chorus aviation inc.

# First Quarter 2022

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

May 5, 2022

## INTRODUCTION



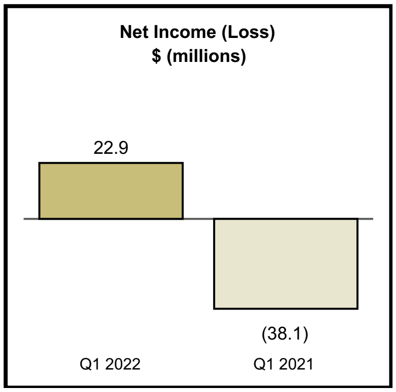
In this MD&A, references to Chorus refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to Jazz. Please refer to Section 23 - Glossary of Terms for definition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

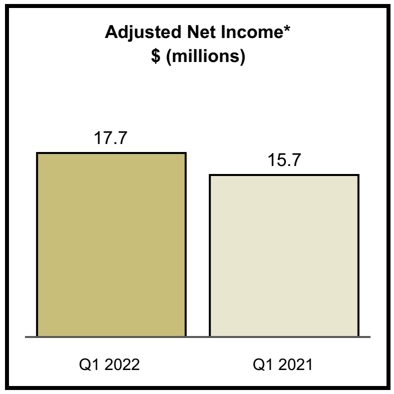
This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements of Chorus and the notes therein for the three months ended March 31, 2022, the audited consolidated financial statements of Chorus for the year ended December 31, 2021, Chorus' 2021 annual MD&A dated February 16, 2022 and Chorus' 2021 Annual Information Form dated February 16, 2022. All financial information has been prepared in accordance with GAAP, as set out in the CPA Canada Handbook, except for any financial information specifically denoted otherwise. Except as otherwise noted or where the context may otherwise require, this MD&A is prepared as of May 5, 2022.

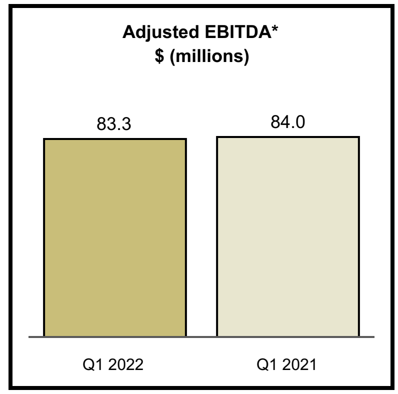
The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to the discussion of specific risks in Section 8 – Capital Structure and Section 10 – Risk Factors.

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

## 1 OVERVIEW




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

**Q1 2022 Financial Highlights:**

- Net income of $22.9 million, or $0.13 per basic Share, a quarter-over-quarter increase of $61.0 million due to a decrease in one-time restructuring costs of $81.8 million related to the 2021 CPA Amendments and lower expected credit loss provisions of $2.5 million partially offset by an increase in income tax expense.
- Adjusted net income of $17.7 million, or $0.10 per basic Share, an increase of $2.0 million quarter-over-quarter primarily due to lower interest expense from repayment of long-term debt in 2021 and lower depreciation expense partially offset by increased adjusted income tax expense.
- Adjusted EBITDA of $83.3 million, a decrease of $0.8 million quarter-over-quarter.

**Falko Acquisition**

On May 3, 2022, Chorus completed the Falko Acquisition. The total consideration paid for the Falko Acquisition on May 3, 2022 was approximately US $810.0 million comprised of US $405.0 million of cash consideration and approximately US $405.0 million of existing indebtedness that will remain with the relevant target entities. As described in the Corporation’s Material Change Report dated May 3, 2022, Chorus expects to acquire the beneficial interest in certain trusts holding an additional five aircraft (the “Trust Interests”) prior to the end of the second quarter of 2022 for aggregate consideration of approximately US $35.0 million (bringing the total consideration for the Falko Business to US $845.0 million).

The Falko Acquisition is a transformative transaction for Chorus with the addition of an asset management platform and equity interests in 123 owned and/or managed regional aircraft creating new opportunities for growth and a differentiated business model to maximize returns on aircraft assets. This acquisition significantly increases Chorus' customers base from 19 to 32 airlines, expands its geographical reach from 16 to 23 countries and increases the value of assets under management to approximately US $4.5 billion. As of May 3, 2022, Chorus owns, manages and/or operates a total of 348 regional aircraft (refer to Section 2 - About Chorus).

On May 3, 2022 and in connection with the Falko Acquisition, an affiliate of Brookfield Special Investments Fund L.P. ("Brookfield"), (i) subscribed for US $300.0 million of Preferred Shares for consideration of US $291.0 million and (ii) subscribed for 25,400,000 Shares and was issued 18,642,772 Share purchase warrants with an exercise price of CAD $4.60 per Share in exchange for US $74.0 million of cash (the "Private Placement"). The Preferred Shares are not convertible and will initially pay a dividend of 8.75% in cash or 9.50% in kind at Chorus' option with step ups after the sixth anniversary (refer to Section 8 - Capital Structure).

The net proceeds from Brookfield's investment were used to partially fund the Falko Acquisition at closing and the balance owing, inclusive of the Trusts Interests will be funded with available cash resources (refer to Section 9 - Liquidity).

**Liquidity**

As of March 31, 2022, Chorus' liquidity was $199.7 million including cash of $110.0 million and $89.7 million of available room on its Operating Credit Facility. Liquidity increased from the fourth quarter of 2021 by $11.2 million primarily due to increased cash flow from operations of $41.5 million and an increase in its committed Operating Credit Facility of $25.0 million offset by scheduled payments on long-term debt of $44.6 million and capital expenditures of $11.6 million.

In connection with the closing of the Falko Acquisition, Chorus entered into a new US $30.0 million unsecured revolving operating credit facility with a nine-month term, maturing February 2023.

**Quarterly Highlights**

- On November 4, 2021, Aeromexico and CAC executed amended and restated lease agreements in respect of all three E190s currently leased by CAC to Aeromexico. These agreements (which became effective on January 31, 2022) reflect revised commercial terms negotiated by the parties following Aeromexico's voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on June 30, 2020. Aeromexico completed its restructuring and emerged from Chapter 11 on March 17, 2022. Chorus recorded an expected recovery of $3.0 million related to its claim in the Aeromexico bankruptcy.
- CAC collected approximately 92% of lease revenue, excluding the expected recovery related to its claim in the Aeromexico bankruptcy, recognized in the first quarter of 2022 up from 83% in the fourth quarter of 2021.
- In February 2022, CAC executed short-term leases for two CRJ900s to CityJet. Both aircraft were delivered in the first quarter of 2022.
- In August 2021, CAC executed long-term leases for six ATR72-600s to Emerald Airlines of Dublin, Ireland. As of April 25, 2022, four aircraft have been delivered and the remaining two deliveries are expected in the second quarter of 2022.
- On December 31, 2021, Philippine Airlines successfully completed its restructuring under Chapter 11 of the United States Bankruptcy Code. CAC had three Dash 8-400s on lease to Philippine Airlines, two have been retained under lease on revised terms negotiated by the parties and one was returned in the first quarter of 2022. CAC has 24 months from the date of repossession to remarket the returned Dash 8-400 under the terms of its loan agreement for this aircraft. The financial impact of this lease termination is included in Chorus' lease repossession costs, net of the value of the security packages held in respect of the aircraft.

**First Quarter Summary**

In the first quarter of 2022, Chorus reported Adjusted EBITDA of $83.3 million, a decrease of $0.8 million over the first quarter of 2021.

The RAL segment's Adjusted EBITDA increased by $2.8 million due to the recognition of the expected recovery of Chorus' claim in the Aeromexico bankruptcy, a $2.5 million decrease in the expected credit loss provision and increased lease revenue from re-leased aircraft partially offset by lower lease revenue attributable to negotiated lease amendments (including extensions).

The RAS segment's Adjusted EBITDA decreased by $3.6 million. First quarter results were impacted by:

- an increase in stock-based compensation expense of $3.7 million due to the change in the Share price inclusive of the change in fair value of the Total Return Swap (refer to Section 8 - Capital Structure - Equity Price Risk); and
- an increase in general administrative expenses attributable to increased operations; partially offset by
- an increase in other revenue due to an increase in part sales partially offset by a decrease in third-party MRO activity and contract flying; and
- an increase in capitalization of major maintenance overhauls on owned aircraft of $1.4 million.

Adjusted net income was $17.7 million for the quarter, an increase of $2.0 million over the first quarter of 2021 due to:

- a decrease in net interest costs of $4.8 million primarily related to the repayment of certain aircraft financing and the partial redemption of the 6.00% Debentures offset by interest on the Series B Debentures and Series C Debentures; and
- a decrease in depreciation expense of $1.1 million; partially offset by
- a $0.8 million decrease in Adjusted EBITDA as previously described;
- an increase of $2.2 million income tax expense on adjusted items; and
- an increase of $1.0 million primarily due to unrealized foreign exchange losses on working capital.

Net income increased $61.0 million over the first quarter of 2021 due to:

- the previously noted increase in Adjusted net income of $2.0 million;
- a decrease in one-time restructuring costs of $81.8 million related to the 2021 CPA Amendments;
- an increase in net unrealized foreign exchange gains primarily on long-term debt of $0.7 million; and
- a decrease in employee separation program costs and lease repossession costs of $0.7 million; partially offset by
- a decrease in income tax recoveries on adjusted items of $21.5 million; and
- strategic advisory fees related to the Falko Acquisition of $2.7 million.

## 2 ABOUT CHORUS

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

The Falko Acquisition adds significantly to CAC's existing portfolio of leased regional aircraft and creates new opportunities for growth by adding a leading asset management platform that, when combined with Chorus' broad suite of capabilities, will enable Chorus to maximize returns on regional aircraft assets.

On May 3, 2022, Chorus closed the Falko Acquisition which includes an asset management platform and equity interests in 123 owned and/or managed regional aircraft as follows:

| Ownership Interest | Target[1] | Number of Aircraft[2] |
|---|---|---|
| 100.0% | Triangle Holdings LP[3][4] | 65 |
| 64.2% | Ravelin Holdings LP | 39 |
| 100.0% | DB AVO Holdings L.P. | 19 |
| | | 123 |

(1) The general partner of each limited partnership (not identified in the above table) has also been acquired by Chorus.
(2) Chorus anticipates completing the acquisition of the Trust Interests prior to the end of second quarter 2022, subject to the satisfaction or waiver of specified conditions applicable to those transactions.
(3) Falko is an indirect subsidiary of Triangle Holdings LP and therefore included in the target assets acquired. All companies above will be consolidated into Chorus' results with the exception of funds with less than 20% ownership which will be accounted for at fair value through profit or loss.
(4) Triangle Holdings LP has an ownership interest in 65 aircraft as follows: 100% of 11 aircraft, 3.85% of a fund holding 53 aircraft and 9.09% of one aircraft. In addition, Triangle Holdings LP has a 3.25% indirect ownership interest in Ravelin Holdings LP.

As of May 3, 2022, Chorus' owned, managed and/or operated aircraft are as follows:

| Source of Revenue | Company | Segment | Aircraft Count |
|---|---|---|---|
| **Aircraft Lease Portfolio[1]** | | | |
| Wholly-owned aircraft | CAC | RAL | 62 |
| Wholly or majority owned aircraft | Falko | RAL | 69 |
| Managed aircraft[2] | Falko | RAL | 54 |
| RAL segment total | | | 185 |
| Wholly-owned aircraft leased under the CPA | Jazz | RAS | 48 |
| **Subtotal** | | | 233 |
| **Other Owned and/or Operated Aircraft** | | | |
| Leased aircraft under the CPA - other covered aircraft[3] | Jazz | RAS | 58 |
| Wholly-owned - third-party lease and contract flying | Voyageur | RAS | 23 |
| Wholly-owned aircraft - non-operating | Voyageur/Jazz | RAS | 34 |
| **Total[4]** | | | **348** |

(1) Aircraft in the lease portfolio includes certain off-lease aircraft which are to be re-leased.
(2) Chorus has a minority ownership interest in these aircraft.
(3) Excludes eight aircraft leased to Jazz from Falko.
(4) The Corporation's news release dated February 27, 2022 reported 353 owned, managed and/or operated aircraft. Changes to this aircraft total since report-out include: the exclusion of five aircraft that will be added upon completing the acquisition of the Trust Interests, two additional minority owned aircraft, less a part-out of one Dash 8-300 and one additional aircraft leased to Jazz from Falko.

Chorus groups its businesses into two reporting segments:

1) **Regional Aviation Services**: This segment includes all three sectors of the regional aviation industry in which Chorus currently operates. This segment also includes corporate expenses, such as interest expense on various debt instruments including the 6.00% Debentures, the Series A Debentures, the Series B Debentures, the Series C Debentures, the Unsecured Revolving Credit Facility and the Operating Credit Facility, executive and stock-based compensation and professional fees.

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

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

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

   b) Aircraft leasing: Jazz currently earns leasing revenue under the CPA from 48 aircraft and five spare engines. Voyageur also earns revenue from aircraft leasing.

   c) Maintenance, repair and overhaul (MRO), part sales and technical services: Jazz through its Jazz Technical Services division provides 24/7 MRO services and is certified on Dash aircraft (with the exception of the Dash 7-100) and CRJ aircraft products as well as Embraer 135, 145 and 175 aircraft. Voyageur provides specialty, MRO and engineering services on Dash aircraft and CRJ aircraft products and is Transport Canada, Federal Aviation Administration and European Aviation Safety Agency certified. Capabilities also include technical advisory support as well as aircraft disassembly and aircraft parts provisioning and sales offering.

2) **Regional Aircraft Leasing**: The RAL segment provides aircraft leasing to third-party air operators, commonly referred to as "dry leasing". On May 3, 2022, Chorus completed the Falko Acquisition. Falko earns asset management fees for managing aircraft on behalf of fund investors, lease income and asset sales from aircraft and incentives related to the performance fund investment targets. RAL's leasing portfolio increased to 185 aircraft with the acquisition of 123 owned and/or managed regional aircraft.

**Jazz earns revenue under the CPA in five ways:**

*1. Fixed Margin*

Jazz earns a Fixed Margin based on the number of Covered Aircraft under the CPA and does not vary based on flight activity.

*2. Performance Incentives*

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

*3. Controllable Cost Revenue*

Jazz and Air Canada negotiate rates (Controllable Cost Revenue) for the Controllable Costs Jazz expects to incur which are estimated based on certain variables to operate Air Canada Express services under the CPA. Jazz's exposure to variances between the Controllable Cost Revenue Jazz receives from Air Canada to cover annually negotiated Controllable Costs, and Jazz's actual Controllable Costs incurred in performing its services for Air Canada is limited to $2.0 million annually (referred to as the "Controllable Cost Guardrail"). If Jazz's Controllable Costs exceed the revenue received from Air Canada by more than $2.0 million, Air Canada will pay to Jazz an amount equal to the excess over $2.0 million. Conversely, if the Controllable Cost Revenue paid by Air Canada to Jazz exceeds Jazz's actual Controllable Costs by more than $2.0 million, Jazz will pay to Air Canada an amount equal to the excess over $2.0 million.

Controllable Cost Revenue rates are set annually, and Jazz and Air Canada complete a quarterly reconciliation and payment is made once the variance, if any, between the Controllable Cost Revenue paid by Air Canada and Jazz's actual Controllable Costs is greater than $20.0 million for the first three quarters with the exception of the $2.0 million Controllable Cost Guardrail. The annual reconciliation is completed subsequent to the fourth quarter at which time the Controllable Cost Guardrail receivable is paid in full.

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

*4. Pass-Through Revenue*

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

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

*5. Aircraft leasing under the CPA*

Jazz earns aircraft leasing revenue under the CPA from the following owned assets: 34 Dash 8-400s, 14 CRJ900s, and five spare engines.

**Jazz incurs two types of costs under the CPA:**

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

*Aircraft fleet under the CPA*

From January 1, 2021 through December 31, 2025, the minimum number of Covered Aircraft is set at 105. From January 1, 2026 through December 31, 2035, Air Canada will determine the composition of the Covered Aircraft fleet on the condition that the fleet must have a minimum of 80 aircraft with 75-78 seats (refer to Section 24 - Caution Regarding Forward-Looking Information).

## 3 STRATEGY

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

On May 3, 2022, Chorus closed the Falko Acquisition which includes its asset management platform and equity interests in 123 regional aircraft owned or managed by Chorus (refer to Section 2 - About Chorus). The Falko and CAC management teams will be integrated in order to better position the combined leasing business to realize the benefit of increased economies of scale and pursue new opportunities. In particular, the newly-combined leasing business is expected to:

1) Broaden Chorus' business by adding an established and growing regional aircraft asset management platform with an excellent track record;
2) Transition Chorus' leasing business to an asset light business model thereby improving cash flow generation and return on capital; and
3) Enable Chorus to better serve the needs of its leasing customers by gaining access to equity capital from third-party fund investors.

Chorus' business was founded on the CPA, a contract pursuant to which Jazz provides substantially all of its capacity to Air Canada in order to operate regional airline services under the Air Canada Express brand. The CPA was amended and extended effective January 1, 2019 and was subsequently amended effective January 1, 2021 and has a term expiring on December 31, 2035. As a result of the 2021 CPA Amendments, Jazz is the exclusive Air Canada Express operator of 70-78 seat regional capacity until the end of 2025.

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

Chorus acquired Voyageur in 2015 as part of its growth and diversification strategy. Voyageur provides charter services and specialized contract flying, such as medical, logistical and humanitarian flights, to international and Canadian customers. Voyageur also provides specialty, MRO and engineering services on Dash aircraft and CRJ aircraft products and is Transport Canada, Federal Aviation Administration and European Aviation Safety Agency certified. Capabilities also include technical advisory support as well as aircraft disassembly and aircraft parts provisioning and sales offering.

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

## 4 OUTLOOK

The discussion that follows includes forward-looking information. This outlook is provided for the purpose of providing information about current expectations for 2022. This information may not be appropriate for other purposes (refer to Section 24 - Caution Regarding Forward-Looking Information).

On May 3, 2022, Chorus completed the Falko Acquisition. This transformative transaction creates new opportunities for growth, through increased access to growth capital and a differentiated business model to maximize returns on aircraft assets.

Taking into account the draws under Chorus' credit facilities and the payment of consideration for the Falko Acquisition, Chorus anticipates having total liquidity in excess of $100.0 million for the remainder of 2022 with approximately half of such liquidity consisting of cash and the remainder consisting of available credit under its Operating Credit Facility and the new US $30.0 million unsecured revolving operating credit facility.

Chorus anticipates having sufficient liquidity to fund ongoing operations, planned capital expenditures and principal and interest payments related to long-term borrowings.

Chorus' forecast[1] for the year ended December 31, 2022 is as follows:

| | **RAL** | | **RAS** | | | | **Consolidated** | |
|---|---|---|---|---|---|---|---|---|
| | | | **Excluding Pass-Through and Controllable Costs (included in revenue and expenses)** | | **Pass-Through and Controllable Costs (included in revenue and expenses)** | | | |
| *(unaudited) (expressed in thousands of Canadian dollars)* | **From** $ | **To** $ | **From** $ | **To** $ | **From** $ | **To** $ | **From** $ | **To** $ |
| Revenue | 260,000 | 275,000 | 310,000 | 330,000 | 1,000,000 | 1,200,000 | 1,570,000 | 1,805,000 |
| Adjusted EBITDA | 215,000 | 235,000 | 205,000 | 220,000 | — | — | 420,000 | 455,000 |
| Adjusted EBT | 75,000 | 90,000 | 74,000 | 84,000 | — | — | 149,000 | 174,000 |
| Adjusted Net Income available to Shareholders[2] | | | | | | | 93,000 | 108,000 |
| Adjusted EPS available to Shareholders[3] | | | | | | | 0.48 | 0.56 |
| Net debt to Adjusted EBITDA | | | | | | | 4.7x | 5.0x |
| Return on Invested Capital (%) | | | | | | | 7.0% | 7.9% |
| Cash from operations[4] | | | | | | | 270,000 | 320,000 |

(1) The forecast excludes the impact of the purchase price allocation ("PPA Adjustments") for the Falko Acquisition as required under *IFRS 3 Business Combinations* ("IFRS 3"). If the initial accounting can be determined only provisionally by the end of the first reporting period, the PPA Adjustments must be completed within 12 months from the acquisition close date. Under IFRS 3, when an acquirer takes control of a business through an acquisition the consideration paid is allocated to the fair value of the assets and liabilities, at the acquisition date, inclusive of the fair value assessment of intangibles. Intangibles include the fair value assessment of: asset management contracts and performance entitlements for existing or future funds, investor/customer relationships and goodwill for the assembled workforce.
(2) Preferred Share dividends and minority interest income are deducted from Adjusted Net Income to determine Net Income available to Shareholders and for Adjusted EPS available to Shareholders.
(3) Weighted average Shares of 194,561,000 was used in the calculation of Adjusted EPS.
(4) Cash from operations exclude dividends paid to minority interest Shareholders and net changes in non-cash balances related to operations.

Key Economic Assumptions:

- The forecast assumes the launch in the second quarter of 2022 of a new investment fund managed by Falko with (i) a minimum of US $500.0 million in capital commitments and (ii) management fees and economic terms commensurate with those in Falko's prior funds.
- The forecast revenue is based on current contracted lease revenue and forecasted revenues for leased aircraft and asset management fees. Aircraft leasing revenue under the CPA and Fixed Margin revenue is expected to be US $114.7 million and $66.3 million, respectively in 2022.
- The forecast uses weighted average statutory tax rates for each of the individual entities based on the jurisdiction in which the entity is taxable. The forecast uses a weighted average income tax rate of 22.0% based on average statutory tax rates of 27.0%, 12.5% and 19.0% in Canada, Ireland and United Kingdom, respectively. The actual weighted average income tax rates may vary due to the actual income in each country and foreign exchange rates.
- The forecast assumes no disposals in 2022 of aircraft leased under the CPA or in the RAL segment.
- The forecast uses a foreign exchange rate of 1.25 to translate USD to CAD revenue and expenses.

**Regional Aircraft Leasing:**

Following the onset of the COVID-19 pandemic, CAC received requests from substantially all of its customers for some form of temporary rent relief, as they coped with an unprecedented reduction in demand for passenger air travel. Under rent relief arrangements, certain of which include lease term extensions, the repayment of the deferred amounts typically coincides with the lease term extensions. As of March 31, 2022, CAC's gross lease receivable was $84.5 million (US $67.6 million) (December 31, 2021 - $84.0 million (US $66.3 million)). The gross lease receivable may increase to approximately $88.0 million (US $70.0 million) by the end of 2022 due to rent relief arrangements and potential delays in payments.

As of March 31, 2022, the net lease receivable, after an expected credit loss provision, was $77.3 million (US $61.9 million) (December 31, 2021 - $76.8 million (US $60.6 million)). CAC's lease deferral receivable exposure is also partially mitigated by security packages held of approximately $28.0 million (US $22.4 million) (December 31, 2021 - $26.8 million (US $21.1 million)).

The following table provides the number of aircraft that earn leasing revenue for completed transactions:

| *(unaudited)* | | Completed Transactions | | |
|---|---|---|---|---|
| **Customer** | **Aircraft type** | **Q4 2021** | **Q1 2022** | **Total** |
| Aeromexico[(1)] | E190 | 3 | | 3 |
| Air Nostrum | CRJ1000 | 4 | | 4 |
| airBaltic | A220-300 | 5 | | 5 |
| Azul Airlines[(2)] | ATR72-600/E195 | 5 | | 5 |
| CityJet | CRJ900 | — | 2 | 2 |
| Cobham | Dash 8-400 | 1 | | 1 |
| Croatia Airlines | Dash 8-400 | 2 | | 2 |
| Emerald Airlines[(3)] | ATR72-600 | 2 | 1 | 3 |
| Ethiopian Airlines | Dash 8-400 | 5 | | 5 |
| Indigo | ATR72-600 | 8 | | 8 |
| Jambojet | Dash 8-400 | 3 | | 3 |
| KLM Cityhopper | E190 | 1 | | 1 |
| Malindo Air | ATR72-600 | 4 | | 4 |
| Philippine Airlines[(4)] | Dash 8-400 | 3 | (1) | 2 |
| Sky Alps | Dash 8-400 | 2 | | 2 |
| SpiceJet | Dash 8-400 | 5 | | 5 |
| Waltzing Matilda | Dash 8-400 | 2 | | 2 |
| Wings Air | ATR72-600 | 1 | | 1 |
| Total Regional Aircraft Leasing | | 56 | 2 | 58 |
| Total Regional Aviation Services[(5)] | Dash 8-400/CRJ900 | 48 | — | 48 |
| Chorus Total Aircraft | | 104 | 2 | 106 |

(1) On November 4, 2021, Aeromexico and CAC executed amended and restated lease agreements in respect of all three E190s currently leased by CAC to Aeromexico. These agreements (which became effective on January 31, 2022) reflect revised commercial terms negotiated by the parties following Aeromexico's voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on June 30, 2020. On March 17, 2022, Aeromexico completed its reorganization and emerged from Chapter 11.
(2) Consists of three ATR72-600s and two E195s.
(3) CAC executed long-term leases for six ATR72-600s to Emerald Airlines. As at March 31, 2022, three of the aircraft had been delivered, one additional aircraft was delivered on April 25, 2022 and the remaining two deliveries are expected in the second quarter of 2022.
(4) On December 31, 2021, Philippine Airlines successfully completed its restructuring under Chapter 11 of the United States Bankruptcy Code. Two aircraft have been retained under lease on revised terms and one was returned in the first quarter of 2022.
(5) RAS segment breakdown includes the following aircraft earning lease revenue under the CPA: 34 Dash 8-400s and 14 CRJ900s.

Capital expenditures in 2022, including capitalized major maintenance overhauls but excluding expenditures for the acquisition of aircraft are expected to be between $21.0 million and $33.0 million. Aircraft acquisitions and improvements in 2022 are expected to be between $10.0 million and $17.0 million.(1)

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Planned 2022(1)<br>$ | Actual<br>Three months ended March 31, 2022<br>$ | Actual<br>Year ended December 31, 2021(2)<br>$ |
|---|---|---|---|
| Capital expenditures, excluding aircraft acquisitions | 15,000 to 21,000 | 1,409 | 7,019 |
| Capitalized major maintenance overhauls(3) | 6,000 to 12,000 | 5,939 | 20,296 |
| Aircraft acquisitions and improvements | 10,000 to 17,000 | 4,287 | 47,392 |
| | 31,000 to 50,000 | 11,635 | 74,707 |

(1) The 2022 plan includes reconfiguration costs on re-leased aircraft in the RAL segment which have been converted to Canadian from US dollars using a foreign exchange rate of 1.2496, the March 31, 2022 closing day rate from the Bank of Canada.

(2) The 2021 actual includes the acquisition of one CRJ900 and reconfiguration costs on certain off-lease and re-leased aircraft.

(3) The 2022 plan includes between $2.0 million to $5.0 million of costs that are expected to be included in Controllable Costs. Actual 2022 and 2021 costs include $2.7 million and $8.1 million, respectively which were included in Controllable Costs.

## 5 FLEET

The following table provides the total number of aircraft in Chorus' fleet as at March 31, 2022 and December 31, 2021.

| (unaudited) | December 31, 2021 | 2022 Fleet Changes | | | March 31, 2022 | Owned |
|---|---|---|---|---|---|---|
| | | Additions | Removals | Transfers | | |
| **Regional Aircraft Leasing** | | | | | | |
| **Third-Party Leased Aircraft** | | | | | | |
| CRJ900 | 2 | — | — | — | 2 | 2 |
| CRJ1000 | 4 | — | — | — | 4 | 4 |
| Dash 8-400 | 23 | — | — | — | 23 | 23 |
| E190 | 4 | — | — | — | 4 | 4 |
| E195 | 2 | — | — | — | 2 | 2 |
| ATR72-600 | 22 | — | — | — | 22 | 22 |
| A220-300 | 5 | — | — | — | 5 | 5 |
| **Total Regional Aircraft Leasing** | 62 | — | — | — | 62 | 62 |
| **Regional Aviation Services** | | | | | | |
| **Covered Aircraft Leased Under the CPA** | | | | | | |
| Dash 8-400 | 34 | — | — | — | 34 | 34 |
| CRJ900 | 14 | — | — | — | 14 | 14 |
| **Total Covered Aircraft Leased Under the CPA** | 48 | — | — | — | 48 | 48 |
| **Other Covered Aircraft** | | | | | | |
| CRJ200 | 15 | — | — | — | 15 | — |
| CRJ900 | 21 | — | — | — | 21 | — |
| Dash 8-400 | 5 | — | — | — | 5 | — |
| E175 | 25 | — | — | — | 25 | — |
| **Total Other Covered Aircraft** | 66 | — | — | — | 66 | — |
| **Jazz Other Aircraft** | | | | | | |
| Dash 8-300 - Other(1)(2) | 9 | — | — | (9) | — | — |
| **Total Jazz Other Aircraft** | 9 | — | — | (9) | — | — |
| **Voyageur Aircraft** | | | | | | |
| CRJ200 | 7 | — | — | — | 7 | 7 |
| King Air 200 | 2 | — | — | — | 2 | 2 |
| Dash 8-100(3) | 7 | — | — | — | 7 | 7 |
| Dash 8-300(4) | 7 | — | (1) | — | 6 | 6 |
| Dash 8-400 | 1 | — | — | — | 1 | 1 |
| **Total Voyageur Aircraft** | 24 | — | (1) | — | 23 | 23 |
| **Non-Operational Aircraft** | | | | | | |
| Dash 8-100(2) | 16 | — | — | — | 16 | 16 |
| Dash 8-300(1)(2) | 9 | — | — | 9 | 18 | 18 |
| **Total Non-Operational Aircraft** | 25 | — | — | 9 | 34 | 34 |
| **Total Regional Aviation Services** | 172 | — | (1) | — | 171 | 105 |
| **Total Aircraft** | 234 | — | (1) | — | 233 | 167 |

(1) Dash 8-300s were removed from the Covered Aircraft per the 2021 CPA Amendments.
(2) Chorus plans to sell, lease, part-out, or operate these aircraft.
(3) Includes six aircraft leased to a third party.
(4) Includes three aircraft leased to a third party.

## 6 CONSOLIDATED FINANCIAL ANALYSIS

This section provides detailed information and analysis about Chorus' performance for the three months ended March 31, 2022 compared to the three months ended March 31, 2021. It focuses on Chorus' consolidated operating results and provides financial information for Chorus' operating segments. For further discussion and analysis of Chorus' business segments, refer to Section 7 - Segmented Analysis.

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | **2022**<br>$ | **2021**<br>$ | **Change**<br>$ | **Change**<br>% |
| Operating revenue | 342,380 | 202,487 | 139,893 | 69.1 |
| Operating expenses | 299,068 | 239,383 | 59,685 | 24.9 |
| Operating income (loss) | 43,312 | (36,896) | 80,208 | (217.4) |
| Net interest expense | (20,054) | (24,856) | 4,802 | (19.3) |
| Foreign exchange gain | 4,449 | 4,754 | (305) | (6.4) |
| Income (loss) before income tax | 27,707 | (56,998) | 84,705 | (148.6) |
| Income tax (expense) recovery | (4,800) | 18,919 | (23,719) | (125.4) |
| Net income (loss) | 22,907 | (38,079) | 60,986 | (160.2) |
| Adjusted EBITDA(1) | 83,280 | 84,041 | (761) | (0.9) |
| Adjusted EBT(1) | 23,346 | 19,130 | 4,216 | 22.0 |
| Adjusted net income(1) | 17,743 | 15,744 | 1,999 | 12.7 |

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

For the three months ended March 31, 2022, consolidated operating revenue increased 69.1%, compared to the same period last year. Increased revenue in the RAS segment was attributable to the increase in Controllable Cost Revenue and Pass-Through Revenue as a result of increased flying activity and increased other revenue due to increased part sales offset by decreased MRO activity and contract flying. Increased lease revenue in the RAL segment was attributable to the recognition of the expected recovery of Chorus' claim in the Aeromexico bankruptcy and increased revenue from re-leased aircraft offset by lower revenue related to negotiated lease amendments (including extensions).

Operating expenses increased 24.9% for the three months ended March 31, 2022 compared to the same period last year due primarily to higher salaries, wages and benefits due to higher FTEs and a decrease in the CEWS government grant, increased engine overhaul maintenance events and increased Pass-Through Costs offset by a decrease in one-time restructuring costs of $81.8 million related to the 2021 CPA Amendments, lower impairment and expected credit loss provisions and decreased lease repossession costs.

Net interest expense decreased 19.3% for the three months ended March 31, 2022 compared to the same period last year due to the repayment of certain aircraft financing and the partial redemption of the 6.00% Debentures offset by interest on the Series B Debentures and Series C Debentures.

Foreign exchange gains decreased for the three months ended March 31, 2022 compared to the same period last year primarily related to increased unrealized foreign exchange losses on working capital offset primarily by an increase in unrealized foreign exchange gains on long-term debt of $0.7 million due to an increase in the value of the Canadian dollar relative to the United States dollar. The RAS segment manages the majority of its exposure to currency risk by borrowing and billing for its services within the CPA in the underlying currency related to the expenditure. As a result, due to the nature of the underlying associated revenue stream provided by the CPA, the unrealized foreign exchange losses/gains on long-term debt and lease liability do not materially affect current or future cash flows. The RAL segment's functional currency is the US dollar.

Income tax expense increased for the three months ended March 31, 2022 compared to the same period last year primarily due to the increase in EBT, adjusted to remove non-taxable unrealized foreign exchange gains.

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## 7 SEGMENTED ANALYSIS

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

| (unaudited) (in thousands of Canadian dollars) | For the three months ended March 31, 2022 | | | For the three months ended March 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Regional Aviation Services $ | Regional Aircraft Leasing $ | Total $ | Regional Aviation Services $ | Regional Aircraft Leasing $ | Total $ |
| Operating revenue | 306,559 | 35,821 | 342,380 | 167,760 | 34,727 | 202,487 |
| Operating expenses | 278,082 | 20,986 | 299,068 | 215,191 | 24,192 | 239,383 |
| **Operating income (loss)** | 28,477 | 14,835 | 43,312 | (47,431) | 10,535 | (36,896) |
| Net interest expense | (12,179) | (7,875) | (20,054) | (11,989) | (12,867) | (24,856) |
| Foreign exchange gain (loss) | 7,682 | (3,233) | 4,449 | 9,078 | (4,324) | 4,754 |
| **Earnings (loss) before income tax** | 23,980 | 3,727 | 27,707 | (50,342) | (6,656) | (56,998) |
| Income tax (expense) recovery | (3,792) | (1,008) | (4,800) | 18,264 | 655 | 18,919 |
| **Net income (loss)** | **20,188** | **2,719** | **22,907** | **(32,078)** | **(6,001)** | **(38,079)** |
| **Operating income (loss)** | 28,477 | 14,835 | 43,312 | (47,431) | 10,535 | (36,896) |
| Depreciation and amortization excluding impairment(1) | 20,392 | 16,257 | 36,649 | 20,405 | 17,391 | 37,796 |
| Impairment provisions(1) | — | — | — | 33,663 | — | 33,663 |
| Inventory provision(1) | — | — | — | 9,090 | — | 9,090 |
| Employee separation program(1)(2) | — | — | — | 26,716 | — | 26,716 |
| Defined benefit pension curtailment(1) | — | — | — | 9,975 | — | 9,975 |
| Integration costs(1) | — | — | — | 2,000 | — | 2,000 |
| Signing bonuses(1) | — | — | — | 707 | — | 707 |
| Strategic advisory fees(1) | 2,673 | — | 2,673 | — | — | — |
| Lease repossession costs(1) | — | 646 | 646 | — | 990 | 990 |
| **Adjusted EBITDA(3)** | **51,542** | **31,738** | **83,280** | **55,125** | **28,916** | **84,041** |
| **Earnings (loss) before income tax** | 23,980 | 3,727 | 27,707 | (50,342) | (6,656) | (56,998) |
| Impairment provisions(1) | — | — | — | 33,663 | — | 33,663 |
| Inventory provision(1) | — | — | — | 9,090 | — | 9,090 |
| Employee separation program(1)(2) | — | — | — | 26,716 | — | 26,716 |
| Defined benefit pension curtailment(1) | — | — | — | 9,975 | — | 9,975 |
| Integration costs(1) | — | — | — | 2,000 | — | 2,000 |
| Signing bonuses(1) | — | — | — | 707 | — | 707 |
| Strategic advisory fees(1) | 2,673 | — | 2,673 | — | — | — |
| Lease repossession costs(1) | — | 646 | 646 | — | 990 | 990 |
| Unrealized foreign exchange (gain) loss | (10,653) | 2,973 | (7,680) | (11,124) | 4,111 | (7,013) |
| **Adjusted EBT(3)** | **16,000** | **7,346** | **23,346** | **20,685** | **(1,555)** | **19,130** |

(1) Included in operating expenses.
(2) Includes $26.3 million related to pilot early retirement program costs as part of the 2021 CPA Amendments.
(3) These are non-GAAP financial measures – refer to Section 18 for disclosures on non-GAAP financial measures.

## Regional Aviation Services Analysis

### Operating Income

The RAS segment reported quarterly operating income of $28.5 million an increase of $75.9 million compared to the same period last year primarily due to a decrease in one-time restructuring costs of $81.8 million related to the 2021 CPA Amendments as well as:

- an increase in other revenue due to an increase in parts sales partially offset by a decrease in third-party MRO activity and contract flying; and
- an increase in capitalization of major maintenance overhauls on owned aircraft of $1.4 million; partially offset by
- an increase in stock-based compensation expense of $3.7 million due to the change in the Share price inclusive of the change in fair value of the Total Return Swap (refer to Section 8 - Capital Structure - Equity Price Risk);
- an increase in strategic advisory fees related to the Falko Acquisition of $2.7 million; and
- an increase in general administrative expenses attributable to increased operations.

### Non-Operating Expenses

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

### Adjusted EBITDA

Adjusted EBITDA decreased $3.6 million for the three months ended March 31, 2022 compared to the same period last year primarily due to changes described above for operating income.

**Portfolio of Aircraft Leasing under the CPA**

- Current fleet of 48 aircraft and five spare engines
- Current net book value of $944.8 million
- Approximately US $688.8 million in future contracted lease revenue[1]
- Current weighted average fleet age of 5.8 years[2]
- Current weighted average remaining lease term of 7.5 years[2]
- 100% debt is fixed rate
- Current weighted average cost of borrowing of 3.36%

[1] Refer to Section 24 - Caution Regarding Forward-Looking Information.
[2] Fleet age and remaining lease term is calculated based on the weighted-average of the aircraft net book value.

## Regional Aircraft Leasing Analysis

### Operating Income

The RAL segment reported operating income of $14.8 million for the three months ended March 31, 2022, an improvement of $4.3 million compared to the same period last year.

The quarter-over-quarter results were impacted by:

- an increase in revenue due to the recognition of the expected recovery of Chorus' claim in the Aeromexico bankruptcy and increased lease revenue from re-leased aircraft; and
- a decrease in the expected credit loss provision of $2.5 million; offset by
- a decrease in revenue due to negotiated lease amendments (including extensions).

### Non-Operating Expenses

Net interest expense decreased for the three months ended March 31, 2022 primarily due to the repayment of certain aircraft financing.

### Adjusted EBT

Adjusted EBT increased by $8.9 million for the three months ended March 31, 2022 primarily due to lower interest expense related to the repayment of certain aircraft financing, the recognition of the expected recovery of Chorus' claim in the Aeromexico bankruptcy, a $2.5 million lower expected credit loss provision and increased lease revenue from re-leased aircraft partially offset by lower lease revenue attributable to negotiated lease amendments (including extensions).

### Portfolio

***Fleet*** *(as at March 31, 2022)*

- Fleet of 62 aircraft[1]
- Approximately US $688.4 million in future contracted lease revenue[2]
- Current net book value of approximately US $1.1 billion
- Current weighted average fleet age of 5.1 years[3]
- The RAL segment has limited net exposure to changes in interest rates because 98.2% of its debt has fixed interest rates (inclusive of floating rate debt that is fixed through the use of swaps)
- Current weighted average cost of borrowing of 3.88%

[1] CAC executed long-term leases for six ATR72-600s to Emerald Airlines. As at March 31, 2022, three of the aircraft had been delivered, one additional aircraft was delivered on April 25, 2022 and the remaining two deliveries are expected in the second quarter of 2022. In addition, one aircraft was returned in the first quarter of 2022 by Philippine Airlines.

[2] Refer to Section 24 - Caution Regarding Forward-Looking Information.

[3] Fleet age is calculated based on the weighted-average of aircraft net book value.

## 8 CAPITAL STRUCTURE

Chorus’ capital structure currently consists primarily of Shares, Preferred Shares and debt consisting of the 6.00% Debentures, Series A Debentures, Series B Debentures, Series C Debentures, senior secured amortizing facilities, revolving loan facilities and lease liabilities.

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

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

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

Chorus' capital structure was as follows as at March 31, 2022 and December 31, 2021.

| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | **March 31, 2022 $** | **December 31 2021 $** | **Change $** |
|---|---|---|---|
| **Equity** | | | |
| Capital | 356,611 | 356,611 | — |
| Contributed surplus | 1,039,832 | 1,039,832 | — |
| Deficit | (681,083) | (707,908) | 26,825 |
| Exchange differences on foreign operations | (13,914) | (5,243) | (8,671) |
| Equity component of Convertible Units/debentures | 5,664 | 5,664 | — |
| Warrants | 1,513 | 1,513 | — |
| | 708,623 | 690,469 | 18,154 |
| **Long-term debt** | 1,830,129 | 1,903,677 | (73,548) |
| **Lease liabilities** | 9,036 | 10,137 | (1,101) |
| **Total capital** | 2,547,788 | 2,604,283 | (56,495) |

As at May 3, 2022 and December 31, 2021, the issued and outstanding Shares of Chorus were as follows:

| *(unaudited)* | **May 3, 2022** | **December 31, 2021** |
|---|---|---|
| **Total issued and outstanding Shares** | 203,050,988 | 177,650,988 |
| Shares potentially issuable | | |
| Stock-based compensation plans | 3,693,878 | 2,942,664 |
| **Total outstanding and potentially dilutive Shares** | 206,744,866 | 180,593,652 |

In addition, and subject to adjustment in certain circumstances:

- up to 24,242,424 Shares are issuable at a price of $8.25 per Share upon the exercise of the Stapled Warrants; and
- up to 11,417,322 Shares are issuable upon conversion of all of the Series B Debentures by the holders thereof.

The Unit Warrants expired on April 6, 2022.

On May 3, 2022, Chorus completed the Falko Acquisition and the Private Placement. The net proceeds of the Private Placement were used in their entirety to partially fund the Falko Acquisition. In connection with the Private Placement, Chorus and Brookfield entered into an investor rights agreement pursuant to which, among other covenants, Chorus agreed to a maximum leverage covenant and certain restrictions on dividends payable in respect of its Shares. The Falko Acquisition and the Private Placement are described in the Corporation's Material Change Report dated May 3, 2022, a copy of which is available under the Corporation's profile on SEDAR on www.sedar.com. The terms of the Preferred Shares are set out in the Corporation's Articles of Amendment dated May 3, 2022, a copy of which is available under the Corporation's profile on SEDAR on www.sedar.com and on the Corporation's website at www.chorusaviation.com.

On May 2, 2022, the Corporation entered into a credit agreement for a new US $30.0 million unsecured revolving operating credit facility with a nine-month term, maturing February 2023. This facility contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio, and is cross-defaulted to any default under the Operating Credit Facility. The purpose of this new facility is to provide Chorus with additional liquidity in the initial months following the completion of the Falko Acquisition.

**Long-term debt**

Long-term debt consists of the following:

| (unaudited)<br>(expressed in thousands of Canadian dollars) | March 31, 2022<br>$ | December 31, 2021<br>$ |
|---|---|---|
| **Secured long-term debt and credit facilities**(1) | | |
| Amortizing term loans | | |
| Secured by aircraft | 1,265,500 | 1,334,143 |
| Secured by engines | 5,057 | 5,542 |
| Warehouse credit facility | 88,220 | 91,950 |
| Nova Scotia Jobs Fund loan - secured by office building | 6,000 | 6,000 |
| 6.00% Debentures | 115,000 | 115,000 |
| | 1,479,777 | 1,552,635 |
| **Unsecured long-term debt**(1) | | |
| Series A Debentures | 86,250 | 86,250 |
| Series B Debentures | 72,500 | 72,500 |
| Series C Debentures | 85,000 | 85,000 |
| Unsecured Revolving Credit Facility | 124,960 | 126,780 |
| | 1,848,487 | 1,923,165 |
| Less: | | |
| Deferred financing fees | (15,294) | (16,247) |
| Accretion discount on Convertible Units and Debentures | (3,064) | (3,241) |
| | 1,830,129 | 1,903,677 |
| Less: Current portion(2) | 250,383 | 226,509 |
| | 1,579,746 | 1,677,168 |

(1) The majority of long-term debt is payable in US dollars and has been converted to Canadian currency at 1.2496 which was the exchange rate in effect at closing on March 31, 2022 (December 31, 2021 - 1.2678).
(2) The current portion of long-term debt in the above table includes deferred financing fees of $1.1 million for the period ended March 31, 2022 (December 31, 2021 - $1.3 million).

The principal attributes of Chorus' long-term debt facilities are summarized below. Such summaries are qualified in their entirety by the specific terms and conditions of the relevant indentures and agreements. For full details, of the terms of the 6.00% Debentures, the Stapled Warrants, the Series A Debentures, the Series B Debentures, the Series C Debentures, Unsecured Revolving Credit Facility, warehouse credit facility and the Operating Credit Facility, please refer to the relevant agreements and indentures which are under the Corporation's profile on SEDAR at www.sedar.com.

*Amortizing term loans*

Chorus' aircraft amortizing term loans are repayable in instalments, bearing fixed, floating, and floating interest fixed via swap agreements, at a weighted average rate of 3.53%, maturing between July 2022 and February 2033, each secured primarily by the aircraft and engines financed by the loans, as well as an assignment of any leases in respect thereof.

The engine loans are repayable in instalments, bearing fixed and floating interest at a weighted average rate of 4.33%, maturing between December 2024 and May 2028, each secured primarily by one PW150A engine.

Chorus' aircraft warehouse credit facility includes a series of term loans repayable in instalments, bearing floating interest at a weighted average rate of 3.45%, 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 5.07%.

Chorus has an office building loan that is repayable in annual instalments of $1.0 million, bearing interest at a fixed rate of 3.33%, and matures on August 31, 2027. The loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases.

*Financial Covenants under amortizing term loans*

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

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

- The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreements with the lender also contain a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Dash 8-400s, Dash 8-400 spare engines, and CRJ900s.
- Voyageur is required to maintain prescribed liquidity levels.
- Subsidiaries of CACC have entered into financing agreements in connection with the acquisition of aircraft. CACC, CACIL and/or Jazz Leasing have guaranteed the indebtedness under a substantial number of these financing agreements. Under the terms of those financing agreements, the guarantors and/or the borrowers are required to maintain a minimum tangible net worth, observe a maximum consolidated total debt to tangible net worth ratio, observe debt-to-equity covenants, maintain a minimum cash balance, maintain minimum lease rent coverage ratios and/or refrain from paying dividends or other distributions if the debt covenants are breached. Furthermore, the indebtedness under certain of these financing agreements is cross-defaulted to payment defaults by Jazz Leasing under facilities under which Jazz Leasing is the borrower.

As at March 31, 2022, Chorus 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.

*Convertible Units*

In December 2016, the Corporation entered into a subscription agreement with Fairfax for an investment of $200.0 million in Chorus through a private placement of Convertible Units. In March 2017, Chorus received the funds from the investment, with the net proceeds after deduction of expenses being approximately $196.0 million.

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

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

On December 31, 2021, the Corporation redeemed $85.0 million principal amount of the 6.00% Debentures. As a result of this redemption, $115.0 million aggregate principal amount of the 6.00% Debentures currently remain outstanding.

The related Stapled Warrants are exercisable by the holder thereof by paying the exercise price of $8.25 (subject to certain adjustments) in cash or by tendering the 6.00% Debentures. Except in certain circumstances relating to a change of control of Chorus, the Stapled Warrants are exercisable up to and including the earlier of the redemption of all of the outstanding 6.00% Debentures by the Corporation and the business day immediately preceding the maturity date of the 6.00% Debentures. The Stapled Warrants include customary anti-dilution provisions.

24,242,424 Shares are issuable upon the exercise of all of the Stapled Warrants. 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 6.00% Debentures.

The 6.00% Debentures are listed on the TSX under the symbol CHR.DB.

*Series A Debentures*

In December 2019, the Corporation issued $86.3 million aggregate principal amount of Series A Debentures, which bear interest at a rate of 5.75% per annum, and mature on December 31, 2024.

The Series A Debentures are not convertible by the holders thereof into 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 A Debentures, the Corporation may, at its option, elect to satisfy its obligation to pay all or a portion of the principal amount of the Series A Debentures on redemption or at maturity through, in whole or in part, the issuance of 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, the Corporation may, at its option, satisfy its obligation to pay interest on the Series A Debentures by delivering Shares to the trustee under the indenture governing the Series A Debentures for sale, with the proceeds used to satisfy the interest payment obligation.

Chorus received proceeds of $82.4 million, net of $3.9 million in transaction costs associated with the offering. Transaction costs are capitalized and offset against the 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.

*Series B Debentures*

On April 6, 2021, the Corporation issued $72.5 million aggregate principal amount of Series B 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 Shares per $1,000 principal amount of such debentures, initially representing a conversion price of $6.35 per Share. The net proceeds, after transactions costs, were $69.5 million. Transaction costs are capitalized and offset against the debt and equity portions of the Series B Debentures and amortized over the life of the debentures using the effective interest rate.

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, the Corporation 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 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, the Corporation may issue 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.

*Series C Debentures*

In September 2021, the Corporation issued $85.0 million aggregate principal amount of Series C Debentures, which bear interest at a rate of 5.75% per annum, and mature on June 30, 2027.

The Series C Debentures are not convertible by the holders thereof into 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, the Corporation 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 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, the Corporation may, at its option, satisfy its obligation to pay interest on the Series C Debentures by delivering 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 $81.2 million, net of $3.8 million 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 Series C Debentures using the effective interest rate.

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

*Loan facilities*

Operating Credit Facility

On October 14, 2021, Chorus entered into an agreement for a three-year committed operating credit facility with The Bank of Nova Scotia as lender, sole lead arranger, bookrunner, administrative agent and issuing bank, and the Canadian Imperial Bank of Commerce and the Bank of Montreal as lenders (the "Operating Credit Facility"). In March 2022, Chorus exercised the accordion feature under the Operating Credit Facility, thereby increasing the limit from $75.0 million to $100.0 million.

The Operating Credit Facility provides Chorus and certain designated subsidiaries including CACC, Jazz and Voyageur (collectively, the "Credit Parties") with a committed limit of up to $100.0 million, subject to a borrowing base calculation. Chorus has also provided letters of credit totaling $10.3 million that reduce the amount available under this facility.

The Operating Credit Facility is secured by all present and after-acquired personal property of the Credit Parties, excluding certain specified assets which include aircraft and engines and the equity securities of CACC and its subsidiaries. It contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio. Any outstanding balance under this facility is immediately repayable if the Corporation undergoes a change in control without the lender's consent.

The facility bears interest for Canadian dollar advances at Canadian Prime plus 1.50% - 2.50% or BA Borrowing plus 2.50% - 3.50%, and for US dollar advances at Base Rate plus 1.50% - 2.50% or SOFR plus 2.50% - 3.50%.

In connection with Chorus entering into the agreement for the Operating Credit Facility, the trustees (collectively, the "Trustees") under the indentures for the Series A Debentures, Series B Debentures, and Series C Debentures (collectively, the "Unsecured Debentures") entered into, in their capacity as trustee for and on behalf of the holders of the relevant Unsecured Debentures, intercreditor agreements (the "New Intercreditor Agreements") with The Bank of Nova Scotia, in its capacity as administrative agent for and on behalf of the lenders under the Operating Credit Facility. The New Intercreditor Agreements are on substantially similar terms as the intercreditor agreements that were entered into by each of the Trustees with the administrative agent for and on behalf of the lenders under the Prior Facility. Copies of the New Intercreditor Agreements are available under Chorus' profile on SEDAR at www.sedar.com.

The agreement for the Operating Credit Facility was amended and restated on May 2, 2022. A copy of the amended and restated agreement is available under Chorus' profile on SEDAR at www.sedar.com.

Warehouse credit facility

In December 2020, Chorus amended the terms of its aircraft warehouse credit facility to, among other things, cancel the remaining available credit under the facility and eliminate the associated commitment fees. The balance outstanding under this facility as at March 31, 2022 was $88.2 million (US $70.6 million).

Effective January 22, 2021, the loans under this facility are repayable based on a 12-year straight-line full pay-out schedule, adjusted for the age of the aircraft at the time they were added to the facility, until they mature in January 2025. Chorus may prepay loans under this facility at any time in whole or in part, subject to a US $5.0 million minimum prepayment.

The facility bears interest at US dollar LIBOR plus 3.00% until January 2023 and ranging from LIBOR plus 3.25% - 4.00% thereafter until maturity.

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

The facility contains covenants that must be met on an ongoing basis. The financial covenants include a minimum amount of cash, tangible net worth, and a maximum debt to equity ratio in certain subsidiaries. As at March 31, 2022, Chorus was in compliance with these covenants.

Unsecured Revolving Credit Facility - US $100.0 million

In April 2020, the Corporation obtained the Unsecured Revolving Credit Facility. The facility has a committed availability period of two years from April 28, 2020 to April 28, 2022. Effective April 28, 2022, the revolving and commitment periods under this facility have ended and the indebtedness thereunder is required to be repaid over eight equal instalments of principal and interest starting in July 2022 and ending in April 2024. The facility contains customary covenants and events of default, including restrictions on share repurchases and the payment of dividends exceeding $0.48 per share per year, a mandatory prepayment upon the occurrence of a change of control of Chorus, an event of default that is triggered upon the acceleration of Chorus indebtedness in excess of US $10.0 million, and an event of default that is 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. The Corporations' obligations to pay principal and interest under this facility rank at least pari passu in right of payment with all unsecured and unsubordinated indebtedness.

Total scheduled principal payments on long-term debt on March 31, 2022, excluding unamortized deferred financing fees, are as follows:

| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | $ |
|---|---|
| No later than one year | 251,469 |
| Later than one year and no later than five years | 1,030,877 |
| Later than five years | 566,141 |
| | 1,848,487 |

**Covenant Default Risk**

Chorus' debt agreements contain financial and non-financial covenants which if breached and not waived by the relevant lenders could result in the acceleration of indebtedness. To the extent that debt agreements are cross-defaulted, a default or acceleration under one agreement could cause a default or acceleration under another agreement.

As at March 31, 2022, Chorus' largest lender currently held approximately 60% of Chorus' consolidated long-term debt. Of this amount, the Corporation owes 11% under the Unsecured Revolving Credit Facility, CACIL owes approximately 39% under aircraft loans, the Jazz Group owes approximately 50% under aircraft loans, and Voyageur owes approximately less than 1% under aircraft loans. The Corporation's indebtedness under the Unsecured Revolving Credit Facility is cross-defaulted to any event of default under any other loan between this lender and the Corporation or any of its subsidiaries. In addition, approximately 42% of Chorus Aviation Capital's indebtedness to this lender is cross-defaulted to any payment default by Jazz Leasing (which is a member of the Jazz Group). Further, all loans with this lender extended to Chorus Aviation Capital are cross-defaulted and cross-collateralized with each other, and all loans with this lender extended to the Jazz Group are cross-defaulted and cross-collateralized with each other. Finally, all loans with Chorus' largest lender, and indeed with all lenders, contain customary event of default clauses that may be triggered when any other financial indebtedness of the borrowers or guarantors thereunder (subject to prescribed thresholds) is in default or is declared due prior to its scheduled maturity. The foregoing is a general summary only and is qualified in its entirety by the specific terms and conditions of Chorus' loan agreements.

If Chorus were to default under any of its debt agreements, this could have a material adverse effect on Chorus' financial position, cash flows and prospects.

**Interest Rate Risk**

As of March 31, 2022, the majority of Chorus' debt is not subject to interest rate volatility as it bears interest at fixed rates or at floating rates that are fixed via interest rate swaps. Excluding revolving debt facilities, at March 31, 2022, 98.7% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 1.3% was floating rate debt. On May 3, 2022, Chorus completed the Falko Acquisition. Excluding revolving debt facilities, approximately 96.0% of the term debt in the Falko Business was fixed rate debt (inclusive of floating rate debt with swap that effectively fix the rates thereunder) and 4.0% was floating rate debt.

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. 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. 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.

Chorus recorded the following gains and losses on the interest rate swaps:

| | Three months ended March 31, | |
|---|---|---|
| *(unaudited)* *(in thousands of Canadian dollars)* | **2022** **$** | **2021** **$** |
| **Other comprehensive income** | | |
| Gain on changes in fair value of effective interest rate swaps, net of tax expense of $597 (2021 - $257) | 4,184 | 3,883 |
| **Income statement** | | |
| Gain (loss) on ineffective interest rate swap | 402 | (1,791) |

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 did not mature before December 31, 2021. As at March 31, 2022, Chorus had 16 loans which totaled $292.3 million and nine derivative agreements which referenced notional amounts totaling $146.0 million that will be impacted by the transition from USD LIBOR to alternative reference rates as they mature after December 31, 2021 but not prior to June 30, 2023. Chorus continues to monitor, and plan for, the transition to alternative reference rates and does not anticipate any material impacts on its financial results (refer to Section 24 - Caution Regarding Forward-Looking Information).

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

A 1% change in the interest rate would not have a material impact on net income for the period ended March 31, 2022.

**Foreign Exchange Rate Risk**

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

Chorus mitigates the currency risk associated with its RAL division by borrowing in the same currencies as the related lease revenues.

The amount of US dollar denominated financial assets was $126.1 million and US denominated financial liabilities was $508.3 million at March 31, 2022. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $3.8 million. A 1¢ change in the Euro versus Canadian dollar exchange rate would not have a material impact on unrealized gains or losses.

## Equity Price Risk

Chorus has equity price risk exposure to Shares that it issues under its various stock-based compensation programs. To mitigate this risk, Chorus hedges the variability of its Share price effecting settlement under its various stock-based compensation programs with a Total Return Swap. The current swap is for 3.4 million Shares priced at $4.36 per Share and matures in February 2023. The Corporation 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. For additional information, please refer to notes 3(j) and 3(k), under the heading "Significant Accounting Policies", of the audited consolidated financial statements of the Corporation for the year ended December 31, 2021.

Chorus recorded gains on the Total Return Swap as follows:

| *(unaudited)*<br>*(in thousands of Canadian dollars)* | **Three months ended March 31,**<br>**2022**<br>**$** | <br>**2021**<br>**$** |
|---|---|---|
| **Income statement** | | |
| Gain on Total Return Swap | 2,887 | 2,290 |

## 9 LIQUIDITY

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

Chorus has a number of treasury management practices designed to ensure sufficient 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 March 31, 2022, Chorus' liquidity was $199.7 million including cash of $110.0 million and $89.7 million of available room on its Operating Credit Facility, an increase from the fourth quarter of 2021 of $11.2 million primarily due to increased cash flow from operations of $41.5 million and a $25.0 million increase in the committed credit available under the Operating Credit Facility offset by scheduled payments on long-term debt of $44.6 million and capital expenditures of $11.6 million.

On May 3, 2022, Chorus completed the Falko Acquisition. The total consideration paid for the Falko Acquisition on May 3, 2022 was approximately US $810.0 million comprised of US $405.0 million of cash consideration and approximately US $405.0 million of existing indebtedness that will remain with the relevant target entities. As described in the Corporation's Material Change Report dated May 3, 2022, Chorus expects to acquire the beneficial interest in certain trusts holding an additional five aircraft (the "Trust Interests") prior to the end of the second quarter of 2022 for aggregate consideration of approximately US $35.0 million (bringing the total consideration for the Falko Business to US $845.0 million).

Concurrent with closing the Falko Acquisition, the Corporation closed the Private Placement. Payment for the Falko Acquisition at closing was funded using the net proceeds from the Private Placement, with the balance remaining, inclusive of the Trust Interests, funded through available cash resources.

On May 2, 2022, Chorus entered into a new US $30.0 million unsecured revolving operating credit facility with a nine-month term, maturing February 2023. This facility contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio, and is cross-defaulted to any default under the Operating Credit Facility.

During the quarter, Chorus generated cash flow from operations of $41.5 million. Other key liquidity changes during the quarter were as follows:

- Increased cash by $10.3 million due to a decrease in restricted cash.
- Decreased cash by $44.6 million due to scheduled debt repayments.
- Decreased cash by $14.1 million due to an increase in working capital driven by an increase in the receivable from Air Canada due to increased operations primarily related to increased engine overhaul maintenance events and pilot training programs.
- Decreased cash by $11.6 million due to an increase in capital expenditures.
- Decreased cash by $7.2 million due to a decrease in security deposits and maintenance reserves.

At March 31, 2022, the Controllable Cost Guardrail receivable was $37.9 million.

Chorus anticipates having sufficient liquidity to fund ongoing operations, planned capital expenditures and principal and interest payments related to long-term borrowings (refer to Section 24 - Caution Regarding Forward-Looking Information).

**Working Capital**

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

Chorus' working capital deficit as reflected on the March 31, 2022 balance sheet was $130.6 million (December 31, 2021 - $101.6 million). The current portion of contracted aircraft operating lease receivables as at March 31, 2022 is estimated to be approximately $135.0 million converted to CAD at the March 31, 2022 rate of 1.2496. Working capital adjusted for the current portion of estimated long-term aircraft operating lease receivables reflects a surplus of approximately $4.4 million (refer to Section 24 - Caution Regarding Forward-Looking Information).

**Leverage**

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

Chorus' leverage ratio (measured as Net debt to trailing 12-month Adjusted EBITDA) was 5.2 as at March 31, 2022 a reduction from the year ended December 31, 2021 ratio of 5.4 related to an overall reduction in long-term debt (refer to Section 18 - Non-GAAP Financial Measures).

## Cash Flows

The following table provides information on Chorus' cash flows for the three months ended March 31, 2022 and March 31, 2021.

| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | Three months ended March 31,<br>2022<br>$ | <br>2021<br>$ |
|---|---|---|
| Cash provided by operating activities | 41,531 | 38,232 |
| Cash used in financing activities | (45,801) | (31,830) |
| Cash used in investing activities | (7,943) | (33,733) |
| Cash flow from operating, financing and investing activities | (12,213) | (27,331) |
| Effect of foreign exchange rate changes on cash | (1,331) | (2,399) |
| Net change in cash during the periods | (13,544) | (29,730) |
| Cash – Beginning of periods | 123,573 | 165,717 |
| Cash – End of periods | 110,029 | 135,987 |

### Cash provided by operating activities

Chorus had cash inflows from operations of $41.5 million for the three months ended March 31, 2022, compared to cash inflows from operations of $38.2 million for the three months ended March 31, 2021. The increase was primarily due to an increase in operating income offset by changes in working capital primarily related to an increase in the receivables from Air Canada due primarily to increased engine overhaul maintenance events and pilot training programs.

### Cash used in financing activities

Cash used in financing activities for the three months ended March 31, 2022 was $45.8 million, comprised primarily of payments on scheduled long-term borrowings of $44.6 million.

Cash used in financing activities for the three months ended March 31, 2021 was $31.8 million, comprised primarily of scheduled payments on long-term borrowings of $56.0 million, offset by $25.1 million of borrowings, net of financing fees on a new loan related to an aircraft acquisition.

### Cash used in investing activities

Cash used in investing activities for the three months ended March 31, 2022 was $7.9 million, which includes capital expenditures of $11.6 million for the reconfiguration costs on certain off-lease and re-leased aircraft, as well as major maintenance overhauls and other capital expenditures and decreased security deposits and maintenance reserves of $7.2 million related to leased aircraft. This was partially offset by decreased restricted cash of $10.3 million.

Cash used in investing activities for the three months ended March 31, 2021 was $33.7 million which included capital expenditures of $36.6 million for the acquisition of one aircraft and the reconfiguration costs on certain off-lease aircraft, as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $3.0 million. This was partially offset by increased security deposits and maintenance reserves of $5.3 million related to leased aircraft.

### Capital expenditures

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

| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | Three months ended March 31, | | |
|---|---|---|---|
| | **2022**<br>**$** | **2021**<br>**$** | **Change**<br>**$** |
| Capital expenditures, excluding aircraft acquisitions | 1,409 | 430 | 979 |
| Capitalized major maintenance overhauls | 5,939 | 3,622 | 2,317 |
| Aircraft acquisitions and improvements(1)(2) | 4,287 | 32,576 | (28,289) |
| Total capital expenditures | 11,635 | 36,628 | (24,993) |

(1) 2022 includes reconfiguration costs on certain off-lease and re-leased aircraft.
(2) 2021 includes the acquisition of one CRJ900 and reconfiguration costs on certain off-lease and re-leased aircraft.

### Commitments for capital expenditures

Chorus has no material commitments for capital expenditures.

### 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. Dividends are subject to the discretion of Chorus' Board of Directors, and there can be no assurance that dividends will be resumed.

## 10 RISK FACTORS

For a more detailed description of the possible risk factors associated with Chorus' business, including its dependence on the CPA, the aviation industry, the aircraft leasing business carried on by CAC, and the Voyageur business refer to the Section 8 - Capital Structure of this MD&A and the Section entitled “Risk Factors” in Chorus' Annual Information Form dated February 16, 2022 (which is deemed incorporated into this MD&A).

### The Falko Acquisition

Chorus expects that the acquisition of the Falko Business will be beneficial to the Corporation and its stakeholders. However, the acquisition presents potential new risks for Chorus and its investors, including the following:

1. *Chorus' ability to maintain and grow the asset management fees earned by Falko could be adversely impacted if efforts to raise third-party capital, or to deploy that capital effectively and produce targeted investment returns, are unsuccessful.*

Chorus' ability to raise third-party capital depends on a number of factors, including many that are outside of its control such as the general economic environment, investor sentiment towards the aviation sector, and the number of investment funds being raised at the same time by other fund managers. Furthermore, Chorus' ability to deploy third-party capital effectively to produce the returns expected by third-party investors requires, among other things, suitable opportunities, careful timing and business judgment. A failure to deliver adequate returns could have a negative impact on Chorus' reputation and, in extreme cases, result in Falko's removal as the general partner of one or more funds and as servicer of the assets owned by such funds.

If any of Chorus' managed investments perform poorly, its fee-based revenue (including performance fees based on fund investment targets) could decline and, in the extreme case of Falko's removal as general partner and servicer, could cease altogether. Moreover, Chorus could experience losses on invested capital in its managed entities.

Accordingly, Chorus' expected returns could be less than it assumed in forecasting the value of its asset management business.

2. *Chorus' ability to maintain and grow the asset management fees earned by Falko could be adversely impacted if certain key executives of Falko cease to be actively involved in Falko's business.*

Chorus' ability to raise third-party capital depends on, among other factors, the confidence investors have in the individuals who will be making capital allocation and investment decisions and executing on investments made by the fund. For this reason, the agreements governing the investment funds managed by Falko contain provisions which generally restrict the fund from issuing further capital call notices to fund further investments if certain key Falko executives cease to be active in Falko's affairs. Although the fund agreements contemplate that such a restriction could be waived by the fund investors (or the fund's advisory board), there can be no assurance that they would do so.

If key Falko executives identified in one or more of the fund agreements ceased to be active in Falko's affairs, further draws under such fund(s) could become restricted, thereby limiting the future growth of Chorus' fee-based revenue (including any carried interest).

3. *The acquisition of a significant ownership stake in Chorus by any person or entity may result in a regulatory review of Chorus' continuing suitability as an owner of general partners of managed investment funds and, in extreme cases, result in regulatory penalties and/or the loss of future fee-based revenues.*

The general partners (each a "GP") of certain investment funds managed by Falko are regulated in Jersey as a fund services business ("FSB") under the Financial Services (Jersey) Law 1998 (the "FS Law"). The general policy of the Jersey Financial Services Commission (the "JFSC") is to strengthen Jersey's reputation as a high quality and well-regulated financial centre. As a result of certain undertakings given by the Corporation to the JFSC in connection with the Falko Acquisition, Chorus is required to notify the JFSC as soon as practicable after becoming aware that any person has acquired or become entitled to a shareholding in the Corporation that would cause such person to become a "principal person" (as defined in the FS Law) in a GP.

If the JFSC determines, having regard to the matters set out in the FS Law, that a principal person in a GP is not a fit and proper person, the JFSC may serve a written notice of objection directing that such person (which may be the investor in the Corporation) shall not become, or shall cease to be, a principal person of the GP. The JFSC also has broad ongoing authority to require the removal of any person as a principal person of a GP if the JFSC concludes that their continuation as such is no longer compatible with the GP being considered as fit and proper.

Any failure by Chorus to comply with the terms of its undertakings with the JFSC or by any person to notify the JFSC of any matter required under the FS Law or otherwise comply with any lawful directive of the JFSC could result in the imposition of significant penalties under the FS Law. Moreover, if the JFSC were to determine that a GP was no longer fit and proper due to an investor's interest in Chorus, this could have a material adverse effect on Chorus' ability to earn fee-based revenue (including carried interest) derived from the Falko-managed funds. Similar obligations, restrictions and consequences for non-compliance may be applicable under the laws of any other jurisdiction in which Chorus may establish an investment fund in future.

## 11 ECONOMIC DEPENDENCE

Chorus and Air Canada are parties to the CPA under which Air Canada currently purchases substantially all of Jazz's fleet capacity on the Covered Aircraft. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on the CPA (refer to Section 2 - About Chorus and note 12 of the audited consolidated financial statements of Chorus for the years ended December 31, 2021 and 2020).

## 12 CRITICAL ACCOUNTING ESTIMATES

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

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

*COVID-19*

Although the COVID-19 pandemic continues to adversely impact demand for passenger air travel, demand for passenger air travel continued to show improvements during the first quarter of 2022 aided by increasing vaccination rates and the relaxation of travel restrictions. However, the COVID-19 pandemic and its adverse effect on passenger air travel could be prolonged if new variants of concern were to emerge. Therefore, any estimate of the length and severity of the pandemic is 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.

*Operating revenue*

In accordance with the CPA, Chorus and Air Canada are in the process of re-setting certain Controllable Cost Revenue rates for the year ending December 31, 2022. Pending the settlement of those rates, Chorus has used interim rates for certain Controllable Costs to estimate CPA operating revenues during the three-month period ended March 31, 2022. Once the new rates are established, Chorus and Air Canada will reconcile amounts already recorded to the new, agreed rates retroactive to January 1, 2022. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. Given the nature of the Controllable Cost Guardrail, Chorus' exposure to variances between the Controllable 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 $2.0 million annually.

[1] (Refer to Section 24 - Caution Regarding Forward-Looking Information.) The significant accounting policies of Chorus are described in note 3 of the audited consolidated financial statements of Chorus for the years ended December 31, 2021 and 2020.

## 13 CHANGES IN ACCOUNTING STANDARDS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2021 consolidated financial statements.

## 14 OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Chorus' off-balance sheet arrangements is disclosed in Section 9 of Chorus' annual MD&A dated February 16, 2022. There have been no material changes to Chorus' off-balance sheet arrangements from what was disclosed at that time.

## 15 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

| | As at March 31, 2022 | | | As at December 31, 2021 | | |
|---|---|---|---|---|---|---|
| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | **Fair value** | **Carrying value** | **Deferred financing fees(1)** | **Fair value** | **Carrying value** | **Deferred financing fees(1)** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **Finance lease receivables(2)** | 5,762 | 5,442 | — | 6,513 | 6,126 | — |
| **Other long-term assets** | | | | | | |
| Interest rate swaps(3) | 1,201 | 1,201 | — | — | — | — |
| **Long-term debt** | | | | | | |
| Amortizing term loans(4) | 1,325,784 | 1,364,777 | 6,192 | 1,426,650 | 1,437,635 | 6,627 |
| 6.00% Debentures(5) | 127,075 | 114,281 | 936 | 119,484 | 114,222 | 1,014 |
| Series A Debentures(6) | 86,216 | 86,250 | 2,268 | 85,344 | 86,250 | 2,454 |
| Series B Debentures(6) | 73,950 | 70,155 | 2,431 | 71,630 | 70,037 | 2,548 |
| Series C Debentures(6) | 77,775 | 85,000 | 3,467 | 77,341 | 85,000 | 3,604 |
| Unsecured Revolving Credit Facility(7) | 125,790 | 124,960 | — | 124,954 | 126,780 | — |
| **Other long-term liabilities** | | | | | | |
| Interest rate swaps(3) | — | — | — | 3,976 | 3,976 | — |
| Total Return Swap(3) | 633 | 633 | — | 3,242 | 3,242 | — |

(1) Fair value and carrying values exclude related deferred financing fees.
(2) Fair value is calculated by discounting annual cash flows at the relevant market interest rates.
(3) Fair value is estimated using valuation models that utilize market based observable inputs and is classified as Level 2.
(4) Fair value is calculated by discounting the future cash flow of the respective long-term debt at relevant market interest rates of similar debt instruments.
(5) Fair value is calculated by valuing Stapled 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.
(6) Fair value is calculated based on quoted prices observed in active markets.
(7) Fair value is calculated by discounting the future cash flow of the credit facility at a relevant market interest rate.

## 16 RELATED PARTY TRANSACTIONS

As at March 31, 2022, Chorus had no transactions with related parties as defined in the CPA Canada Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements or transaction that are otherwise not material.

Upon closing the Falko Acquisition on May 3, 2022, Jeremy Barnes became an officer of Chorus. Mr. Barnes is a shareholder of CityJet Holdings Ltd., the parent company of CityJet which currently leases two CRJ900s from CAC under short-term leases. The leases between CAC and CityJet were entered into prior to Mr. Barnes becoming an officer of Chorus, and the revenue derived by CAC under those leases is not material to Chorus.

## 17 CONTROLS AND PROCEDURES

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

The internal controls over financial reporting ("ICFR") have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In Chorus' 2021 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and operational effectiveness of both the DC&P and the ICFR.

In Chorus' first quarter 2022 filings, the CEO and CFO also certified, as required by National Instrument 52-109, the appropriateness of the financial disclosures, the design of both the DC&P and the ICFR based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO - 2013).

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

There has been no change in Chorus' internal control over financial reporting that occurred during the first quarter of fiscal 2022 that has materially affected Chorus' ICFR.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A and the unaudited interim condensed consolidated financial statements of Chorus for March 31, 2022 and approved these documents prior to their release.

## 18 NON-GAAP FINANCIAL MEASURES

Chorus uses certain non-GAAP financial measures, described below, to evaluate and assess performance. These non-GAAP measures are generally numerical measures of a company's financial performance, financial position or cash flows, that include or exclude amounts from the most comparable GAAP measure. As such, these measures are not recognized for financial statement presentation under GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

**Adjusted Net Income, Adjusted EBT and Adjusted EBITDA**

Adjusted net income and Adjusted net income per Share are used by Chorus to assess performance without the effects of unrealized foreign exchange gains or losses on long-term debt and lease liability related to aircraft, signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages realized, Dash 8-300 inventory provision, defined benefit pension curtailment, integration costs, strategic advisory fees and the applicable tax expense (recovery). Chorus manages its exposure to currency risk on such long-term debt by billing the lease payments within the CPA in the underlying currency (US dollars) related to the aircraft debt. These items are excluded because they affect the comparability of Chorus' financial results, period-over-period, and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are non-recurring due to ongoing currency fluctuations between the Canadian and US dollar (refer to Section 24 - Caution Regarding Forward-Looking Information).

EBT is defined as earnings before income tax. Adjusted EBT (EBT before signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages realized, Dash 8-300 inventory provision, defined benefit pension curtailment, integration costs, strategic advisory fees and other items such as foreign exchange gains and losses) is a non-GAAP financial measure used by Chorus as a supplemental financial measure of operational performance. Management believes Adjusted EBT assists investors in comparing Chorus' performance by excluding items, which it does not believe will re-occur over the longer-term (such as signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages realized, Dash 8-300 inventory provision, defined benefit pension curtailment, integration costs and strategic advisory fees) as well as items that are non-cash in nature such as foreign exchange gains and losses.

EBITDA is defined as earnings before net interest expense, income taxes, depreciation and amortization and impairment and is a non-GAAP financial measure that is used frequently by companies in the aviation industry as a measure of performance. Adjusted EBITDA (EBITDA before signing bonuses, employee separation program costs, strategic advisory fees, impairment provisions, lease repossession costs net of security packages realized, Dash 8-300 inventory provision, defined benefit pension curtailment and integration costs, and other items such as foreign exchange gains or losses) is a non-GAAP financial measure used by Chorus as a supplemental financial measure of operational performance. Management believes Adjusted EBITDA assists investors in comparing Chorus' performance by excluding items, which it does not believe will re-occur over the longer-term (such as signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages realized, Dash 8-300 inventory provision, defined benefit pension curtailment, integration costs and strategic advisory fees) as well as items that are non-cash in nature such as foreign exchange gains and losses. Adjusted EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements.

| (unaudited)<br>(expressed in thousands of Canadian dollars, except per Share amounts) | Three months ended March 31,<br>**2022**<br>**$** | **2021**<br>**$** | **Change**<br>**$** |
|---|---|---|---|
| **Net income (loss)** | **22,907** | **(38,079)** | **60,986** |
| Add (Deduct) items to get to Adjusted net income | | | |
| Impairment provisions[1] | — | 33,663 | (33,663) |
| Inventory provision[1] | — | 9,090 | (9,090) |
| Employee separation program[1][2] | — | 26,716 | (26,716) |
| Defined benefit pension curtailment[1] | — | 9,975 | (9,975) |
| Integration costs[1] | — | 2,000 | (2,000) |
| Signing bonuses[1] | — | 707 | (707) |
| Strategic advisory fees[1] | 2,673 | — | 2,673 |
| Lease repossession costs[1] | 646 | 990 | (344) |
| Unrealized foreign exchange gain | (7,680) | (7,013) | (667) |
| Tax recovery on adjusted items | (803) | (22,305) | 21,502 |
| | (5,164) | 53,823 | (58,987) |
| **Adjusted net income** | **17,743** | **15,744** | **1,999** |
| **Adjusted net income per Share - basic** | **0.10** | **0.10** | **—** |
| *Add items to get to Adjusted EBT* | | | |
| Income tax expense (recovery) | 4,800 | (18,919) | 23,719 |
| Tax recovery on adjusted items | 803 | 22,305 | (21,502) |
| **Adjusted EBT** | **23,346** | **19,130** | **4,216** |
| *Add (Deduct) items to get to Adjusted EBITDA* | | | |
| Net interest expense | 20,054 | 24,856 | (4,802) |
| Depreciation and amortization excluding impairment | 36,649 | 37,796 | (1,147) |
| Foreign exchange loss | 3,231 | 2,259 | 972 |
| | 59,934 | 64,911 | (4,977) |
| **Adjusted EBITDA** | **83,280** | **84,041** | **(761)** |

(1) Included in operating expenses.
(2) Includes $26.3 million related to the pilot early retirement program costs as part of the 2021 CPA Amendments.

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## Net Debt to Adjusted EBITDA

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

| *(unaudited)* *(expressed in thousands of Canadian dollars)* | **March 31, 2022** **$** | **December 31, 2021** **$** | **Change** **$** |
|---|---|---|---|
| Long-term debt (including current portion) | 1,839,165 | 1,913,814 | (74,649) |
| Less: | | | |
| Cash | (110,029) | (123,573) | 13,544 |
| Restricted cash(1) | (10,209) | (10,353) | 144 |
| **Net debt** | 1,718,927 | 1,779,888 | (60,961) |
| **Adjusted EBITDA** | 328,679 | 329,440 | (761) |
| **Leverage ratio** | 5.2 | 5.4 | (0.2) |

(1) The 6.00% Debentures are secured primarily by certain Dash 8-100s and Dash 8-300s. A restricted cash placement of US $8.0 million (December 31, 2021 - US $8.0 million), in accordance with the terms of the agreement, relates to the release of the security on one Dash 8-300 in the third quarter of 2021 and one Dash 8-300 in 2019. The restricted cash will become unrestricted once the 6.00% Debentures are fully redeemed (refer to Section 8 - Capital Structure).

Net debt is a key component of capital management by Chorus and provides management with a measure of its net indebtedness.

As at March 31, 2022, Net debt decreased by $61.0 million or 3.4% from December 31, 2021. The decrease was primarily related to scheduled payments on long-term borrowings and lease liabilities and the impact of foreign exchange which decreased long-term debt by approximately $31.5 million.

Adjusted EBITDA was essentially unchanged for the trailing 12-months ended March 31, 2022 compared to the trailing 12-months ended December 2021.

Chorus' leverage ratio (Net debt to trailing 12-month Adjusted EBITDA) was 5.2 as at March 31, 2022 (December 31, 2021 - 5.4). Leverage decreased for March 31, 2022 compared to year ended December 31, 2021, primarily related to an overall reduction in long-term debt.

chorus aviation inc.

### Adjusted Cash Provided by Operating Activities

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

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2022 | 2021 | Change |
| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | $ | $ | $ |
| **Cash provided by operating activities** | 41,531 | 38,232 | 3,299 |
| Add (Deduct) | | | |
| Net changes in non-cash balances related to operations | 14,096 | (18,468) | 32,564 |
| Capital expenditures, excluding aircraft acquisitions | (1,409) | (430) | (979) |
| Capitalized major maintenance overhauls | (5,939) | (3,622) | (2,317) |
| **Adjusted cash provided by operating activities** | **48,279** | **15,712** | **32,567** |

Adjusted cash provided by operating activities was positively impacted by increased operating income due a decrease in one-time restructuring costs of $39.0 million related to the 2021 CPA Amendments, excluding the non-cash impairment and inventory provisions of $42.8 million related to the Dash 8-300s, in addition to:

- an increase in revenue due to the recognition of the expected recovery of Chorus' claim in the Aeromexico bankruptcy and increased lease revenue from re-leased aircraft offset by lower lease revenue attributable to negotiated lease amendments (including extensions) in the RAL segment; and
- increased other revenue due to an increase in part sales partially offset by decreased MRO activity and contract flying.

### Return on Invested Capital

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

| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | **Trailing 12-months ended**<br>**March 31, 2022**<br>**$** | **December 31, 2021**<br>**$** | **Change**<br>**$** |
|---|---|---|---|
| **Income (loss) before income taxes** | 56,825 | (27,880) | 84,705 |
| **Unrealized foreign exchange gain** | (1,969) | (1,302) | (667) |
| | 54,856 | (29,182) | 84,038 |
| Add: | | | |
| Finance costs | 92,420 | 97,213 | (4,793) |
| | 147,276 | 68,031 | 79,245 |
| **Invested capital:** | | | |
| Average long-term debt(1) | 1,972,574 | 2,043,142 | (70,568) |
| Average lease liabilities(2) | 11,054 | 11,061 | (7) |
| Average Shareholders' equity | 652,400 | 665,906 | (13,506) |
| | 2,636,028 | 2,720,109 | (84,081) |
| **Return on invested capital** | 5.6% | 2.5% | 3.1 % |

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

During the trailing 12-months ended March 31, 2022, the average return on invested capital increased from 2.5% to 5.6% primarily due to scheduled payments on long-term borrowings and the impact of foreign exchange which decreased long-term debt. In addition, income before income taxes increased primarily due to a decrease in one-time restructuring costs of $81.8 million related to the 2021 CPA Amendments.

## 19 SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

| *(unaudited)* | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 | Q4 2020 | Q3 2020 | Q2 2020 |
|---|---|---|---|---|---|---|---|---|
| **Chorus** | | | | | | | | |
| Total revenue ($000) | 342,380 | 346,516 | 274,399 | 199,873 | 202,487 | 218,166 | 196,618 | 184,006 |
| Net income (loss) ($000) | 22,907 | 10,159 | (14,082) | 21,517 | (38,079) | 9,157 | 20,458 | 29,165 |
| Adjusted net income[(1)] ($000) | 17,743 | 21,456 | 15,310 | 11,380 | 15,744 | 7,667 | 10,908 | 21,644 |
| Adjusted EBITDA[(1)] ($000) | 83,280 | 90,463 | 78,081 | 76,855 | 84,041 | 81,972 | 85,859 | 91,042 |
| Net income (loss) per Share, basic ($) | 0.13 | 0.06 | (0.08) | 0.12 | (0.24) | 0.06 | 0.13 | 0.18 |
| Net income (loss) per Share, diluted ($) | 0.13 | 0.06 | (0.08) | 0.12 | (0.24) | 0.06 | 0.12 | 0.18 |
| Adjusted net income,[(1)] per Share - basic ($) | 0.10 | 0.12 | 0.09 | 0.06 | 0.10 | 0.05 | 0.07 | 0.13 |
| FTE employees (end of period) | 4,583 | 4,426 | 4,175 | 3,114 | 2,567 | 2,875 | 2,810 | 2,164 |
| Number of aircraft (end of period) | 233 | 234 | 234 | 234 | 209 | 212 | 208 | 214 |
| Average foreign exchange rates (USD-CAD) | 1.2666 | 1.2602 | 1.2596 | 1.2284 | 1.2668 | 1.3040 | 1.3321 | 1.3868 |
| **Jazz** | | | | | | | | |
| Departures | 30,978 | 39,014 | 30,820 | 11,806 | 8,924 | 13,145 | 13,788 | 4,894 |
| Block Hours | 50,839 | 64,403 | 49,890 | 18,025 | 12,681 | 19,222 | 20,447 | 6,776 |
| Billable Block Hours | 58,444 | 66,400 | 51,250 | 21,039 | 15,478 | 24,246 | 26,194 | 38,187 |

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

## 20 REVENUE

| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | **Three months ended March 31,** | | | |
|---|---|---|---|---|
| | **2022**<br>**$** | **2021**<br>**$** | **Change**<br>**$** | **Change**<br>**%** |
| Controllable Cost Revenue | 186,277 | 79,394 | 106,883 | 134.6 |
| Pass-Through Revenue | 43,233 | 12,390 | 30,843 | 248.9 |
| | **229,510** | **91,784** | **137,726** | **150.1** |
| Fixed Margin | 16,580 | 16,430 | 150 | 0.9 |
| Incentive Revenue | 680 | 527 | 153 | 29.0 |
| Aircraft leasing under the CPA | 36,275 | 35,950 | 325 | 0.9 |
| Other[(1)] | 23,514 | 23,069 | 445 | 1.9 |
| | **77,049** | **75,976** | **1,073** | **1.4** |
| RAS Revenue | 306,559 | 167,760 | 138,799 | 82.7 |
| RAL Revenue | 35,821 | 34,727 | 1,094 | 3.1 |
| **Total Revenue** | **342,380** | **202,487** | **139,893** | **40.9** |

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

## 21 CONSOLIDATED STATEMENTS OF INCOME (LOSS)

| *(unaudited)*<br>*(expressed in thousands of Canadian dollars)* | **Three months ended March 31,**<br>**2022**<br>**$** | <br>**2021**<br>**$** |
|---|---|---|
| **Operating revenue** | 342,380 | 202,487 |
| **Operating expenses** | | |
| Salaries, wages and benefits | 120,133 | 100,567 |
| Depreciation, amortization and impairment | 36,649 | 71,459 |
| Aircraft maintenance materials, supplies and services | 63,998 | 29,885 |
| Airport and navigation fees | 33,649 | 9,494 |
| Terminal handling services | 3,712 | 923 |
| Other | 40,927 | 27,055 |
| | 299,068 | 239,383 |
| **Operating income (loss)** | 43,312 | (36,896) |
| **Non-operating (expenses) income** | | |
| Interest revenue | 144 | 135 |
| Interest expense | (20,198) | (24,991) |
| Foreign exchange gain | 4,449 | 4,754 |
| | (15,605) | (20,102) |
| **Income (loss) before income taxes** | 27,707 | (56,998) |
| **Income tax (expense) recovery** | | |
| Current income tax | (5,383) | (1,501) |
| Deferred income tax | 583 | 20,420 |
| | (4,800) | 18,919 |
| **Net income (loss)** | 22,907 | (38,079) |

## 22 ADDITIONAL INFORMATION

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

## 23 GLOSSARY OF TERMS

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

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

"**2021 CPA Amendments**" means the amendments to the 2015 CPA (as amended by the 2019 CPA Amendments) described in the Corporation's Material Change Report dated March 19, 2021;

"**6.00% Debentures**" means the 6.00% senior debentures of the Corporation due December 31, 2024 which trade on the TSX under the symbol CHR.DB;

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

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

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

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

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

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

"**CEWS**" means the Canada Emergency Wage Subsidy;

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

"**Chorus Aviation Capital**" or "**CAC**" means CACC and its subsidiaries (excluding Jazz Leasing);

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

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

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

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

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

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

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

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

"**CPA**" means the 2015 CPA as amended and extended by the 2019 CPA Amendments and further amended by the 2021 CPA Amendments;

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

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

"**Dash 8-100**", "**Dash 8-300**", "**Dash 8-400**" and "**Dash 7-100**" means, respectively, De Havilland Dash 8-100, Dash 8-300 and Dash 8-400 (formerly the "Q400") and Dash 7-100 turboprop aircraft, and "**Dash Aircraft**" means all of the foregoing;

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

"**E175**", "**E190**" and "**E195**" means, respectively, Embraer E175, Embraer E190 and Embraer E195 E jet aircraft;

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

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

"**EDC**" means Export Development Canada;

"**Equity Units**" means units issued by the Corporation on April 6, 2021, each of which was comprised of one Share and one-half Share purchase warrant;

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

"**Falko**" means Falko Regional Aircraft Limited together with its affiliates;

"**Falko Acquisition**" means the acquisition of the Falko Business by indirect subsidiaries of the Corporation;

"**Falko Business**" means Falko and the equity interests in certain entities and aircraft managed by such entities (all as more particularly described in Chorus' Material Change Report dated May 3, 2022);

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

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

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

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

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

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

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

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

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

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

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

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

"**Operating Credit Facility**" means the three-year committed operating credit facility dated October 14, 2021 between the Corporation as borrower, The Bank of Nova Scotia as administrative agent, issuing bank, sole lead arranger and bookrunner, and the lenders from time to time parties thereto;

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

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

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

"**Preferred Shares**" means the series of preferred shares in the capital of the Corporation designated as "Series 1 Preferred Shares";

"**Prior Facility**" means the previous three-year committed operating credit facility that had a maturity date of August 30, 2022.

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

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

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

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

"**Series A Debentures**" means the 5.75% senior unsecured debentures of the Corporation due December 31, 2024 which trade on the TSX under the symbol CHR.DB.A;

"**Series B Debentures**" means the 6.00% convertible senior unsecured debentures of the Corporation due June 30, 2026 which trade on the TSX under the symbol CHR.DB.B;

"**Series C Debentures**" means the 5.75% senior unsecured debentures of the Corporation due June 30, 2027 which trade on the TSX under the symbol CHR.DB.C;

"**Shareholders**" means holders of Shares, (excluding for the avoidance of doubt, the holders of Preferred Shares);

"**Shares**" means the Class B Voting Shares and Class A Variable Voting Shares excluding the Preferred Shares in the capital of the Corporation;

"**SOFR**" means secured overnight financing rate;

"**Stapled Warrants**" means the warrants exercisable to acquire Shares at a price of $8.25 per Share (subject to certain adjustments) which were issued by the Corporation as part of the Convertible Units;

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

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

"**Unit Warrants**" means the warrants exercisable to acquire Shares at a price of $6.20 per Share (subject to certain adjustments) which were issued by the Corporation as part of the Equity Units;

"**Unsecured Revolving Credit Facility**" means the US $100.0 million unsecured revolving credit facility between the Corporation, as borrower, and EDC, as lender;

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

"**Warrants**" means the Stapled Warrants and the Unit Warrants.

## 24 CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Examples of forward-looking information in this MD&A include the discussion in the Outlook section, as well as statements regarding expectations as to Chorus' future liquidity and financial strength and contracted revenues, the recovery of air traffic in Canada and around the world, Chorus' future growth and the completion of pending or planned transactions. Actual results may differ materially from results indicated in forward-looking information for a number of reasons, including: Chorus' ability to successfully integrate Falko's operations and employees and realize the anticipated benefits of the Falko Acquisition; the potential impact of the completion of the Falko Acquisition on relationships, including with employees, suppliers, customers, investors and other providers of capital; Falko's ability to successfully launch a new fund on the terms currently contemplated or at all; deviations from the key economic assumptions described in the Outlook section; a prolonged duration of the COVID-19 pandemic (including as a result of the emergence of new COVID-19 variants) and/or further restrictive measures to minimize its public health impacts; the evolving impact of the COVID-19 pandemic on Chorus' contractual counterparties; changes in aviation industry and general economic conditions; the continued payment (in whole or in part) of amounts due under the CPA and/or aircraft lease agreements with CAC's customers; the risk of disputes under the CPA and/or aircraft lease agreements with CAC's customers; Chorus' ability to pay its indebtedness and otherwise remain in compliance with its debt covenants; the risk of cross defaults under debt agreements and other significant contracts; the risk of asset impairments and provisions for expected credit losses; a failure to conclude transactions (including potential financings) referenced in this MD&A, as well as the factors identified in the risk factors in Section 8 - Capital Structure and Section 10 - Risk Factors of this MD&A and in Chorus' public disclosure record available at www.sedar.com. The forward-looking statements contained in this MD&A represent Chorus' expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. Chorus disclaims any intention or obligation to update or revise such statements to reflect new information, subsequent events or otherwise, except as required by applicable securities laws. Readers are cautioned that the foregoing factors and risks are not exhaustive.