



chorus 

**SECOND QUARTER
2023**

**Unaudited Interim Condensed
Consolidated Financial
Statements**

Chorus Aviation Inc.

Chorus Aviation Inc.

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	June 30, 2023 \$	As at December 31, 2022 \$
Assets		
Current assets		
Cash	94,990	100,027
Restricted cash (note 13)	88,383	67,884
Accounts receivable – trade and other	180,270	197,364
Inventories	116,123	113,820
Prepaid expenses and deposits	21,088	19,268
Current portion of finance lease receivables	3,743	4,157
Income tax receivable	275	1,228
	504,872	503,748
Finance lease receivables	40,161	42,797
Property and equipment	3,161,938	3,282,008
Intangibles	16,554	18,880
Goodwill	8,968	9,010
Investments	24,361	26,008
Deferred income tax asset	21,382	22,240
Other long-term assets	143,256	151,218
	3,921,492	4,055,909
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	285,353	346,296
Current portion of lease liabilities	4,028	5,041
Current portion of long-term incentive plan	3,405	2,821
Current portion of long-term debt	308,791	340,308
Preferred shares dividend payable	8,689	8,888
Income tax payable	7,220	29,335
	617,486	732,689
Lease liabilities	4,828	6,268
Long-term debt	1,606,390	1,678,659
Deferred income tax liability	205,059	187,684
Other long-term liabilities	205,218	182,186
	2,638,981	2,787,486
Equity attributable to shareholders	1,193,844	1,179,573
Equity attributable to non-controlling interest	88,667	88,850
Equity	1,282,511	1,268,423
	3,921,492	4,055,909

Contingencies (note 11)**Economic dependence** (note 12)

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

Chorus Aviation Inc.



Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Equity Attributable to Shareholders						Equity attributable to non-controlling interest \$	Total \$
	Capital \$	Deficit \$	Exchange differences on foreign operations \$	Contributed surplus \$	Warrants \$	Equity component of convertible units/debentures \$		
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)
Issuances 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
Non-controlling interest: 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
Net income for the period	—	66,825	—	—	—	—	2,588	69,413
Other comprehensive (loss) income for the period (net of tax)	—	(27,710)	28,332	—	—	—	4,423	5,045
Comprehensive income for the period	—	39,115	28,332	—	—	—	7,011	74,458
Preferred share dividends declared	—	(17,476)	—	—	—	—	—	(17,476)
Repurchase of shares under normal course issuer bid	(3,612)	—	—	(1,851)	—	—	—	(5,463)
Share repurchase commitment under the automatic share purchase plan	(9,611)	—	—	(4,925)	—	—	—	(14,536)
Redemption of convertible debentures	—	—	—	2,981	—	(2,981)	—	—
Warrants expired	—	—	—	(1)	1	—	—	—
Expense related to stock-based compensation plans	—	—	—	196	—	—	—	196
Non-controlling interest: Distributions	—	—	—	—	—	—	(6,433)	(6,433)
Business combination	—	—	—	—	—	—	2,346	2,346
Balance - December 31, 2022	788,698	(702,412)	28,437	1,037,801	24,366	2,683	88,850	1,268,423
Net income for the period	—	50,580	—	—	—	—	1,757	52,337
Other comprehensive income (loss) for the period (net of tax)	—	2,086	(13,277)	—	—	—	(2,016)	(13,207)
Comprehensive income (loss) for the period	—	52,666	(13,277)	—	—	—	(259)	39,130
Preferred share dividends declared	—	(17,687)	—	—	—	—	—	(17,687)
Repurchase of shares under normal course issuer bid	(13,904)	—	—	(8,259)	—	—	—	(22,163)
Share repurchase commitment under the automatic share purchase plan	9,611	—	—	4,925	—	—	—	14,536
Expense related to stock-based compensation plans	—	—	—	196	—	—	—	196
Non-controlling interest: Distributions	—	—	—	—	—	—	76	76
Balance - June 30, 2023	784,405	(667,433)	15,160	1,034,663	24,366	2,683	88,667	1,282,511

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

Chorus Aviation Inc.Unaudited Consolidated Statements of Income (Loss)
For the three and six-month periods ended June 30, 2023 and 2022

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Operating revenue (note 12)	396,775	392,343	812,027	734,723
Operating expenses (note 12)				
Salaries, wages and benefits	128,972	126,326	261,089	246,459
Depreciation, amortization and impairment	49,455	65,576	99,114	102,225
Aircraft maintenance materials, supplies and services	72,465	75,314	144,565	139,312
Airport and navigation fees	34,710	40,442	71,791	74,091
Terminal handling services	6,087	3,620	11,849	7,332
Other	49,702	74,251	106,332	115,178
	341,391	385,529	694,740	684,597
Operating income	55,384	6,814	117,287	50,126
Non-operating (expenses) income				
Interest revenue	1,233	941	2,716	1,085
Interest expense	(24,885)	(26,046)	(51,826)	(46,244)
Gain on disposal of property and equipment	10	156	10	156
Gain (loss) on fair value of investments	599	(797)	2,491	(797)
Foreign exchange gain (loss)	2,683	(22,441)	6,714	(17,992)
	(20,360)	(48,187)	(39,895)	(63,792)
Income (loss) before income taxes	35,024	(41,373)	77,392	(13,666)
Income tax (expense) recovery (note 7)				
Current income tax	(5,301)	(3,864)	(8,796)	(9,247)
Deferred income tax	(9,405)	4,834	(16,259)	5,417
	(14,706)	970	(25,055)	(3,830)
Net income (loss)	20,318	(40,403)	52,337	(17,496)
Net income attributable to non-controlling interest	1,267	439	1,757	439
Net income (loss) attributable to shareholders	19,051	(40,842)	50,580	(17,935)
Preferred share dividends declared	(8,816)	(5,426)	(17,687)	(5,426)
Earnings (loss) attributable to common shareholders	10,235	(46,268)	32,893	(23,361)
Earnings (loss) attributable to common shareholders, per share, basic (note 9)	0.05	(0.24)	0.17	(0.13)
Earnings (loss) attributable to common shareholders, per share, diluted	0.05	(0.24)	0.16	(0.13)

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

Chorus Aviation Inc.Unaudited Consolidated Statements of Comprehensive Income (Loss)
For the three and six-month periods ended June 30, 2023 and 2022

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Net income (loss)	20,318	(40,403)	52,337	(17,496)
Other comprehensive income (loss)				
<i>Items that will not be subsequently reclassified to the statements of income</i>				
Actuarial income on employee benefit liabilities, net of tax expense of \$694 and \$1,881 (2022 - \$609 and \$510)	1,860	1,648	5,046	1,382
<i>Items that will be subsequently reclassified to the statements of income</i>				
Change in fair value of financial assets and liabilities, net of tax expense of \$12 and \$159 (2022 - \$237 and \$834)	(1,933)	1,652	(2,960)	5,836
Exchange differences on translation of foreign operations	(14,923)	14,202	(15,293)	5,531
Comprehensive income (loss)	5,322	(22,901)	39,130	(4,747)
Comprehensive (loss) income attributable to non-controlling interest	(195)	622	(259)	622
Comprehensive income (loss) attributable to shareholders	5,517	(23,523)	39,389	(5,369)

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, 2023 and 2022


(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Cash provided by (used in)				
Operating activities				
Net income (loss)	20,318	(40,403)	52,337	(17,496)
Charges (credits) to operations not involving cash				
Depreciation, amortization and impairment	49,455	65,576	99,114	102,225
Amortization of accrued transaction and financing fees	617	320	1,221	1,415
Gain on disposal of property and equipment	(10)	(156)	(10)	(156)
(Gain) loss on fair value of investments	(599)	797	(2,491)	797
Unrealized foreign exchange (gain) loss	(5,285)	22,582	(10,457)	14,902
Realized foreign exchange loss	3,637	2,169	6,711	3,845
Effect of foreign exchange rate changes on cash	1,117	(5,831)	1,138	(4,829)
Deferred income tax expense (recovery)	9,405	(4,834)	16,259	(5,417)
Other	(843)	835	(6,188)	1,541
	77,812	41,055	157,634	96,827
Net changes in non-cash balances related to operations (note 13)	(30,838)	22,196	(43,407)	8,100
	46,974	63,251	114,227	104,927
Financing activities				
Repayment of lease liabilities	(1,312)	(1,219)	(2,683)	(2,217)
Repayment of long-term borrowings	(82,258)	(67,441)	(166,180)	(112,088)
Long-term borrowings, net of financing fees	50,400	59,834	90,400	59,678
Issuance of shares and warrants, net of transaction costs	—	465,038	—	465,038
Repurchase of shares under normal course issuer bid	(210)	—	(22,163)	—
Preferred dividends	(8,767)	—	(17,546)	—
(Distribution) repayment from non-controlling interests	(286)	—	76	—
	(42,433)	456,212	(118,096)	410,411
Investing activities				
Business and aircraft acquisition, net of cash acquired	—	(464,831)	—	(464,831)
Increase (decrease) in security deposits and maintenance reserves	25,030	(6,120)	36,267	(13,289)
Additions to property and equipment	(9,502)	(20,184)	(18,404)	(31,819)
Investment in funds	—	—	(1,613)	—
Payments received on finance lease receivables	1,024	835	2,031	1,440
Proceeds on return of investments	5,207	113	5,207	113
Proceeds on disposal of property and equipment	10	156	10	156
	21,769	(490,031)	23,498	(508,230)
Effect of foreign exchange rate changes on cash	(4,446)	6,974	(4,167)	4,660
Net change in cash during the periods	21,864	36,406	15,462	11,768
Cash and restricted cash (note 13) – Beginning of periods	161,509	153,808	167,911	178,446
Cash and restricted cash (note 13) – End of periods	183,373	190,214	183,373	190,214

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

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

(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, managing aircraft on behalf of fund investors and other third-party aircraft investors and/or owners as well as maintenance, repair and overhaul services and pilot training.

Contract 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 12 - 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.

Chorus formally launched Cygnet Aviation Academy LP ("Cygnet") on March 28, 2023, a pilot academy in Canada, that together with CAE Inc., enables cadets to achieve their Integrated Airline Transport Pilot License and acquire an airline specific type rating.

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"), together with equity interests in certain entities and aircraft which are managed by Falko and its affiliates ("the Falko Acquisition"). Chorus subsequently rebranded its leasing business from "Chorus Aviation Capital" to "Falko Regional Aircraft".

Through its subsidiaries in the Regional Aircraft Leasing ("RAL") segment, 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. In addition, Chorus makes equity investments in aircraft investment funds managed by Falko and its affiliates, from which it earns co-investment returns. The RAL segment includes Falko, Falko (Ireland) Limited (formerly Chorus Aviation Capital (Ireland) Limited), and their respective affiliates.

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, 2022. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2022.

These financial statements have been authorized for issuance by Chorus' Board of Directors on August 3, 2023.

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2022.

Revenue from contracts with customers

Chorus recognizes revenue upon the transfer of control of promised goods or services to students, in an amount that reflects the consideration expected to be received for those goods or services. Chorus will generate vocational revenue through the provision of pilot training operations to domestic and international students. Revenue is recognized using a straight-line basis over the term of the training course.

Revenue for books and electronic equipment are recognized when delivered to the student. Revenue for license fees are recognized when the underlying license is provided to the students.

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.

4 Segmented information

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

Chorus has two reportable operating segments:

- The Regional Aviation Services segment includes contract flying, charter operations and maintenance, repair and overhaul services that are carried on by both Jazz and Voyageur, as well as pilot training provided by Cygnet. 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. RAL 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 fund performance investment targets. RAL's portfolio of wholly or majority-owned and managed aircraft was 216 as at June 30, 2023 (December 31, 2022 - 212).

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

4 Segmented information (continued)

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

Adjusted EBT and Adjusted EBITDA should not be used as exclusive measures of cash flow because these measures do 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 provisions, 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, employee separation program costs, strategic advisory fees, impairment provisions, lease repossession costs net of security packages realized, restructuring expected credit loss provision, 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, 2023 and June 30, 2022, the Regional Aviation Services segment reported revenue from one significant customer. See note 12 "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, 2023, there were two and three customers, respectively (2022 - one and two, respectively) that represented 10% or more of the Regional Aircraft Leasing segment revenue.

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

4 Segmented information (continued)

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

	For the three months ended June 30, 2023				For the three months ended June 30, 2022			
	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Operating revenue	327,297	69,321	157	396,775	331,009	61,072	262	392,343
Operating expenses	289,454	43,339	8,598	341,391	291,233	80,733	13,563	385,529
Operating income (loss)	37,843	25,982	(8,441)	55,384	39,776	(19,661)	(13,301)	6,814
Net interest expense	(3,839)	(13,867)	(5,946)	(23,652)	(4,617)	(12,790)	(7,698)	(25,105)
Foreign exchange gain (loss)	9,908	682	(7,907)	2,683	(15,668)	(6,480)	(293)	(22,441)
Gain on disposal of property and equipment	10	—	—	10	29	127	—	156
Gain (loss) on fair value of investments	—	599	—	599	—	(797)	—	(797)
Earnings (loss) before income tax	43,922	13,396	(22,294)	35,024	19,520	(39,601)	(21,292)	(41,373)
Income tax (expense) recovery	(11,967)	(8,757)	6,018	(14,706)	(9,362)	4,584	5,748	970
Net income (loss)	31,955	4,639	(16,276)	20,318	10,158	(35,017)	(15,544)	(40,403)
Net income attributable to non-controlling interest	—	1,267	—	1,267	—	439	—	439
Net income (loss) attributable to shareholders	31,955	3,372	(16,276)	19,051	10,158	(35,456)	(15,544)	(40,842)
	For the six months ended June 30, 2023				For the six months ended June 30, 2022			
	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Operating revenue	666,725	144,942	360	812,027	637,273	96,893	557	734,723
Operating expenses	587,677	90,783	16,280	694,740	560,430	101,719	22,448	684,597
Operating income (loss)	79,048	54,159	(15,920)	117,287	76,843	(4,826)	(21,891)	50,126
Net interest expense	(7,928)	(29,724)	(11,458)	(49,110)	(9,475)	(20,665)	(15,019)	(45,159)
Foreign exchange gain (loss)	12,786	2,164	(8,236)	6,714	(8,049)	(9,713)	(230)	(17,992)
Gain on disposal of property and equipment	10	—	—	10	29	127	—	156
Gain (loss) on fair value of investments	—	2,491	—	2,491	—	(797)	—	(797)
Earnings (loss) before income tax	83,916	29,090	(35,614)	77,392	59,348	(35,874)	(37,140)	(13,666)
Income tax (expense) recovery	(23,480)	(11,189)	9,614	(25,055)	(17,432)	3,576	10,026	(3,830)
Net income (loss)	60,436	17,901	(26,000)	52,337	41,916	(32,298)	(27,114)	(17,496)
Net income attributable to non-controlling interest	—	1,757	—	1,757	—	439	—	439
Net income (loss) attributable to shareholders	60,436	16,144	(26,000)	50,580	41,916	(32,737)	(27,114)	(17,935)

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

4 Segmented information (continued)

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

	For the three months ended June 30, 2023		For the three months ended June 30, 2022	
	Regional Aviation Services	Regional Aircraft Leasing	Regional Aviation Services	Regional Aircraft Leasing
	\$	\$	\$	\$
Operating income - as reported above	37,843	—	39,776	—
Depreciation and amortization excluding impairment ⁽¹⁾	22,632	—	21,292	—
Employee separation program ⁽¹⁾	1,317	—	804	—
Adjusted EBITDA⁽²⁾	61,792	—	61,872	—
Income (loss) before income tax	—	13,396	—	(39,601)
Unrealized foreign exchange (gain) loss	—	(303)	—	6,176
Impairment provisions ⁽¹⁾	—	—	—	20,499
Restructuring expected credit loss provision ⁽¹⁾⁽³⁾	—	—	—	10,353
Employee separation program ⁽¹⁾	—	—	—	847
Lease repossession costs ⁽¹⁾⁽⁴⁾	—	3,989	—	14,728
Adjusted EBT⁽²⁾	—	17,082	—	13,002
	For the six months ended June 30, 2023		For the six months ended June 30, 2022	
	Regional Aviation Services	Regional Aircraft Leasing	Regional Aviation Services	Regional Aircraft Leasing
	\$	\$	\$	\$
Operating income - as reported above	79,048	—	76,843	—
Depreciation and amortization excluding impairment ⁽¹⁾	45,010	—	41,622	—
Employee separation program ⁽¹⁾	1,607	—	804	—
Adjusted EBITDA⁽²⁾	125,665	—	119,269	—
Income (loss) before income tax	—	29,090	—	(35,874)
Unrealized foreign exchange (gain) loss	—	(1,888)	—	9,149
Impairment provisions ⁽¹⁾	—	—	—	20,499
Restructuring expected credit loss provision ⁽¹⁾⁽³⁾	—	—	—	10,353
Employee separation program ⁽¹⁾	—	—	—	847
Lease repossession costs ⁽¹⁾⁽⁴⁾	—	8,292	—	15,374
Adjusted EBT⁽²⁾	—	35,494	—	20,348

(1) Included in operating expenses.

(2) These are non-GAAP financial measures.

(3) Expected credit loss provision related to aircraft repossessions.

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

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

4 Segmented information (continued)

Selected assets and liability information by reportable operating segment and corporate:

	As at June 30, 2023				As at December 31, 2022			
	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Additions to property and equipment	18,404	—	—	18,404	40,930	21,350	—	62,280
Property and equipment	1,097,289	2,058,867	5,782	3,161,938	1,122,326	2,153,794	5,888	3,282,008
Long-term debt (excluding lease liabilities)	452,926	1,064,282	397,973	1,915,181	518,181	1,159,234	341,552	2,018,967

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

	Three months ended June 30,				Six months ended June 30,			
	2023		2022		2023		2022	
	\$	%	\$	%	\$	%	\$	%
Canada	328,509	82.8%	331,944	84.6%	669,201	82.4%	638,503	86.9%
Other	68,266	17.2%	60,399	15.4%	142,826	17.6%	96,220	13.1%
	396,775	100.0%	392,343	100.0%	812,027	100.0%	734,723	100.0%

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

	As at June 30, 2023		As at December 31, 2022	
	\$	%	\$	%
Canada	1,130,306	35.7%	1,156,836	35.2%
Other ⁽¹⁾	2,031,632	64.3%	2,125,172	64.8%
	3,161,938	100.0%	3,282,008	100.0%

(1) There are no countries included in other that represent more than 10% of total assets (2022 - nil).

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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5 Revenue from contracts with customers

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes other sources of revenue relating to lease income (including any rights to use specified aircraft that have been identified as lease revenues embedded in the CPA and contract flying service agreements) of \$105,706 and \$218,488 for the three and six months ended June 30, 2023, respectively (for the three and six months ended June 30, 2022 - \$96,819 and \$173,922, respectively). Revenue is disaggregated primarily by nature and category in the underlying contract.

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Controllable cost revenue	193,512	201,359	390,759	387,451
Fixed margin ⁽¹⁾	15,820	16,580	31,640	33,160
Incentive revenue ⁽²⁾	378	476	962	1,156
CPA pass-through revenue	55,557	53,374	112,510	96,607
Other	25,802	23,735	57,668	42,427
	291,069	295,524	593,539	560,801

(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.

6 Credit facilities

Operating credit facility

On January 27, 2023, Chorus amended the terms of its existing \$100,000 operating credit facility to extend the maturity date to January 27, 2026 and added a \$50,000 uncommitted accordion feature. In March 2023, Chorus partially exercised the accordion feature under the committed operating credit facility, thereby increasing the limit from \$100,000 to \$125,000.

On May 5, 2023, Chorus exercised the remaining \$25,000 accordion feature under the committed operating credit facility, thereby increasing the limit from \$125,000 to \$150,000.

Chorus Aviation Inc.

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

6 Credit facilities (continued)

As at June 30, 2023, Chorus had drawn \$90,592 on the facility and had also provided letters of credit totaling \$9,365 that reduce the amount available under this facility.

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 Chorus and certain designated subsidiaries including Chorus Aviation Capital Corp. ("CACC"), Jazz and Voyageur (collectively, the "Credit Parties"), excluding certain specified assets such as aircraft and engines and the equity securities of certain specified entities including CACC and its subsidiaries (which comprise substantially all of the entities in the RAL segment). Any outstanding balance under this facility is immediately repayable if Chorus undergoes a change in control without the lender's consent. It contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio. As at June 30, 2023, Chorus was in compliance with all covenants under this facility.

Warehouse credit facility

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 3.25% until January 2024 and LIBOR plus 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 Falko (Ireland) Limited ("FIL").

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, 2023, 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. For the period ended June 30, 2023, the facility bears interest at the 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.

As at June 30, 2023, Chorus was in compliance with these financial covenants.

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7 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,	
	2023	2022
	\$	\$
Income (loss) before income tax	35,024	(41,373)
Income tax expense (recovery) at the Canadian statutory tax rate ⁽¹⁾	9,281	(10,964)
Recognition of previously unrecognized cumulative eligible capital	(1,260)	(1,345)
Net impact of capital items ⁽²⁾	(137)	4,510
Impact of the Canadian statutory tax rate on entities with other tax rates	(899)	7,081
Non-deductible expenses and other	1,630	(252)
Allowance against deferred tax assets	6,091	—
Income tax expense (recovery)	14,706	(970)
Effective tax rate	42.0%	2.3%

	Six months ended June 30,	
	2023	2022
	\$	\$
Income (loss) before income tax	77,392	(13,666)
Income tax expense (recovery) at the Canadian statutory tax rate ⁽¹⁾	20,509	(3,621)
Recognition of previously unrecognized cumulative eligible capital	(2,519)	(2,691)
Net impact of capital items ⁽²⁾	(454)	2,559
Impact of the Canadian statutory tax rate on entities with other tax rates	(2,738)	6,612
Non-deductible expenses and other	4,166	971
Allowance against deferred tax assets	6,091	—
Income tax expense	25,055	3,830
Effective tax rate	32.4%	(28.0)%

- (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. 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.

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately \$255,744 as at June 30, 2023, 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, 2023 and June 30, 2022, Chorus utilized a total of \$9,276 (\$2,519 tax effected) and \$9,974 (\$2,693 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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8 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. The preferred share dividends are declared quarterly and paid in cash in US dollars in the following month.

During the three and six months ended June 30, 2023, Chorus declared \$8,816 and \$17,687, respectively, in preferred share dividends (\$5,426 for the three and six months ended June 30, 2022).

During the three and six months ended June 30, 2023, Chorus paid \$8,767 and \$17,546, respectively, in preferred share dividends (2022 - \$nil). The preferred shares dividend payable on the statement of financial position has been converted to Canadian currency at 1.3240 which was the exchange rate in effect at closing on June 30, 2023. Preferred share dividends recorded in equity are converted to Canadian currency at the foreign exchange rate in effect on the day of the transaction.

9 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, 2021	177,650,988	356,611
Shares issued through private placement	25,400,000	70,093
Shares repurchased and cancelled	(1,718,972)	(3,612)
Share repurchase commitment under the automatic share purchase plan	—	(9,611)
Shares issued and outstanding December 31, 2022	201,332,016	413,481
Shares repurchased and cancelled	(6,616,421)	(13,904)
Share repurchase commitment under the automatic share purchase plan	—	9,611
Shares issued and outstanding June 30, 2023	194,715,595	409,188

On November 9, 2022, Chorus announced that it had received approval from the Toronto Stock Exchange to implement a normal course issuer bid ("NCIB") to purchase up to 15,928,236 common shares during the period November 14, 2022 to no later than November 13, 2023. For the three and six months ended June 30, 2023, Chorus purchased and cancelled 71,484 and 6,616,421 common shares, respectively, under its NCIB for total consideration of \$22,163. The net reduction to equity, after applying the accounts payable accrual at December 31, 2022 of \$14,536, was \$7,627. Common share capital was reduced by a net amount of \$4,293 and the remaining \$3,334 was accounted for as a reduction of contributed surplus.

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

9 Capital stock (continued)

In connection with the NCIB, Chorus has established an automatic securities purchase plan (the "Plan") with a designated broker to allow for the purchase of common shares. Chorus' designated broker may purchase common shares under the Plan on any trading day during the NCIB during pre-determined trading blackout periods, subject to certain parameters as to price and number of common shares. The Plan will terminate when the NCIB terminates, unless terminated earlier in accordance with the terms of the Plan. Chorus may vary, suspend or terminate the Plan only if it does not have material non-public information, and the decision to vary, suspend or terminate the Plan is not taken during a pre-determined trading blackout period. The Plan constitutes an "automatic plan" for purposes of applicable Canadian securities legislation and has been reviewed by the TSX. Chorus recorded a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and the Plan. As at June 30, 2023, a maximum obligation to purchase \$nil (December 31, 2022 - \$14,536) of common shares was recognized under the Plan in accounts payable and accrued liabilities on the consolidated statements of financial position. At December 31, 2022 common share capital was reduced by \$9,611 and the remaining \$4,925 was accounted for as a reduction of contributed surplus.

Private Placement

On May 3, 2022 and in connection with the Falko Acquisition, Chorus entered into a subscription agreement with Brookfield pursuant to which it (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.

b) Warrants

	Number of warrants	\$
Outstanding, December 31, 2021	32,134,074	1,513
Warrants issued pursuant to private placement	18,642,772	24,627
Less: warrant transaction costs	—	(261)
Warrants expired ⁽¹⁾	(32,134,074)	(1,513)
Outstanding, December 31, 2022	18,642,772	24,366
Outstanding, June 30, 2023	18,642,772	24,366

(1) During the year ended December 31, 2022, warrants of 7,891,650 expired on April 6, 2022 and warrants of 24,242,424 expired on December 29, 2022, following the redemption of the 6.00% Debentures.

As at June 30, 2023, Chorus had the following warrants outstanding:

Number of warrants	Exercise Price ⁽¹⁾	Expiry Date
18,642,772	4.60	May 3, 2029

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

Chorus Aviation Inc.

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9 Capital stock (continued)

c) Preferred shares

Authorized:

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

On May 3, 2022 and in connection with the Falko Acquisition, Chorus entered into a subscription agreement with Brookfield for US \$300,000 Series 1 Preferred Shares ("Preferred Shares") 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 December 31, 2022	300,000	375,217
Shares issued and outstanding June 30, 2023	300,000	375,217

d) Earnings per share

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

	Three months ended June 30,		Six months ended June 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Numerator				
Net income (loss)	20,318	(40,403)	52,337	(17,496)
Less:				
Net income attributable to non-controlling interest	(1,267)	(439)	(1,757)	(439)
Preferred share dividends declared	(8,816)	(5,426)	(17,687)	(5,426)
Earnings (loss) attributable to common shareholders	10,235	(46,268)	32,893	(23,361)
Denominator				
Weighted average number of shares	194,764,298	194,119,120	196,699,422	185,930,546
Weighted average dilutive shares in respect of stock-based compensation plans	4,903,707	—	5,034,111	—
Weighted average number of diluted shares	199,668,005	194,119,120	201,733,533	185,930,546

Chorus Aviation Inc.

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10 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 and 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.

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

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

	As at June 30, 2023			As at December 31, 2022		
	Fair value \$	Carrying value \$	Deferred financing fees ⁽¹⁾ \$	Fair value \$	Carrying value \$	Deferred financing fees ⁽¹⁾ \$
Finance lease receivables⁽²⁾	37,158	43,904	—	46,871	46,954	—
Investments						
Held for trading ⁽³⁾	82	82	—	85	85	—
Third party ⁽⁴⁾	366	366	—	374	374	—
Fund investment ⁽⁴⁾	23,913	23,913	—	25,549	25,549	—
Other long-term assets						
Interest rate swaps ⁽⁵⁾	4,103	4,103	—	6,065	6,065	—
Long-term debt						
Amortizing term loans ⁽⁶⁾	1,177,328	1,253,927	5,312	1,290,955	1,389,128	6,017
Asset backed securitization ⁽⁶⁾	260,317	273,594	—	292,972	299,304	—
Series A Debentures ⁽⁷⁾	82,791	86,250	1,289	81,722	86,250	1,690
Series B Debentures ⁽⁷⁾	70,144	70,775	1,808	67,715	70,521	2,066
Series C Debentures ⁽⁷⁾	70,550	85,000	2,748	71,825	85,000	3,043
Operating credit facility ⁽⁸⁾	90,592	90,592	—	—	—	—
Unsecured credit facility ⁽⁸⁾	65,321	66,200	—	99,657	101,580	—
Other long-term liabilities						
Total return swap ⁽⁵⁾	1,133	1,133	—	3,813	3,813	—

(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 based on limited available market information 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 based on quoted prices observed in active markets and is classified as Level 1.

(8) Fair value is calculated by discounting the future cash flow of the credit facility at a relevant market interest rate.

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10 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, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

Interest rate risk

The majority of Chorus' debt is not subject to interest rate volatility as it bears interest at fixed rates or at floating rates that are fixed via interest rate swaps. Excluding revolving debt facilities, as at June 30, 2023, 91.3% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 8.7% was floating rate debt.

Chorus has entered into interest rate swaps on certain of its amortizing term loans and its aircraft warehouse credit facility, converting a portion of its floating interest rate debt to fixed rates for the average duration of each loan and facility. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. Certain of the interest rate swaps are designated and effective as cash flow hedges. There is an economic relationship between the hedged item and cash flow hedge, as notional amounts match and the fair value of the hedged item and cash flow hedge move in response to the same risk. The hedge ratio is determined by dividing the notional amount of the interest rate swap contract by the notional amount used to calculate the actual interest payments.

Chorus uses the hypothetical derivative method to assess hedge ineffectiveness. Under the hypothetical derivative method the critical terms of the hypothetical derivative will exactly match those of the hedged item. Hedge ineffectiveness can arise due to credit risk in the fair value of the cash flow hedge not being replicated in the hedged item and changes to the forecasted amount of cash flow of hedged items and hedging instruments.

Changes in the fair value of effective interest rate swaps are recorded in other comprehensive (loss) income 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.

As at June 30, 2023, Chorus had eight (December 31, 2022 - ten) interest rate swap agreements with notional amounts totaling \$131,592 (December 31, 2022 - \$169,170). The fair value of interest rate swaps was as follows:

	As at June 30, 2023	As at December 31, 2022
	\$	\$
Other long-term assets		
Interest rate swaps	4,103	6,065

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10 Financial instruments and fair values (continued)

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Other comprehensive (loss) income				
Change in fair value of financial assets and liabilities, net of tax expense of \$12 and \$159 (2022 - \$237 and \$834)	(1,933)	1,652	(2,960)	5,836
Income statement				
Gain on ineffective interest rate swap ⁽¹⁾	1,811	632	1,688	1,040

(1) Includes the recognition of a gain of \$1,844 in interest expense related to the discontinuance of hedge accounting on an interest rate swap recycled from other comprehensive income.

In April 2023, the Financial Conduct Authority announced that following the official discontinuation of USD LIBOR on June 30, 2023 a synthetic USD LIBOR reference rate would continue to be published until September 2024. Chorus' exposure to changes in LIBOR rates is confined to those loans, credit facilities, and derivative agreements that have floating rates that reference USD LIBOR and that do not mature before September 2024. As at June 30, 2023, Chorus had 13 loans which totaled \$155,999 and five derivative agreements which referenced notional amounts totaling \$91,561 that will be impacted by the transition from USD LIBOR to alternative reference rates. Chorus is in the process of implementing a planned transition to alternative reference rates and does not anticipate any material impacts on its financial results as a result of this transition.

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.

An interest rate change of 25 basis points would not have a material impact on annual net income as a result of Chorus' exposure to interest rate fluctuations on its floating rate debt.

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.

Chorus has entered into lease deferral arrangements with certain of its lessees in the RAL segment 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 entities in the RAL segment are required to service principal and interest payments under its loans during the term of the deferral arrangements. The risks associated with the payment of deferred and future rent payments could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. At June 30, 2023, the RAL segment had total receivables of \$143,200 (December 31, 2022 - \$141,862), inclusive of the accrued straight-line rent receivable of \$33,086 (December 31, 2022 - \$32,641).

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

10 Financial instruments and fair values (continued)

	As at June 30, 2023			As at December 31, 2022		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	\$	\$	\$	\$	\$	\$
Trade receivables	19,390	25,547	44,937	21,763	16,845	38,608
Deferred rent receivable	—	13,831	13,831	—	7,831	7,831
Air Canada trade receivable	117,379	—	117,379	140,805	—	140,805
Subtotal	136,769	39,378	176,147	162,568	24,676	187,244
Allowance for expected credit loss ("ECL")	(531)	(4,862)	(5,393)	(329)	(1,285)	(1,614)
Net trade receivables	136,238	34,516	170,754	162,239	23,391	185,630
Accrued straight-line rent receivable ⁽¹⁾⁽²⁾	—	4,342	4,342	—	1,055	1,055
Long-term accrued straight-line rent receivable ⁽¹⁾⁽³⁾	—	28,744	28,744	—	31,586	31,586
Long-term receivables ⁽³⁾⁽⁴⁾	7,431	70,736	78,167	9,237	84,545	93,782
Subtotal	143,669	138,338	282,007	171,476	140,577	312,053
Long-term allowance for ECL	—	(22,597)	(22,597)	—	(25,724)	(25,724)
Total net receivables	143,669	115,741	259,410	171,476	114,853	286,329
Total gross receivables	144,200	143,200	287,400	171,805	141,862	313,667

(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.

Chorus has no financial assets past due, except for trade receivables. At June 30, 2023, the total amount of net trade receivables was \$170,754 (December 31, 2022 - \$185,630), inclusive of allowance for ECL of \$5,393 (December 31, 2022 - \$1,614) 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.

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

10 Financial instruments and fair values (continued)

At June 30, 2023, the breakdown of past-due trade receivables were as follows:

	June 30, 2023 \$	December 31, 2022 \$
Past due		
60 - 90 days	3,061	2,921
Over 90 days	30,322	16,072
	33,383	18,993

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. The current swap is for 7.3 million common shares priced at \$3.16 per common share and matures in March 2024. 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, 2022.

Chorus recorded losses on the total return swap as follows:

	Three months ended June 30,		Six months ended June 30,	
	2023 \$	2022 \$	2023 \$	2022 \$
Income statement				
Loss on total return swap	1,180	3,163	1,646	275

Liquidity risk

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

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

As of June 30, 2023, Chorus had \$94,990 in cash and \$50,043 of available room on its operating credit facility, inclusive of letters of credit totaling \$9,365 that reduce the amount available under the operating credit facility. The operating credit facility is subject to a borrowing base calculation. (As of December 31, 2022 - \$100,027 in cash; \$130,294 of available room on its operating credit facility inclusive of letters of credit totaling \$10,338.)

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

11 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.

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

12 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,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Operating revenue	305,206	309,860	616,518	593,610
Operating expenses	804	555	1,374	1,235

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

	June 30, 2023	December 31, 2022
	\$	\$
Accounts receivable	117,379	140,805
Finance lease receivables	2,386	3,870
Contract asset	17,634	18,277
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees	1,901	1,884
Other long-term receivables	7,431	9,236
Accounts payable and accrued liabilities	7,731	5,867

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

13 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,	
	2023	2022	2023	2022
	\$	\$	\$	\$
(Increase) decrease in accounts receivable – trade and other	(14,435)	(19,985)	17,825	(39,568)
Increase in inventories	(541)	(1,358)	(2,306)	(2,622)
Decrease (increase) in prepaid expenses	583	(4,319)	(2,080)	(8,191)
(Increase) decrease in income tax receivable	(153)	(10)	953	(7)
Decrease in other long-term assets	3,458	4,828	10,805	4,908
(Decrease) increase in accounts payable and accrued liabilities	(6,695)	39,857	(43,398)	54,420
(Decrease) increase in current portion long-term incentive plan	(268)	(738)	584	840
(Decrease) increase in income tax payable	(13,910)	371	(22,015)	1,530
Increase (decrease) in other long-term liabilities	1,123	3,550	(3,775)	(3,210)
	(30,838)	22,196	(43,407)	8,100

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

b) Other

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Cash payments of interest	30,827	31,385	55,529	46,366
Cash receipts of interest	528	383	1,457	693
Cash payments of tax	19,049	3,479	29,562	7,723

Chorus Aviation Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and six-month periods ended June 30, 2023

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

13 Statement of cash flows - supplementary information (continued)

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

	Amortizing term loans ⁽¹⁾	Series A Debentures	Series B Debentures	Series C Debentures	Credit facilities ⁽²⁾	Total long-term debt	Lease liabilities
	\$	\$	\$	\$	\$	\$	\$
Balance - December 31, 2022	1,682,415	84,560	68,455	81,957	101,580	2,018,967	11,309
Long-term borrowings, net of financing costs	(159)	—	—	—	90,559	90,400	—
Repayment of long-term borrowings	(132,522)	—	—	—	(33,658)	(166,180)	—
Repayment of lease liabilities	—	—	—	—	—	—	(2,683)
Total financing cash flow activities	(132,681)	—	—	—	56,901	(75,780)	(2,683)
New lease liabilities	—	—	—	—	—	—	401
Interest expense	2,052	401	512	295	—	3,260	—
Deferred financing fee amortization	783	—	—	—	—	783	—
Unrealized foreign exchange gain	(17,717)	—	—	—	(1,586)	(19,303)	(87)
Realized foreign exchange loss (gain)	7,052	—	—	—	(103)	6,949	—
Foreign currency adjustments	(19,695)	—	—	—	—	(19,695)	(84)
Total financing non-cash activities	(27,525)	401	512	295	(1,689)	(28,006)	230
Balance - June 30, 2023	1,522,209	84,961	68,967	82,252	156,792	1,915,181	8,856

(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, 2023 - \$88,383; December 31, 2022 - \$67,884).