chorus
aviation inc.

Second Quarter 2022

Unaudited Interim Condensed
Consolidated Financial Statements

June 30, 2022

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at June 30, 2022 $	As at December 31, 2021 $
Assets		
Current assets		
Cash	70,724	123,573
Accounts receivable – trade and other (note 18)	185,511	135,438
Inventories	82,770	76,235
Prepaid expenses and deposits	21,062	12,159
Current portion of finance lease receivables	4,845	2,485
Income tax receivable	164	157
	365,076	350,047
Restricted cash (note 17)	119,490	54,873
Finance lease receivables	42,649	3,641
Property and equipment (note 7)	3,507,844	2,589,087
Intangibles (note 9)	20,026	1,681
Goodwill (note 9)	7,955	7,150
Investments (note 14)	20,822	—
Deferred income tax asset	5,082	6,661
Other long-term assets (note 18)	200,289	167,377
	4,289,233	3,180,517
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	317,238	217,804
Current portion of lease liabilities	4,659	3,801
Current portion of long-term incentive plan	1,751	911
Current portion of long-term debt (note 10)	354,576	226,509
Preferred dividends payable (note 12)	5,450	—
Income tax payable	4,208	2,650
	687,882	451,675
Lease liabilities	7,501	6,336
Long-term debt (note 10)	2,008,510	1,677,168
Deferred income tax liability	190,022	195,996
Other long-term liabilities	159,987	158,873
	3,053,902	2,490,048
Equity attributable to shareholders	1,149,405	690,469
Equity attributable to non-controlling interest	85,926	—
Equity	1,235,331	690,469
	4,289,233	3,180,517

Contingencies (note 15)
Economic dependence (note 16)

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

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Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Equity Attributable to Shareholders							
	Capital $	Deficit $	Exchange differences on foreign operations $	Contributed surplus $	Warrants $	Equity component of convertible units/ debentures $	Equity attributable to non-controlling interest $	Total $
Balance - December 31, 2020	288,475	(684,375)	(5,570)	1,039,832	—	2,981	—	641,343
Net loss for the period	—	(16,562)	—	—	—	—	—	(16,562)
Other comprehensive loss for the period (net of tax)	—	(5,995)	(9,669)	—	—	—	—	(15,664)
Comprehensive loss for the period	—	(22,557)	(9,669)	—	—	—	—	(32,226)
Issuances of common shares, net of transaction costs and related tax	68,135	—	—	—	—	—	—	68,135
Issuance of convertible debentures, net of transaction costs	—	—	—	—	—	2,683	—	2,683
Warrants issued, net of transaction costs	—	—	—	—	1,514	—	—	1,514
Balance - June 30, 2021	356,610	(706,932)	(15,239)	1,039,832	1,514	5,664	—	681,449
Net loss for the period	—	(3,923)	—	—	—	—	—	(3,923)
Other comprehensive income for the period (net of tax)	—	2,947	9,996	—	—	—	—	12,943
Comprehensive (loss) income for the period	—	(976)	9,996	—	—	—	—	9,020
Warrants exercised	1	—	—	—	(1)	—	—	—
Balance - December 31, 2021	356,611	(707,908)	(5,243)	1,039,832	1,513	5,664	—	690,469
Net (loss) income for the period	—	(17,935)	—	—	—	—	439	(17,496)
Other comprehensive income for the period (net of tax)	—	7,218	5,348	—	—	—	183	12,749
Comprehensive (loss) income for the period	—	(10,717)	5,348	—	—	—	622	(4,747)
Preferred dividends	—	(5,426)	—	—	—	—	—	(5,426)
Issuance of common shares, net of transaction costs and related tax	70,093	—	—	—	—	—	—	70,093
Issuance of preferred shares, net of transaction costs and related tax	375,217	—	—	—	—	—	—	375,217
Warrants expired	—	—	—	1,514	(1,514)	—	—	—
Warrants issued, net of transaction costs and related tax	—	—	—	—	24,366	—	—	24,366
Expense related to stock-based compensation plans	—	—	—	55	—	—	—	55
Business combination	—	—	—	—	—	—	85,304	85,304
Balance - June 30, 2022	801,921	(724,051)	105	1,041,401	24,365	5,664	85,926	1,235,331

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

chorus aviation inc.

Unaudited Consolidated Statements of (Loss) Income
For the three and six-month periods ended June 30, 2022 and 2021

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
Operating revenue (note 16)	392,343	199,873	734,723	402,360
Operating expenses (note 16)				
Salaries, wages and benefits	126,326	64,051	246,459	164,618
Depreciation, amortization and impairment (note 5)	65,576	35,779	102,225	107,238
Aircraft maintenance materials, supplies and services	75,314	14,386	139,312	44,271
Airport and navigation fees	40,442	15,763	74,091	25,257
Terminal handling services	3,620	1,273	7,332	2,196
Other	74,251	29,208	115,178	56,263
	385,529	160,460	684,597	399,843
Operating income	6,814	39,413	50,126	2,517
Non-operating (expenses) income				
Interest revenue	941	280	1,085	415
Interest expense	(26,046)	(24,297)	(46,244)	(49,288)
Gain on disposal of property and equipment	156	1,716	156	1,716
Loss on fair value of investments	(797)	—	(797)	—
Foreign exchange (loss) gain	(22,441)	10,018	(17,992)	14,772
	(48,187)	(12,283)	(63,792)	(32,385)
(Loss) income before income taxes	(41,373)	27,130	(13,666)	(29,868)
Income tax recovery (expense) (note 11)				
Current income tax	(3,864)	(2,663)	(9,247)	(4,164)
Deferred income tax	4,834	(2,950)	5,417	17,470
	970	(5,613)	(3,830)	13,306
Net (loss) income	(40,403)	21,517	(17,496)	(16,562)
Net income attributable to non-controlling interest	439	—	439	—
Net (loss) income attributable to shareholders	(40,842)	21,517	(17,935)	(16,562)
Preferred share dividends	(5,426)	—	(5,426)	—
Net (loss) income attributable to common shareholders	(46,268)	21,517	(23,361)	(16,562)
(Loss) income attributable to common shareholders, per share, basic	(0.24)	0.12	(0.13)	(0.10)
(Loss) income attributable to common shareholders, per share, diluted	(0.24)	0.12	(0.13)	(0.10)

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

chorus aviation inc.

Unaudited Consolidated Statements of Comprehensive (Loss) Income

For the three and six-month periods ended June 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Net (loss) income	(40,403)	21,517	(17,496)	(16,562)
Other comprehensive income (loss)				
Items that will not be subsequently reclassified to the statements of income				
Actuarial gain (loss) on employee benefit liabilities, net of tax expense (recovery) of $609 and ($510) (2021 - $2,317 and $3,834)	1,648	(6,296)	1,382	(10,405)
Items that will be subsequently reclassified to the statements of income				
Change in fair value of financial assets and liabilities, net of tax expense of $237 and $834 (2021 - $75 and $332)	1,652	527	5,836	4,410
Exchange differences on translation of foreign operations	14,202	(2,808)	5,531	(9,669)
Comprehensive (loss) income	(22,901)	12,940	(4,747)	(32,226)
Comprehensive income attributable to non-controlling interest	622	—	622	—
Comprehensive (loss) income attributable to shareholders	(23,523)	12,940	(5,369)	(32,226)

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

chorus aviation inc.

Unaudited Consolidated Statements of Cash Flows

For the three and six-month periods ended June 30, 2022 and 2021

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2022 $	2021 $	2022 $	2021 $
Cash provided by (used in)				
Operating activities				
Net (loss) income	(40,403)	21,517	(17,496)	(16,562)
Charges (credits) to operations not involving cash				
Depreciation, amortization and impairment	65,576	35,779	102,225	107,238
Inventory provision	—	—	—	9,090
Amortization of accrued transaction and financing fees	320	1,089	1,415	2,070
Gain on disposal of property and equipment	(156)	(1,716)	(156)	(1,716)
Loss on fair value of investments	797	—	797	—
Unrealized foreign exchange loss (gain)	22,582	(11,751)	14,902	(18,764)
Realized foreign exchange loss	2,169	1,259	3,845	2,932
Effect of foreign exchange rate changes on cash	(2,940)	656	(2,083)	2,319
Deferred income tax (recovery) expense	(4,834)	2,950	(5,417)	(17,470)
Other	835	786	1,541	1,196
	43,946	50,569	99,573	70,333
Net changes in non-cash balances related to operations (note 17)	22,196	(35,583)	8,100	(17,115)
	66,142	14,986	107,673	53,218
Financing activities				
Repayment of lease liabilities	(1,219)	(1,015)	(2,217)	(1,932)
Repayment of long-term borrowings	(67,441)	(154,669)	(112,088)	(210,671)
Long-term borrowings, net of financing fees	59,834	(178)	59,678	24,911
Issuance of shares and warrants, net of transaction costs	465,038	68,560	465,038	68,560
Unsecured debentures, net of transaction costs	—	69,507	—	69,507
	456,212	(17,795)	410,411	(49,625)
Investing activities				
Business and aircraft acquisition, net of cash acquired	(538,362)	—	(538,362)	—
(Decrease) increase in security deposits and maintenance reserves	(6,120)	6,031	(13,289)	11,355
Additions to property and equipment	(20,184)	(10,612)	(31,819)	(47,240)
Payments received on finance lease receivables	835	549	1,440	1,102
Proceeds on sale of investments	113	—	113	—
Proceeds on disposal of property and equipment	156	1,716	156	1,716
(Increase) decrease in restricted cash	(1,692)	12,823	8,564	9,841
	(565,254)	10,507	(573,197)	(23,226)
Effect of foreign exchange rate changes on cash	3,595	(1,256)	2,264	(3,655)
Net change in cash during the periods	(39,305)	6,442	(52,849)	(23,288)
Cash – Beginning of periods	110,029	135,987	123,573	165,717
Cash – End of periods	70,724	142,429	70,724	142,429

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

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

1 General information

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

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

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

Contract flying is currently Chorus’ primary business and these flying operations are conducted through both its Jazz Aviation LP ("Jazz") and Voyageur Aviation Corp. ("Voyageur") subsidiaries. Through Jazz's operations, Chorus provides a significant part of Air Canada’s domestic and transborder network. Jazz and Air Canada are parties to an amended and restated capacity purchase agreement dated January 1, 2015, most recently amended effective January 1, 2021 and previously amended and restated on January 1, 2019 (the "CPA"), under which Air Canada purchases substantially all of Jazz’s fleet capacity at pre-determined rates. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on Air Canada (refer to note 16 - Economic dependence for further details). Jazz also operates charter flights for a variety of customers. Voyageur provides specialized contract ACMI (aircraft, crew, maintenance and insurance) flying, such as medical, logistical and humanitarian flights, to international and domestic customers.

On May 3, 2022, Chorus completed a sale and purchase agreement (the "Purchase agreement") pursuant to which one of its wholly-owned subsidiaries acquired Falko Regional Aircraft Limited ("Falko"), a leading regional aircraft lessor and the equity interests in certain entities ("Falko Business") and aircraft which are managed by Falko ("Falko Acquisition").

Chorus provides aircraft leasing to third-party air operators and asset management services such that it earns lease revenue, asset management fees and incentives for outperforming performance targets through its wholly-owned subsidiary Chorus Aviation Capital Corp. and its wholly-owned subsidiaries inclusive of the Falko Business (collectively, "CAC").

2 Basis of presentation

These financial statements are in compliance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying Chorus' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus’ annual consolidated financial statements for the year ended December 31, 2021. These financial statements should be read in conjunction with Chorus’ consolidated financial statements for the year ended December 31, 2021.

These financial statements have been authorized for issuance by Chorus' Board of Directors on August 4, 2022.

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2021.

Critical accounting estimates and judgements

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

COVID-19

Although the novel strain of the coronavirus ("COVID-19") pandemic continues to adversely impact demand for passenger air travel, demand for passenger air travel continued to show improvements during the first and second 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 six-month period ended June 30, 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 $2,000 annually.

Business combination

Chorus applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of an entity is equal to the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair value of the acquired company's assets and assumed liabilities. There are various assumptions made when determining the fair value of the acquired company's assets and assumed liabilities.

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

The initial recognition of intangible assets acquired that require critical accounting estimates are customer relationships management contracts, maintenance intangibles and trade name. To determine the fair value of these intangible assets, significant assumptions were made, which include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

Depreciation and amortization of long-lived assets

Management makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current fair value of the assets, Chorus' fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. These adjustments are accounted for on a prospective basis, through depreciation, amortization and impairment expense. A 10% reduction to the residual values of aircraft with remaining depreciation periods greater than five years would result in an increase of $9,032 to annual depreciation expense. For aircraft with shorter remaining depreciation periods, the residual values are not expected to change significantly.

Intangible assets

Intangible assets are recorded at cost. Chorus has intangible assets with indefinite lives and intangible assets with finite lives as follows:

Trade name	Indefinite life - not amortized
Customer relationships	Finite life - amortized on a straight line basis over 3-5 years
Management contracts	Finite life - amortized on a straight line basis over 5 years
Maintenance intangible	Finite life - recognized at end of lease

The indefinite life intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupportable, the change in the useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.

Maintenance intangibles

Maintenance intangibles are recognized when Chorus acquires flight equipment subject to existing leases (refer to note 4 - Business acquisition). The intangibles represent the contractual right to receive the aircraft in a specified maintenance condition at the end of the lease under lease contracts with end of lease ("EOL") cash compensation, or Chorus' right to receive the aircraft in better maintenance condition due to aircraft maintenance events performed by the lessee either through reimbursement of maintenance deposit rents held under lease contracts with maintenance reserve provisions, or through a lessor contribution to the lessee. For leases with EOL maintenance provisions, upon lease termination, Chorus recognizes receipt of EOL cash compensation as lease revenue to the extent those receipts exceed the EOL maintenance intangibles, and Chorus recognizes operating expense when the EOL maintenance intangible exceeds the EOL cash received.

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

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Property and equipment are depreciated to estimated residual values based on the straight-line method over their useful lives. New aircraft and other flight equipment are depreciated over 20 to 30 years or to the end of the lease for certain aircraft, with 5% - 25% estimated average residual values or appraised residual values. Additional depreciation is charged to reduce the carrying value of specific assets to the recoverable amount where impairment is considered to have occurred. Where the recoverable amount is greater than the carrying value no adjustment is made.

Major maintenance overhaul expenditures (also referred to as "heavy checks"), including labour, are capitalized and depreciated over the expected life of the maintenance cycle. Any remaining carrying value is derecognized when the major maintenance overhaul commences. All other costs associated with maintenance of fleet assets (including engine maintenance provided under "power-by-the-hour" arrangements) are charged to the statement of income as incurred.

Buildings are depreciated over their useful lives not exceeding 40 years on a straight-line basis. An exception to this is where the useful life of the building is greater than the term of the land lease. In these circumstances, the building is depreciated over the life of the lease.

Depreciation on other property and equipment is provided on a straight-line basis from the date assets are placed in service, to their estimated residual values, over the following estimated useful lives:

Leaseholds	Over the term of the related lease
Ground and other equipment	5 years

Property under finance leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments. Property and equipment under finance leases are depreciated to estimated residual value over the useful life, unless there is no reasonable certainty that Chorus will obtain ownership at the end of the lease term, in which case the asset is depreciated over the shorter of the lease term and its useful life.

Depreciation methods, residual values and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

4 Business acquisition

On May 3, 2022, Chorus completed, through wholly-owned subsidiaries, the Falko Acquisition. The total enterprise value for the Falko Acquisition on May 3, 2022 was approximately US $810,548 comprised of US $405,048 of cash consideration and approximately US $405,500 of existing indebtedness that will remain with the relevant target entities. Chorus also completed the acquisition of the beneficial interest in certain trusts holding an additional five aircraft (the “Trust Interests”) between May 31, 2022 and June 30, 2022 for aggregate consideration of US $33,128 (bringing the total consideration for the Falko Business to US $843,676).

Chorus partially financed the transaction through a private placement transaction with BSI Dragonfly Holdings LP, an affiliate of Brookfield Special Investments Fund L.P. ("Brookfield"), pursuant to which Brookfield (i) subscribed for US $300,000 of preferred shares for consideration of US $291,000 in cash and (ii) subscribed for 25,400,000 common shares and was issued 18,642,772 common share purchase warrants with an exercise price of CAD $4.60 per common share in exchange for US $74,000 of cash (the "Private Placement").

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

4 Business acquisition (continued)

Chorus uses the acquisition method to account for business combinations. As such, the results of operations include revenue and expenses of the Falko Business since May 3, 2022. The revenue and net income of the Falko Business included in the consolidated statement of income since the acquisition date was $26,886 and $5,722 for the three months ended June 30, 2022, respectively. If the Falko Business had been part of the Chorus consolidated group since January 1, 2022, the consolidated revenue and net loss would have been $777,482 and $(1,190) for the six months ended June 30, 2022, respectively.

Chorus recorded acquisition costs of $5,749 and $8,422 in the statement of income for the three and six months ended June 30, 2022 mainly related to professional fees related to the closing of the acquisition.

The purchase price has been allocated, on a preliminary basis to the assets acquired and the liabilities assumed based on their estimated fair values as follows:

As at the acquisition date (May 3, 2022)	USD $	CAD $
Purchase price		
Cash consideration	405,048	520,852
Fair value of the identifiable assets acquired and liabilities assumed		
Assets		
Cash	19,394	24,939
Accounts receivable – trade and other	6,856	8,816
Inventories	95	122
Prepaid expenses and deposits	587	755
Restricted cash	57,183	73,531
Property and equipment	786,596	1,011,484
Intangibles	14,652	18,843
Goodwill	625	804
Investment	15,043	19,344
Deferred income tax asset	5,799	7,458
Other long-term assets	28,504	36,648
	935,334	1,202,744
Liabilities		
Accounts payable and accrued liabilities	34,587	44,475
Income tax payable	28	36
Lease liabilities	1,279	1,644
Long-term debt	395,820	508,985
Deferred income tax liability	9,375	12,055
Other long-term liabilities	22,858	29,393
	463,947	596,588
Total identifiable net assets acquired	471,387	606,156
Non-controlling interest	(66,339)	(85,304)
Attributable to shareholders	405,048	520,852

4 Business acquisition (continued)

The purchase of the Falko Acquisition was transacted in US dollars and has been converted to Canadian currency at an exchange rate of 1.2859.

Chorus will finalize the purchase price allocation upon completion of the review of the final determination of the fair value of the tangible and intangible assets acquired. The fair values of the property and equipment and long-term debt are being determined with internal expertise. The fair value of the intangible assets are being determined with the assistance of third-party valuation professionals. Any future adjustment resulting from the completion of the valuation exercise will be recorded as a measurement period adjustment. Intangible assets attributable to the acquisition arise mainly from the asset management platform. Goodwill recognized is attributed to the Falko Business assembled workforce at the time of acquisition.

In assessing the fair value of property and equipment, Chorus makes significant estimates and assumptions about the expected useful lives and the expected residual value of aircraft, supported by estimates received from independent appraisers, for the same or similar aircraft types, and considers contractual cash flows, the creditworthiness of its lessees and Chorus' anticipated utilization of the aircraft. In determining the residual value of the aircraft, Chorus also applies a future inflation rate assumption of 2.0%. The May 3, 2022 fair value is estimated by taking the present value of future cash flows obtainable as a result of an asset's continued use, including those from its ultimate disposition, discounted at 8.70%.

5 Segmented information

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

Chorus has two reportable operating segments:

- The Regional Aviation Services segment includes contract flying, charter operations and maintenance, repair and overhaul services that are carried on by both Jazz and Voyageur. This segment also includes corporate expenses on various debt instruments, such as interest on the 6.00% Debentures, the Series A Debentures, the Series B Debentures, the Series C Debentures, unsecured credit facility, unsecured revolving operating credit facility and operating credit facility, executive and stock-based compensation and professional fees. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment as it is an important part of the CPA. Aircraft leasing under the CPA currently includes 34 Dash 8-400s and 14 CRJ900s as well as five engines which are owned by Chorus.
- The Regional Aircraft Leasing segment leases aircraft to third parties through CAC. On May 3, 2022, Chorus completed the Falko Acquisition. The Falko Business earns asset management fees for managing aircraft on behalf of fund investors and other third-party aircraft investors and/or owners, lease income and incentives related to the performance fund investment targets. RAL's portfolio of wholly or majority owned and managed aircraft increased to 218 aircraft with the Falko Acquisition.

5 Segmented information (continued)

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

Chorus revised its definition of Adjusted EBT and Adjusted EBITDA in the second quarter of 2022 to include expected credit loss provision related to anticipated aircraft repossessions ("restructuring expected credit loss provision") to facilitate comparability of its results. Adjusted EBT and EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements.

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

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

A significant customer is one that represents 10% or more of each segment revenue earned during the period. For the three and six months ended June 30, 2022 and June 30, 2021, the Regional Aviation Services segment reported revenue from one significant customer. See note 16 "Economic dependence" for a discussion of transactions between Chorus and Air Canada, and its subsidiary (Air Canada Capital Ltd.). For the three and six months ended June 30, 2022, there were one and two leasing customers, respectively, (2021 - six and six, respectively) that represented 10% or more of the Regional Aircraft Leasing segment revenue.

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

5 Segmented information (continued)

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

	For the three months ended June 30, 2022			For the three months ended June 30, 2021		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Operating revenue	331,271	61,072	392,343	168,998	30,875	199,873
Operating expenses	304,796	80,733	385,529	136,169	24,291	160,460
Operating income (loss)	26,475	(19,661)	6,814	32,829	6,584	39,413
Net interest expense	(12,315)	(12,790)	(25,105)	(12,864)	(11,153)	(24,017)
Foreign exchange (loss) gain	(15,961)	(6,480)	(22,441)	9,479	539	10,018
Gain on disposal of property and equipment	29	127	156	1,716	—	1,716
Loss on fair value of investments	—	(797)	(797)	—	—	—
(Loss) earnings before income tax	**(1,772)**	**(39,601)**	**(41,373)**	**31,160**	**(4,030)**	**27,130**
Income tax (expense) recovery	(3,614)	4,584	970	(6,061)	448	(5,613)
Net (loss) income	**(5,386)**	**(35,017)**	**(40,403)**	**25,099**	**(3,582)**	**21,517**
Net income attributable to non-controlling interest	—	439	439	—	—	—
Net (loss) income attributable to shareholders	(5,386)	(35,456)	(40,842)	25,099	(3,582)	21,517

	For the six months ended June 30, 2022			For the six months ended June 30, 2021		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Operating revenue	637,830	96,893	734,723	336,758	65,602	402,360
Operating expenses	582,878	101,719	684,597	351,360	48,483	399,843
Operating income (loss)	54,952	(4,826)	50,126	(14,602)	17,119	2,517
Net interest expense	(24,494)	(20,665)	(45,159)	(24,853)	(24,020)	(48,873)
Foreign exchange (loss) gain	(8,279)	(9,713)	(17,992)	18,557	(3,785)	14,772
Gain on disposal of property and equipment	29	127	156	1,716	—	1,716
Loss on fair value of investments	—	(797)	(797)	—	—	—
Earnings (loss) before income tax	**22,208**	**(35,874)**	**(13,666)**	**(19,182)**	**(10,686)**	**(29,868)**
Income tax (expense) recovery	(7,406)	3,576	(3,830)	12,203	1,103	13,306
Net income (loss)	**14,802**	**(32,298)**	**(17,496)**	**(6,979)**	**(9,583)**	**(16,562)**
Net income attributable to non-controlling interest	—	439	439	—	—	—
Net income (loss) attributable to shareholders	14,802	(32,737)	(17,935)	(6,979)	(9,583)	(16,562)

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

5 Segmented information (continued)

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

	For the three months ended June 30, 2022		For the three months ended June 30, 2021	
	Regional Aviation Services $	Regional Aircraft Leasing $	Regional Aviation Services $	Regional Aircraft Leasing $
Operating income - as reported above	**26,475**	**—**	**32,829**	**—**
Depreciation and amortization excluding impairment(1)	21,355	—	20,064	—
Employee separation program(1)	804	—	3	—
Defined benefit pension curtailment(1)	—	—	(1,107)	—
Signing bonuses(1)	—	—	14	—
Strategic advisory fees(1)	5,749	—	—	—
Adjusted EBITDA(2)	**54,383**	**—**	**51,803**	**—**
Loss before income tax	**—**	**(39,601)**	**—**	**(4,030)**
Unrealized foreign exchange loss (gain)	—	6,176	—	(575)
Impairment provisions(1)	—	20,499	—	—
Restructuring expected credit loss provision(1)(3)	—	10,353	—	—
Employee separation program(1)	—	847	—	—
Lease repossession costs(1)(4)	—	14,728	—	2,753
Adjusted EBT(2)	**—**	**13,002**	**—**	**(1,852)**

	For the six months ended June 30, 2022		For the six months ended June 30, 2021	
	Regional Aviation Services $	Regional Aircraft Leasing $	Regional Aviation Services $	Regional Aircraft Leasing $
Operating income (loss) - as reported above	**54,952**	**—**	**(14,602)**	**—**
Depreciation and amortization excluding impairment(1)	41,747	—	40,469	—
Impairment provisions(1)	—	—	33,663	—
Inventory provision(1)	—	—	9,090	—
Employee separation program(1)(5)	804	—	26,719	—
Defined benefit pension curtailment(1)	—	—	8,868	—
Integration costs(1)	—	—	2,000	—
Signing bonuses(1)	—	—	721	—
Strategic advisory fees(1)	8,422	—	—	—
Adjusted EBITDA(2)	**105,925**	**—**	**106,928**	**—**
Loss before income tax	**—**	**(35,874)**	**—**	**(10,686)**
Unrealized foreign exchange loss	—	9,149	—	3,536
Impairment provisions(1)	—	20,499	—	—
Restructuring expected credit loss provision(1)(3)	—	10,353	—	—
Employee separation program(1)	—	847	—	—
Lease repossession costs(1)(4)	—	15,374	—	3,743
Adjusted EBT(2)	**—**	**20,348**	**—**	**(3,407)**

(1) Included in operating expenses.
(2) These are non-GAAP financial measures.
(3) Expected credit loss provision related to anticipated aircraft repossessions.
(4) Lease repossession costs are net of security packages realized.
(5) Includes $26,300 related to the pilot early retirement program costs as a part of the CPA Amendments.

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

5 Segmented information (continued)

Selected assets and liability information by reportable operating segment:

	As at June 30, 2022			As at December 31, 2021		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Additions to property and equipment, net of deposits applied(1)	12,978	18,841	31,819	50,659	24,048	74,707
Property and equipment	1,157,979	2,349,865	3,507,844	1,189,323	1,399,764	2,589,087
Long-term debt (excluding lease liabilities)	1,077,245	1,285,841	2,363,086	1,065,515	838,162	1,903,677

(1) Excludes non-cash transactions of foreign currency adjustments of $12,010 (December 31, 2021 - $42,676).

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

	Three months ended June 30,				Six months ended June 30,			
	2022		2021		2022		2021	
	$	%	$	%	$	%	$	%
Canada	331,944	84.6%	168,998	84.6%	638,503	86.9%	336,758	83.7%
Other(1)	60,399	15.4%	30,875	15.4%	96,220	13.1%	65,602	16.3%
	392,343	100.0%	199,873	100.0%	734,723	100.0%	402,360	100.0%

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

	As at June 30, 2022		As at December 31, 2021	
	$	%	$	%
Canada	1,186,060	33.8%	1,189,323	45.9%
Other(1)(2)	2,321,784	66.2%	1,399,764	54.1%
	3,507,844	100.0%	2,589,087	100.0%

(1) The other country classification for both revenue and property and equipment is 100% Regional Aircraft Leasing.
(2) There are no countries included in other that represent more than 10% of total assets.

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

6 Revenue from contracts with customers

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes other sources of revenue relating to lease income (including any rights to use specified aircraft that have been identified as lease revenues embedded in the CPA and contract flying service agreements) of $96,819 and $173,922 for the three and six months ended June 30, 2022, respectively (for the three and six months ended June 30, 2021 - $68,007 and $141,025, respectively). Revenue is disaggregated primarily by nature and category in the underlying contract.

	Three months ended June 30,		Six months ended June 30,	
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Controllable cost revenue	201,359	75,817	387,451	154,901
Fixed margin(1)	16,580	16,430	33,160	32,860
Incentive revenue(2)	476	599	1,156	1,126
CPA pass-through revenue	53,374	21,232	96,607	33,622
Other	23,735	17,788	42,427	38,826
	295,524	131,866	560,801	261,335

(1) Jazz earned a fixed margin based on the number of covered aircraft operated by Jazz under the CPA. The fixed margin does not vary based on flight activity.

(2) Incentive revenue earned under the CPA.

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

7 Property and equipment

	Flight equipment $	Facilities $	Equipment $	Leaseholds $	Right-of-use assets $	Deposits on aircraft $	Total $
Year ended December 31, 2021							
Opening net book value	2,714,352	32,759	7,166	7,321	3,268	7,128	2,771,994
Additions	83,439	(1,911)	423	(116)	—	—	81,835
Right-of-use assets	—	—	—	—	2,247	—	2,247
Deposits applied	—	—	—	—	—	(7,128)	(7,128)
Disposals	(8,427)	—	—	—	—	—	(8,427)
Impairment	(63,589)	—	—	—	—	—	(63,589)
Foreign currency adjustment	(42,672)	—	—	—	(4)	—	(42,676)
Depreciation	(138,118)	(1,680)	(3,302)	(366)	(1,703)	—	(145,169)
Closing net book value	2,544,985	29,168	4,287	6,839	3,808	—	2,589,087
Six months ended June 30, 2022							
Opening net book value	2,544,985	29,168	4,287	6,839	3,808	—	2,589,087
Additions	35,081	62	811	(4,135)	—	—	31,819
Right-of-use assets	—	—	—	—	2,469	—	2,469
Disposals	(3,790)	—	—	—	—	—	(3,790)
Impairment	(30,704)	—	—	—	—	—	(30,704)
Falko Acquisition	1,009,374	—	796	—	1,314	—	1,011,484
Foreign currency adjustment	(12,017)	—	1	—	6	—	(12,010)
Depreciation	(77,312)	(810)	(1,265)	(150)	(974)	—	(80,511)
Closing net book value	3,465,617	28,420	4,630	2,554	6,623	—	3,507,844

	Flight equipment $	Facilities $	Equipment $	Leaseholds $	Right-of-use assets $	Deposits on aircraft $	Total $
At December 31, 2021							
Cost	3,394,028	47,172	81,519	20,025	8,414	—	3,551,158
Accumulated depreciation	(849,043)	(18,004)	(77,232)	(13,186)	(4,606)	—	(962,071)
Net book value	2,544,985	29,168	4,287	6,839	3,808	—	2,589,087
At June 30, 2022							
Cost	4,304,761	47,000	83,778	14,339	14,252	—	4,464,130
Accumulated depreciation	(839,144)	(18,580)	(79,148)	(11,785)	(7,629)	—	(956,286)
Net book value	3,465,617	28,420	4,630	2,554	6,623	—	3,507,844

7 Property and equipment (continued)

The property and equipment acquired through the Falko Acquisition are included in the above table with a purchase price allocation of $1,011,484 and includes maintenance intangibles of $97,836.

For the six months ended June 30, 2022, Chorus recorded an impairment provision of $20,499, net of $10,205 recovered from security packages (2021 - $33,663, net of $9,000 recovered from Air Canada) to income. For any aircraft for which an indicator of impairment is present, management estimates the recoverable amount which is the greater of fair value less cost of disposal and value in use. An impairment charge is recorded if the estimated recoverable amount is less than the carrying amount of the assets being tested.

During the six months ended June 30, 2022, Chorus reclassified net book value of $3,790 (2021 - $7,111) from property and equipment to inventory held for resale on the statement of financial position.

8 Credit facilities

Operating credit facility

On October 14, 2021, Chorus entered into a three-year committed operating credit facility with a maturity date of October 14, 2024. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of up to $75,000, subject to a borrowing base calculation, plus a $25,000 uncommitted accordion. Chorus has also provided letters of credit totaling $10,474 that reduce the amount available under this facility. This facility replaced Chorus' three-year committed operating credit facility maturing on August 30, 2022.

In March 2022, Chorus exercised the accordion feature under the committed operating credit facility, thereby increasing the limit from $75,000 to $100,000.

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 secured overnight financing rate ("SOFR") plus 2.50% - 3.50%.

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 CAC and its subsidiaries. It contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio. As at June 30, 2022, Chorus was in compliance with this covenant. Any outstanding balance under this facility is immediately repayable if Chorus undergoes a change in control without the lender's consent.

Unsecured revolving operating credit facility

On May 2, 2022, Chorus entered into a US $30,000 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 facility bears interest for Canadian dollar advances at Canadian Prime plus 3.00% - 4.00% or BA Borrowing plus 4.00% - 5.00%, and for US dollar advances at Base Rate plus 3.00% - 4.00% or SOFR plus 4.00% - 5.00%.

As at June 30, 2022, Chorus was in compliance with this covenant.

As of June 30, 2022, Chorus has not drawn on the facility.

8 Credit facilities (continued)

Warehouse credit facility

In December 2020, Chorus amended the terms of this facility, to among other things, cancel the remaining available credit under the facility and eliminate the associated commitment fees. The balance outstanding under the facility at June 30, 2022 was $88,488 (US $68,670).

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

The facility bears interest at US dollar LIBOR plus 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 Chorus Aviation Capital (Ireland) Limited ("CACIL").

The facility contains covenants that must be met on an ongoing basis. The financial covenants include a minimum amount of cash, tangible net worth, and a maximum debt-to-equity ratio in certain subsidiaries. As at June 30, 2022, Chorus was in compliance with these covenants.

Unsecured credit facility

On April 28, 2020, Chorus obtained a US $100,000 unsecured revolving credit facility for general corporate purposes. The facility bears interest at a rate of US dollar LIBOR rate plus 5.00%. Effective April 28, 2022, this facility automatically converted to a fixed, amortizing debt facility, and the indebtedness thereunder is required to be repaid over eight quarterly instalments starting in July 2022 and ending in April 2024. The facility contains customary covenants and events of default, including restrictions on share repurchases and the payment of dividends 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 would be triggered upon the acceleration of Chorus indebtedness in excess of US $10,000 and an event of default triggered upon an event of default under any other indebtedness owed by Chorus to the lender. In addition, this credit facility contains a covenant to not exceed a prescribed total leverage ratio of debt to EBITDA. Chorus' obligations to pay principal and interest under this facility rank at least pari passu in right of payment with all unsecured and unsubordinated indebtedness. Prior to April 28, 2022, in the event that Chorus entered into an agreement with an arm's length lender, pursuant to which additional unsecured indebtedness was incurred (other than to repay, refinance, amend or modify existing indebtedness), Chorus was required to repay this facility in an amount equal to 35% of such additional indebtedness.

The balance outstanding under this facility at June 30, 2022 was $128,860 (US $100,000). As at June 30, 2022, Chorus was in compliance with these financial covenants.

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

9 Goodwill and intangibles

Intangibles

As a result of the purchase price allocation related to the acquisition of the Falko Business on May 3, 2022, Chorus recorded management contracts value of $18,843. Management contracts are amortized on a straight- line basis over five years.

The trade name is an indefinite life asset and was reviewed in 2022 and 2021 for impairment.

As a result of the purchase price allocation related to the acquisition of Voyageur on May 1, 2015, Chorus recorded customer relationships of $1,526 and trade name value of $1,681. The trade name is an indefinite life asset and was reviewed in 2022 and 2021 for impairment. The customer relationships were amortized on a straight- line basis over five years. During the six months ended June 30, 2022, $nil was recorded as amortization expense on the value of the customer relationships (2021 - $118).

	As at June 30, 2022				As at December 31, 2021			
	Cost	Accumulated amortization	Foreign currency adjustment	**Carrying value**	Cost	Accumulated amortization	Foreign currency adjustment	**Carrying value**
	$	$	$	$	$	$	$	$
Management contracts	18,843	(531)	33	18,345	—	—	—	—
Trade name	1,681	—	—	1,681	1,681			1,681
	20,524	(531)	33	20,026	1,681	—	—	1,681

Goodwill

Goodwill is allocated to the following cash-generating units ("CGUs"):

	June 30, 2022 $	**December 31, 2021 $**
Falko Business[(1)]	805	—
Jazz	6,693	6,693
Voyageur	457	457
	7,955	7,150

(1) Includes foreign currency adjustment of $1.

As a result of the purchase price allocation related to the acquisition of the Falko Business on May 3, 2022, Chorus recorded goodwill of $804.

The recoverable amount of the CGU's are determined using fair value less costs of disposal. In assessing the goodwill for impairment, Chorus uses a combination of discounted cash flow analysis and market approaches to determine the fair value of each of the CGU's. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment of goodwill was recognized during the six months ended June 30, 2022 or the year ended December 31, 2021.

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

10 Long-term debt

Long-term debt consists of the following:

	As at	
	June 30, 2022	**December 31, 2021**
	$	**$**
Secured long-term debt and credit facilities		
Amortizing term loans		
Secured by aircraft[1a]	1,442,843	1,334,143
Secured by engines[1b]	4,909	5,542
Warehouse credit facility[1c]	88,488	91,950
Nova Scotia Jobs Fund loan - secured by office building[2]	6,000	6,000
Asset backed securitization[3]	312,280	—
Operating credit facility[4]	50,255	—
6.00% Debentures[5]	115,000	115,000
	2,019,775	1,552,635
Unsecured long-term debt		
Series A Debentures[6]	86,250	86,250
Series B Debentures[7]	72,500	72,500
Series C Debentures[8]	85,000	85,000
Unsecured credit facility[9]	128,860	126,780
	2,392,385	1,923,165
Less:		
Deferred financing fees	(14,661)	(16,247)
Accretion discount on amortizing term loans and asset backed securitization	(11,753)	—
Accretion discount on convertible units and debentures	(2,885)	(3,241)
	2,363,086	1,903,677
Less: Current portion	354,576	226,509
	2,008,510	1,677,168

The current portion of long-term debt in the above table includes deferred financing fees of $1,250 and interest accretion of $3,836 for the six months ended June 30, 2022 (December 31, 2021 - $1,256 and $nil, respectively). The majority of long-term debt is payable in US dollars and has been converted to Canadian currency at 1.2886 which was the exchange rate in effect at closing on June 30, 2022 (December 31, 2021 - 1.2678).

10 Long-term debt (continued)

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in instalments, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.65%, maturing between July 2022 and February 2033, each secured primarily by its respective aircraft and engines. The net book value of property and equipment pledged as collateral under these term loans was $2,318,377 (December 31, 2021 - $2,079,773).

   CAC's amortizing term loans for aircraft require the principal amount to be repaid prior to maturity if the aircraft comes off-lease and is not re-leased in accordance with the loan's requirements within a prescribed remarketing period ranging from six to 24 months (depending on the loan). CACIL currently has two aircraft that are off-lease, which have loans with remarketing period exemptions provided that Chorus continues to make the regularly scheduled principal and interest payments and otherwise comply with the loan terms. In December 2020, CACIL amended the terms of certain of its aircraft loans in order to remove the remarketing period deadline in respect of aircraft repossessed up to April 24, 2021. This eliminates the requirement to repay the principal amount of the loans prior to maturity if the aircraft are not re-leased by the end of the remarketing period so long as Chorus continues to make the regularly scheduled principal and interest payments and otherwise complies with the loan terms.

b) Secured by engines - Individual term loans, repayable in instalments, bearing fixed and floating interest at a weighted average rate of 4.32%, maturing between December 2024 and May 2028, each secured primarily by one PW150A engine. As at June 30, 2022, the net book value of property and equipment pledged as collateral under Dash 8-400 engine financing was $8,694 (December 31, 2021 - $11,054).

c) Warehouse credit facility - Individual term loans, repayable in instalments, bearing floating interest at a weighted average rate of 4.60%, 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%. As at June 30, 2022, the net book value of property and equipment pledged as collateral under these term loans was $162,233 (December 31, 2021 - $162,233).

Financial Covenants under amortizing term loans

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

The principal financial covenants are as follows:

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

- The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreements with the lender also contain a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Dash 8-400s, Dash 8-400 spare engines, and CRJ900s.

10 Long-term debt (continued)

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

As at June 30, 2022, Chorus (or as applicable, certain subsidiaries) was in compliance with all of these financial covenants.

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

(2) Nova Scotia Jobs Fund loan

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

(3) Asset Backed Securitization

As part of the Falko Acquisition completed on May 3, 2022, Chorus indirectly acquired a majority interest in the equity note issued by Regional 2021-1 Limited to Regional 2021-1 E Holding Limited (the "E Note") in connection with an asset-backed securitization of 39 regional aircraft which closed in April 2021 (the "Regional 2021-1 ABS"). In addition to issuing the equity note, Regional 2021-1 Limited and its wholly-owned subsidiary, Regional 2021-1 LLC (collectively, the "ABS Borrowers"), co-borrowed US $255,000 of Series A Loans (the "Series A Loans"). The ABS Borrowers are not subsidiaries (directly or indirectly) of Chorus, and Chorus is not liable for the debts under the Series A Loans. Chorus has an interest in the aircraft owned by the Co-Borrowers and their subsidiaries by virtue of its indirect interest in the E Note.

These Series A Loans amortize on a straight-line basis based on the aircraft type that ranges from eight to 11 years, bear interest at 5.75% and are secured by 39 regional aircraft. As at June 30, 2022, the net book value of property and equipment pledged as collateral under asset backed securitization was $526,353.

The Series A Loans are subject to priority of payment provisions and financial tests that could result in, among other things, requirements to replenish a liquidity facility, requirements to replenish maintenance reserve and security deposit accounts as well as tests that could result in the restriction of cash, accelerated amortization, and/or cash sweeps.

As of June 30, 2022, the amount outstanding under the Series A Loans was US $242,340.

For the three and six months ended June 30, 2022, the total interest expense on amortizing term loans, asset backed securitization and the Nova Scotia Jobs Fund loan, inclusive of deferred financing expense amortization and interest accretion, was $17,425 and $29,623, respectively (for the three and six months ended June 30, 2021 - $16,158 and $34,399, respectively).

10 Long-term debt (continued)

(4) Operating credit facility

On October 14, 2021, Chorus entered into a three-year committed operating credit facility with a maturity date of October 14, 2024. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of up to $75,000, subject to a borrowing base calculation, plus a $25,000 uncommitted accordion. Chorus has also provided letters of credit totaling $10,474 that reduce the amount available under this facility. This facility replaced Chorus' three-year committed operating credit facility maturing on August 30, 2022.

In March 2022, Chorus exercised the accordion feature under the committed operating credit facility, thereby increasing the limit from $75,000 to $100,000.

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%.

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 CAC and its subsidiaries. It contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio. As at June 30, 2022, Chorus was in compliance with this covenant. Any outstanding balance under this facility is immediately repayable if Chorus undergoes a change in control without the lender's consent.

(5) 6.00% Debentures

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

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

Each Warrant is exercisable by the holder thereof by paying the exercise price 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 Warrants are exercisable up to and including the earlier of the redemption of all of the outstanding 6.00% Debentures by Chorus and the business day immediately preceding the maturity date of the 6.00% Debentures. The Warrants include customary anti-dilution provisions.

Assuming the exercise of all of the Warrants, Fairfax, through its subsidiaries, would beneficially own 24,242,424 of the issued and outstanding common shares of Chorus. Fairfax had agreed to hold the convertible units until at least December 31, 2019. Fairfax is no longer bound by that restriction, however, the Collateral Security will be released if Fairfax sells or otherwise disposes of any of the 6.00% Debentures.

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

On December 31, 2021 Chorus redeemed $85,000 principal amount of the 6.00% Debentures. As a result of this redemption, $115,000 aggregate principal amount of the 6.00% Debentures currently remain outstanding.

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

10 Long-term debt (continued)

The following table illustrates the allocation of the convertible units between debt and equity as at June 30, 2022. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity component of convertible units $	Total $
Balance - December 31, 2021	6.0	113,208	2,981	116,189
Accretion expense		275	—	275
Balance - June 30, 2022		**113,483**	**2,981**	**116,464**

Transaction costs are capitalized and offset against the debt and equity portions of the 6.00% Debentures and amortized over the life of the 6.00% Debentures using the effective interest rate.

For the three and six months ended June 30, 2022, the total interest expense on the 6.00% Debentures was $1,848 and $3,697, respectively (for the three and six months ended June 30, 2021 - $3,198 and $6,397, respectively) which included interest accretion of $138 and $275, respectively (for the three and six months ended June 30, 2021 - $223 and $446, respectively).

(6) Series A Debentures

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

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

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

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

For the three and six months ended June 30, 2022, the total interest expense on the Series A Debentures was $1,429 and $2,855, respectively (for the three and six months ended June 30, 2021 - $1,417 and $2,830, respectively) which included interest accretion of $189 and $375, respectively (for the three and six months ended June 30, 2021 - $177 and $351, respectively).

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

10 Long-term debt (continued)

(7) Series B Debentures

On April 6, 2021, Chorus issued $72,500 aggregate principal amount of 6.00% unsecured convertible debentures ("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 common shares per $1.0 principal amount of such debentures, initially representing a conversion price of $6.35 per share (subject to certain adjustments).

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

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

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

For the three and six months ended June 30, 2022, the total interest expense on the Series B Debentures was $1,327 and $2,649, respectively (for the three and six months ended June 30, 2021 - $1,236 and $1,236, respectively) which included interest accretion of $239 and $474, respectively (for the three and six months ended June 30, 2021 - $209).

The following table illustrates the allocation of the Series B Debentures between debt and equity as at June 30, 2022. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity component of convertible debentures $	Total $
Balance - December 31, 2021	6.0	67,489	2,683	70,172
Accretion expense		474	—	474
Balance - June 30, 2022		**67,963**	**2,683**	**70,646**

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

10 Long-term debt (continued)

(8) Series C Debentures

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

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

Chorus received proceeds of $81,249, net of $3,751 in transaction costs associated with the offering. Transaction costs are capitalized and offset against the Series C Debentures and amortized over the life of the debentures using the effective interest rate.

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

For the three and six months ended June 30, 2022, the total interest expense on the Series C Debentures was $1,361 and $2,720, respectively (for the three and six months ended June 30, 2021 - $nil) which included interest accretion of $139 and $276, respectively (for the three and six months ended June 30, 2021 - $nil).

(9) Unsecured credit facility

On April 28, 2020, Chorus obtained a US $100,000 unsecured revolving credit facility for general corporate purposes. The facility bears interest at a rate of US dollar LIBOR rate plus 5.00%. Effective April 28, 2022, this facility automatically converted to a fixed, amortizing debt facility, and the indebtedness thereunder is required to be repaid over eight quarterly instalments starting in July 2022 and ending in April 2024 The facility bears interest at a rate of US dollar LIBOR rate plus 5.00%.

For the three and six months ended June 30, 2022, the total interest expense on the unsecured credit facility was $1,944 and $3,614, respectively (for the three and six months ended June 30, 2021 - $1,620 and $3,292, respectively).

The majority of the following future repayments of long-term debt are payable in US dollars and Euros and have been converted to Canadian dollars at closing rates on June 30, 2022. The timing of future principal payments, excluding unamortized deferred financing fees, is as follows:

	$
No later than one year	359,662
Later than one year and no later than five years	1,656,058
Later than five years	376,665
	2,392,385

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

11 Income taxes

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

	Three months ended June 30, 2022 $	2021 $
(Loss) income before income tax	(41,373)	27,130
Income tax (recovery) expense at the Canadian statutory tax rate(1)	(10,964)	7,189
Recognition of previously unrecognized cumulative eligible capital	(1,345)	(1,442)
Net impact of capital items(2)	4,510	(2,035)
Impact of the Canadian statutory tax rate on entities with other tax rates	7,081	706
Non-deductible expenses and other	(252)	1,195
Income tax (recovery) expense	(970)	5,613
Effective tax rate	2.3%	20.7%

	Six months ended June 30, 2022 $	2021 $
Loss before income tax	(13,666)	(29,868)
Income tax recovery at the Canadian statutory tax rate(1)	(3,621)	(7,915)
Recognition of previously unrecognized cumulative eligible capital	(2,691)	(2,888)
Net impact of capital items(2)	2,559	(4,472)
Impact of the Canadian statutory tax rate on entities with other tax rates	6,612	1,314
Non-deductible expenses and other	971	655
Income tax expense (recovery)	3,830	(13,306)
Effective tax rate	(28.0)%	44.5%

(1) Chorus has modified the presentation of the tax rate reconciliation to calculate the tax impact of the statutory rate based on the Canadian average rate as opposed to an average blended rate of all jurisdictions, which had been used in the past. The impact of rate differentials from foreign jurisdictions is shown as a separate reconciling line item. Chorus uses an average Canadian statutory tax rate of 26.5%.

(2) The impact of capital items is mainly related to the foreign exchange fluctuations on the long-term debt associated with the purchase of aircraft. The impact of the non-deductible portion of any unrealized loss (gain) is recognized in the calculation of income tax expense at the end of each period. To the extent that a capital loss is recorded for accounting purposes, the benefit of the deductible portion of the loss is recognized only to the extent that it is probable that the loss will be utilized. Income tax expense related to unrealized foreign exchange gains recorded in a period is reduced by previously unrecognized income tax assets related to unrealized foreign exchange losses. Chorus does not have a plan in place to utilize the deductible portion of the balance of the foreign exchange losses, accordingly no deferred tax asset has been recognized related to the foreign exchange losses.

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

11 Income taxes (continued)

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $274,993 as at June 30, 2022, related to capital cost allowance on eligible capital property. In accordance with the initial recognition exemption, as outlined in IAS 12 *Income taxes*, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three and six months ended June 30, 2022, Chorus utilized a total of $4,987 ($1,345 tax effected) and $9,974 ($2,691 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

12 Dividends

Chorus does not currently pay a dividend on its common shares. Dividends are subject to the discretion of Chorus' Board of Directors.

On May 3, 2022, Chorus issued preferred shares to Brookfield. The preferred shares carry a dividend entitlement of 8.75% per annum in cash, payable quarterly or 9.5% per annum in kind, accrued quarterly.

During the three months ended June 30, 2022, Chorus declared $5,426 in preferred share dividends. The preferred shares were declared and are payable in US dollars. Chorus declared US $2,042 and US $2,188 in May and June, respectively. The declared shares were converted to Canadian currency at 1.2859 and 1.2803 the average exchange rate for May and June. The dividend payable on the statement of financial position has been converted to Canadian currency at 1.2886 which was the exchange rate in effect at closing on June 30, 2022.

13 Capital stock

a) Common shares

Authorized:

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

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

Issued and outstanding:

	Number of Shares	$
Shares issued and outstanding December 31, 2020	**161,867,388**	**288,475**
Shares issued through public offering	15,783,500	68,135
Shares issued through exercise of warrants	100	1
Shares issued and outstanding December 31, 2021	**177,650,988**	**356,611**
Shares issued through private placement	25,400,000	70,093
Shares issued and outstanding June 30, 2022	**203,050,988**	**426,704**

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

13 Capital stock (continued)

Private Placement

On May 3, 2022 and in connection with the Falko Acquisition, Chorus entered into a subscription agreement with Brookfield (i) subscribed for US $300,000 of preferred equity in exchange for US $291,000 in cash, and (ii) subscribed for 25,400,000 common shares and was issued 18,642,772 share purchase warrants with an exercise price of CAD $4.60 per common share in exchange for US $74,000 in cash. The preferred equity is non-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. The net proceeds received for the common shares was $94,459, net of transaction costs and income tax. The net value allocated to the common shares issued and the common share purchase warrants was $70,093 and $24,366, respectively.

Public offering

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

The common share purchase warrants entitled the holder to acquire one common share at an exercise price of $6.20 per common share purchase warrant (subject to certain adjustments) and expired on April 6, 2022.

b) Warrants

	Number of warrants	$
Outstanding, December 31, 2020	24,242,424	—
Warrants issued pursuant to public offering	7,891,750	1,578
Less: warrant transaction costs	—	(64)
Warrants exercised	(100)	(1)
Outstanding, December 31, 2021	32,134,074	1,513
Warrants issued through private placement	18,642,772	24,627
Less: warrant transaction costs	—	(261)
Warrants expired	(7,891,650)	(1,514)
Outstanding, June 30, 2022	42,885,196	24,365

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

13 Capital stock (continued)

As at June 30, 2022, Chorus had the following warrants outstanding:

Number of warrants	Exercise Price[(1)]	Expiry Date
24,242,424	8.25	December 31, 2024
18,642,772	4.60	May 3, 2029

(1) Subject to adjustment in accordance with the terms of the relevant warrant indenture.

c) Preferred shares

Authorized:

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

On May 3, 2022 and in connection with the Falko Acquisition, Chorus entered into a subscription agreement with Brookfield (i) subscribed for US $300,000 of preferred equity in exchange for US $291,000 in cash. The preferred equity is non-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. The net proceeds received for the Preferred Shares was $375,217, net of transaction costs and income tax.

Issued and outstanding:

	Number of Shares	$
Shares issued and outstanding December 31, 2021	—	—
Shares issued through private placement	300,000	375,217
Shares issued and outstanding June 30, 2022	300,000	375,217

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

13 Capital stock (continued)

d) Earnings per share

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

	Three months ended June 30,		Six months ended June 30,	
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Numerator				
Net (loss) income	(40,403)	21,517	(17,496)	(16,562)
Less:				
Net income attributable to non-controlling interest	(439)	—	(439)	—
Preferred share dividends	(5,426)	—	(5,426)	—
Net loss attributable to common shareholders	(46,268)	—	(23,361)	—
Denominator				
Weighted average number of shares	194,119,120	176,783,663	185,930,546	169,366,731
Weighted average dilutive shares	—	2,090,210	—	—
Weighted average number of diluted shares	194,119,120	178,873,873	185,930,546	169,366,731

For the three and six months ended June 30, 2022, the calculation of the diluted earnings per share excluded 3,451,440 and 3,484,616 shares related to stock-based compensation, respectively, (three and six months ended June 30, 2021 - nil and 2,034,022, respectively) as they were anti-dilutive.

14 Financial instruments and fair values

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

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

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

14 Financial instruments and fair values (continued)

The following shows the fair value of other financial assets and liabilities compared to carrying value:

	As at June 30, 2022			As at December 31, 2021		
	Fair value $	Carrying value $	Deferred financing fees[1] $	Fair value $	Carrying value $	Deferred financing fees[1] $
Finance lease receivables[2]	47,541	47,494	—	6,513	6,126	—
Investments			—	—	—	—
Held for trading[3]	1,437	1,437	—	—	—	—
Third party[4]	356	356	—	—	—	—
Fund investment[4]	19,029	19,029	—	—	—	—
Other long-term assets						
Interest rate swaps[5]	5,081	5,081	—	—	—	—
Long-term debt						
Amortizing term loans[6]	1,512,126	1,542,219	6,086	1,426,650	1,437,635	6,627
Asset backed securitization[6]	296,288	300,547	—	—	—	—
6.00% Debentures[7]	114,497	114,341	857	119,484	114,222	1,014
Series A Debentures[8]	82,343	86,250	2,078	85,344	86,250	2,454
Series B Debentures[8]	71,775	70,275	2,312	71,630	70,037	2,548
Series C Debentures[8]	70,380	85,000	3,328	77,341	85,000	3,604
Operating credit facility[9]	50,255	50,255	—	—	—	—
Unsecured credit facility[9]	128,860	128,860	—	124,954	126,780	—
Other long-term liabilities						
Interest rate swaps[5]	—	—	—	3,976	3,976	—
Total return swap[5]	3,796	3,796	—	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 calculated based on quoted prices observed in active markets and is classified as Level 1.
(4) Fair value is calculated by discounting annual cash flows at the relevant market interest rate and is classified as Level 3.
(5) Fair value is estimated using valuation models that utilize market based observable inputs and is classified as Level 2.
(6) 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.
(7) Fair value is calculated by valuing Warrants held within convertible units and discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.
(8) Fair value is calculated based on quoted prices observed in active markets.
(9) Fair value is calculated by discounting the future cash flow of the credit facility at a relevant market interest rate.

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

14 Financial instruments and fair values (continued)

Financial risk factors

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

Interest rate risk

The majority of Chorus' debt is not subject to interest rate volatility as it bears interest at fixed rates or at floating rates that are fixed via interest rate swaps. Excluding revolving debt facilities, as at June 30, 2022, 89.9% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 10.1% 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
Other comprehensive income				
Gain on changes in fair value of effective interest rate swaps, net of tax expense of $237 and $834 (2021 - $75 and $332)	1,652	527	5,836	4,410
Income statement				
Gain (loss) on ineffective interest rate swap	632	(75)	1,040	(1,866)

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 June 30, 2022, Chorus had 22 loans which totaled $501,811 and 11 derivative agreements which referenced notional amounts totaling $260,524 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.

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 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 six months ended June 30, 2022.

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

14 Financial instruments and fair values (continued)

Credit risk

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

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

CAC has entered into lease deferral arrangements with substantially all its lessees which will reduce Chorus' cash flow over the period of deferrals. In connection with the rent relief arrangements, certain of which include lease term extensions, the repayment of the deferred amounts typically coincide with the lease term extensions. These deferral arrangements could also increase Chorus' receivable risk due to the weakened financial state of its lessees. In addition, Chorus' liquidity could be put under stress where CAC is required to service principal and interest payments under its loans during the term of the deferral arrangements. Uncollectible receivables could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. At June 30, 2022, CAC had total receivables of $121,965 (December 31, 2021 - $84,006), inclusive of the accrued straight-line rent receivable of $27,285 (December 31, 2021 - $34,428).

	As at June 30, 2022			As at December 31, 2021		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Trade receivables	26,984	13,031	40,015	20,201	10,865	31,066
Deferred rent receivable	—	5,162	5,162	—	5,375	5,375
Air Canada trade receivable	138,640	—	138,640	103,968	—	103,968
Subtotal	165,624	18,193	183,817	124,169	16,240	140,409
Allowance for expected credit loss ("ECL")	(243)	(10,883)	(11,126)	(218)	(7,212)	(7,430)
Net trade receivables	165,381	7,310	172,691	123,951	9,028	132,979
Accrued straight-line rent(1)(2)	—	—	—	—	756	756
Long-term accrued straight-line rent(1)(3)	—	27,285	27,285	—	33,672	33,672
Long-term receivables(3)(4)	11,373	76,487	87,860	13,522	33,338	46,860
Subtotal	176,754	111,082	287,836	137,473	76,794	214,267
Long-term allowance for ECL	—	(6,744)	(6,744)	—	—	—
Total net receivables	176,754	104,338	281,092	137,473	76,794	214,267
Total gross receivables	176,997	121,965	298,962	137,691	84,006	221,697

(1) These receivables were assessed under IAS 36 for impairment (refer to note 3 - Significant accounting policies).
(2) Included in prepaid expenses and deposits.
(3) Included in other long-term assets.
(4) Long-term receivables were assessed for ECL allowance under IFRS 9.

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

14 Financial instruments and fair values (continued)

Chorus has no financial assets past due, except for trade receivables. At June 30, 2022, the total amount of trade receivables was $172,691 (December 31, 2021 - $132,979), net of allowance for ECL of $(11,126) (December 31, 2021 - $7,430) which has been estimated by management based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Significant judgements were made in determining these factors.

At June 30, 2022, the breakdown of past-due trade receivables were as follows:

	June 30, 2022 $	December 31, 2021 $
Past due		
60 - 90 days	2,773	722
Over 90 days	12,077	10,072
	14,850	10,794

Equity Price Risk

Chorus has equity price risk exposure to common shares that it issues under its various stock-based compensation programs. To mitigate this risk, Chorus hedges the variability of Chorus' common share price affecting settlement under its various stock-based compensation programs with a total return swap. Chorus does not apply hedge accounting to the total return swap and as such, gains and losses arising from changes in its fair value are recognized in operating income in the period in which they arise. For additional information, please refer to notes 3(j) and 3(k) - Significant accounting policies of the audited consolidated financial statements of Chorus for the year ended December 31, 2021.

Chorus recorded (losses) gains on the total return swap as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022 $	2021 $	2022 $	2021 $
Income statement				
(Loss) gain on total return swap	(3,163)	630	(275)	2,921

Liquidity risk

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

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

As of June 30, 2022, Chorus had $70,724 in cash and $77,929 of available room on its operating credit facility and unsecured revolving operating credit facility, inclusive of letters of credit totaling $10,474 that reduce the amount available under the operating credit facility. The operating credit facility is subject to a borrowing base calculation.

15 Contingencies

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

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

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

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

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

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

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

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

16 Economic dependence

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

	Three months ended June 30,		Six months ended June 30,	
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Operating revenue				
Air Canada	309,860	149,978	593,610	295,127
Operating expenses				
Air Canada	555	234	1,235	675

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

	As at	
	June 30, 2022	**December 31, 2021**
	$	**$**
Accounts receivable		
Air Canada	138,640	103,968
Finance lease receivables		
Air Canada	4,983	6,126
Contract asset		
Air Canada	19,727	20,862
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees		
Air Canada	1,512	804
Other long-term receivables		
Air Canada	11,373	13,521
Accounts payable and accrued liabilities		
Air Canada	2,965	7,309
Air Canada Capital Ltd.	7,135	5,124

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

17 Statement of cash flows - supplementary information

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
(Increase) decrease in accounts receivable – trade and other	(19,985)	(6,207)	(39,568)	11,453
Increase in inventories	(1,358)	(1,541)	(2,622)	(6,826)
(Increase) decrease in prepaid expenses	(4,319)	4,520	(8,191)	1,521
(Increase) decrease in income tax receivable	(10)	7,470	(7)	8,503
Decrease (increase) in other long-term assets	4,828	(18,438)	4,908	(30,286)
Increase (decrease) in accounts payable and accrued liabilities	39,857	(20,170)	54,420	995
(Decrease) increase in current portion long-term incentive plan	(738)	(106)	840	(1,100)
Increase in income tax payable	371	216	1,530	181
Increase (decrease) in other long-term liabilities	3,550	(1,327)	(3,210)	(1,556)
	22,196	(35,583)	8,100	(17,115)

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

b) Other

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	$	$	$	$
Cash payments of interest	31,385	24,872	46,366	40,759
Cash receipts of interest	383	426	693	745
Cash payments (receipts) of tax	3,479	(5,077)	7,723	(4,572)

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

17 Statement of cash flows - supplementary information (continued)

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

	Amortizing term loans(1)	6.00% Debentures	Series A Debentures	Series B Debentures	Series C Debentures	Credit facilities(2)	Total long-term debt	Lease liabilities
	$	$	$	$	$	$	$	$
Balance - December 31, 2021	1,431,009	113,208	83,796	67,489	81,395	126,780	1,903,677	10,137
Long-term borrowings, net of financing costs	(331)	—	—	—	—	60,009	59,678	—
Repayment of long-term borrowings	(102,563)	—	—	—	—	(9,525)	(112,088)	—
Repayment of lease liabilities	—	—	—	—	—	—	—	(2,217)
Total financing cash flow activities	(102,894)	—	—	—	—	50,484	(52,410)	(2,217)
New lease liabilities	—	—	—	—	—	—	—	2,482
Debt assumed on business acquisition	508,985	—	—	—	—	—	508,985	1,644
Interest expense	716	275	375	474	275	—	2,115	—
Deferred financing fee amortization	748	—	—	—	—	—	748	—
Unrealized foreign exchange loss	5,062	—	—	—	—	1,852	6,914	108
Realized foreign exchange loss	3,845	—	—	—	—	—	3,845	—
Foreign currency adjustments	(10,788)	—	—	—	—	—	(10,788)	6
Total financing non-cash activities	508,568	275	375	474	275	1,852	511,819	4,240
Balance - June 30, 2022	1,836,683	113,483	84,171	67,963	81,670	179,116	2,363,086	12,160

(1) Includes amortizing term loans and asset backed securitization.
(2) Includes the operating credit facility and the unsecured credit facility.

d) Restricted cash

Cash encumbered in support of issued letters of credit and leasing arrangements have been classified as restricted cash and shown separately in the consolidated statement of financial position (June 30, 2022 - $119,490; December 31, 2021 - $54,873).

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

18 Additional information

	As at June 30, 2022 $	As at December 31, 2021 $
Accounts receivable		
Trade receivables	45,177	36,441
Allowance for ECL	(11,126)	(7,430)
Commodity taxes	8,422	1,875
Other receivables	4,398	584
	46,871	31,470
Trade amounts due from Air Canada and its subsidiary (refer to note 16 - Economic dependence)	138,640	103,968
	185,511	135,438
Other long-term assets		
Contract asset(1)	19,727	20,862
Accrued transaction fees, net of accumulated amortization	5,054	5,571
Accrued defined pension benefit asset	59,262	59,125
Long-term receivables(2)	87,860	46,860
Long-term accrued straight line rent	27,285	33,672
Long-term allowance for ECL	(6,744)	—
Fair value of interest rate swaps	5,081	—
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees	1,512	804
Other	1,252	483
	200,289	167,377

(1) Includes the contract asset recorded in connection with the transfer and integration of the Embraer 175 aircraft into the covered aircraft fleet related to the CPA Amendments.
(2) Includes long-term portion of deferred lease receivables.