LIBOR and that do not mature before December 31, 2021. As at September 30, 2021, Chorus had 20 loans which totaled \$331,440 and 10 derivative agreements which referenced notional amounts totaling \$174,909 that will be impacted by the transition from USD 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 taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize potential for changes in interest rates to cause adverse changes in cash flows to Chorus.

A 1% change in the interest rate would not have a material impact on net income for the three months ended September 30, 2021.

Credit risk

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

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

CAC has entered into lease deferral arrangements with substantially all its lessees which will reduce Chorus' cash flow over the period of deferrals. In connection with the rent relief arrangements, that include lease term extensions, the repayment terms vary but typically coincide with the lease term extensions. These deferral arrangements could also increase Chorus' receivable risk due to the weakened financial state of its lessees. In addition, Chorus' liquidity could be put under stress where CAC is required to service principal and interest payments under its loans during the term of the deferral arrangements. If COVID-19 and associated government restrictions continue for a prolonged period of time the risks associated with the payment of deferred and future rent payments increase which could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. At September 30, 2021, CAC had total receivables of \$79,439 (December 31, 2020 - \$56,258), inclusive of the accrued straight-line rent receivable of \$30,885 (December 31, 2020 - \$13,640).

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12 Financial instruments and fair values (continued)

	As at September 30, 2021			As at December 31, 2020		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	\$	\$	\$	\$	\$	\$
Trade receivables	19,738	6,952	26,690	14,798	12,626	27,424
Deferred rent receivable	—	8,010	8,010	—	6,270	6,270
Air Canada trade receivable	68,296	—	68,296	70,713	—	70,713
Subtotal	88,034	14,962	102,996	85,511	18,896	104,407
Allowance for ECL	(219)	(7,247)	(7,466)	(218)	(7,933)	(8,151)
Total trade receivables	87,815	7,715	95,530	85,293	10,963	96,256
Accrued straight-line rent ⁽¹⁾⁽²⁾	—	315	315	—	3,106	3,106
Long-term accrued straight-line rent ⁽¹⁾⁽³⁾	—	30,570	30,570	—	10,534	10,534
Long-term receivables ⁽³⁾⁽⁴⁾	14,175	33,592	47,767	2,817	23,722	26,539
Total net receivables	101,990	72,192	174,182	88,110	48,325	136,435
Total gross receivables	102,209	79,439	181,648	88,328	56,258	144,586

(1) These receivables were assessed under IFRS 16 for impairment (refer to note 3 - Significant accounting policies).

(2) Included in prepaid expenses and deposits.

(3) Included in other long-term assets.

(4) Long-term receivables were assessed for ECL allowance under IFRS 9.

Chorus has no financial assets past due, except for trade receivables. At September 30, 2021, the total amount of trade receivables was \$95,530 (December 31, 2020 - \$96,256), net of allowance for ECL of \$7,466 (December 31, 2020 - \$8,151), which has been estimated by management based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment. Significant judgements were made in determining these factors.

At September 30, 2021, the breakdown of past-due trade receivables were as follows:

	September 30, 2021 \$	December 31, 2020 \$
Past due but not impaired		
60 - 90 days	743	2,728
Over 90 days	10,230	9,301
	10,973	12,029

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12 Financial instruments and fair values (continued)

Equity Price Risk

Chorus has equity price risk exposure to common shares that it issues under its various stock-based compensation programs. To mitigate this risk, Chorus hedges the variability of Chorus' share price affecting settlement under its various stock-based compensation programs with a total return swap. 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 \$1,821 liability at September 30, 2021 and is recorded in other long-term liabilities (\$8,077 liability as at December 31, 2020 recorded in other long-term liabilities). During the three and nine months ended September 30, 2021, a corresponding loss of \$3,238 and \$317, respectively, which includes a settlement of \$6,573, has been recorded in operating income, (three and nine months ended September 30, 2020, loss of \$2,272 and \$17,433 respectively including \$4,183 related to settlement for the three months ended March 31, 2020). 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.

Liquidity risk

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

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

As of September 30, 2021, Chorus had \$223,195 in cash and a committed facility of up to \$75,000 with the opportunity to borrow up to a further \$25,000 on a demand basis. As at September 30, 2021, \$30,000 was drawn under the facility. Chorus has also provided letters of credit totaling \$10,089 that reduce the amount available under this facility.

Currency risk

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

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

The amount of US dollar denominated financial assets was \$97,510 and US denominated financial liabilities was \$583,244 at September 30, 2021. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately \$4,857. A 1¢ change in the Euro versus Canadian dollar exchange rate would not have a material impact on unrealized gains or losses for the period ended September 30, 2021.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine-month periods ended September 30, 2021

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13 Contingencies

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

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

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

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

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

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

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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14 Economic dependence

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

	Three months ended September 30,		Nine months ended September 30,	
	2021 \$	2020 \$	2021 \$	2020 \$
Operating revenue				
Air Canada	223,539	147,376	518,666	568,686
Operating expenses				
Air Canada	373	341	1,048	1,872

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

	As at	
	September 30, 2021 \$	December 31, 2020 \$
Accounts receivable		
Air Canada	68,296	70,713
Finance lease receivables		
Air Canada	6,752	8,456
Contract asset		
Air Canada	21,598	3,774
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees		
Air Canada	805	—
Other long-term receivables		
Air Canada	14,175	2,816
Accounts payable and accrued liabilities		
Air Canada	6,722	661
Air Canada Capital Ltd.	6,691	8,207
Accrued Air Canada payable - Deferred lease inducements, prepaid aircraft rent and related fees		
Air Canada	—	164

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

15 Statement of cash flows - supplementary information

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

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
(Increase) decrease in accounts receivable – trade and other	(8,678)	16,413	2,775	(26,647)
Decrease (increase) in inventories	3,037	105	(3,789)	(16,101)
(Increase) decrease in prepaid expenses	(677)	1,323	844	4,650
(Increase) decrease in income tax receivable	(12)	1,413	8,491	930
Increase in other long-term assets	(6,779)	(26,327)	(37,065)	(31,384)
Increase (decrease) in accounts payable and accrued liabilities	46,902	19,956	47,897	(14,809)
Decrease in current portion long-term incentive plan	(78)	(513)	(1,178)	(5,105)
Increase (decrease) in income tax payable	1,078	1,922	1,259	(6,744)
(Decrease) increase in other long-term liabilities	(3,619)	5,133	(5,175)	7,006
	31,174	19,425	14,059	(88,204)

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

b) Other

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Cash payments of interest	19,525	11,925	60,284	48,223
Cash receipts of interest	335	361	1,080	1,566
Cash payments (receipts) of tax	253	(1,418)	(4,319)	10,802

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the three and nine-month periods ended September 30, 2021

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

15 Statement of cash flows - supplementary information (continued)

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

	Amortizing term loans	6.00% Debentures	Series A Debentures	Series B Debentures ⁽¹⁾	Series C Debentures	Credit facilities ⁽²⁾	Total long-term debt	Lease liabilities
	\$	\$	\$	\$	\$	\$	\$	\$
Balance - December 31, 2020	1,746,248	195,955	83,083	—	—	157,320	2,182,606	11,985
Long-term borrowings, net of financing costs	24,911	—	—	66,824	80,850	—	172,585	—
Repayment of long-term borrowings	(256,191)	—	—	—	—	—	(256,191)	—
Repayment of lease liabilities	—	—	—	—	—	—	—	(2,898)
Total financing cash flow activities	(231,280)	—	—	66,824	80,850	—	(83,606)	(2,898)
New lease liabilities	—	—	—	—	—	—	—	2,105
Interest expense	—	680	530	434	13	—	1,657	—
Deferred financing fee amortization	2,665	—	—	—	—	—	2,665	—
Unrealized foreign exchange (gain) loss	(5,237)	—	—	—	—	90	(5,147)	(48)
Realized foreign exchange loss	4,394	—	—	—	—	—	4,394	—
Foreign currency adjustments	(23,085)	—	—	—	—	—	(23,085)	(5)
Total financing non-cash activities	(21,263)	680	530	434	13	90	(19,516)	2,052
Balance - September 30, 2021	1,493,705	196,635	83,613	67,258	80,863	157,410	2,079,484	11,139

(1) Excludes the equity component of convertible units of \$2,683.

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

d) Restricted cash

Cash encumbered in support of issued letters of credit and leasing arrangements have been classified as restricted cash and shown separately in the consolidated statement of financial position (September 30, 2021 - \$70,261; December 31, 2020 - \$38,493). In connection with the issuance of the Series C Debentures, Chorus deposited \$29,750 in a restricted cash account in favour of the lender under the unsecured revolving credit facility in exchange for a conditional waiver of the 35% repayment obligation thereunder.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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16 Additional information

a) Assets

	As at	
	September 30, 2021	December 31, 2020
	\$	\$
Accounts receivable		
Trade receivables	34,700	33,694
Allowance for ECL	(7,466)	(8,151)
Commodity taxes	985	1,957
Other receivables	10,938	11,190
	39,157	38,690
Trade amounts due from Air Canada and its subsidiary (refer to note 14 - Economic dependence)	68,296	70,713
	107,453	109,403
Other long-term assets		
Contract asset ⁽¹⁾	21,598	3,774
Accrued transaction fees, net of accumulated amortization	6,429	6,394
Accrued defined pension benefit asset	65,871	83,872
Long-term receivables ⁽²⁾	47,767	26,539
Long-term accrued straight line rent	30,570	10,534
Asset backed commercial paper	211	282
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees	805	—
Other	70	81
	173,321	131,476

(1) Includes the contract asset recorded in connection with the transfer and integration of the Embraer 175 aircraft into the covered aircraft fleet related to the CPA Amendments.

(2) Includes long-term portion of deferred rent receivables.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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17 Subsequent events

On October 12, 2021, Chorus repaid its operating credit facility maturing on August 30, 2022 in the amount of \$30,000.

On October 14, 2021, Chorus entered into a three-year committed operating credit facility with a maturity date of October 14, 2024. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of \$75,000 with the opportunity to borrow up to a further \$25,000. This facility replaces Chorus' three-year committed operating credit facility maturing on August 30, 2022.

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.