Fourth Quarter and Year-End 2021

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

February 16, 2022

chorus aviation inc.

INTRODUCTION

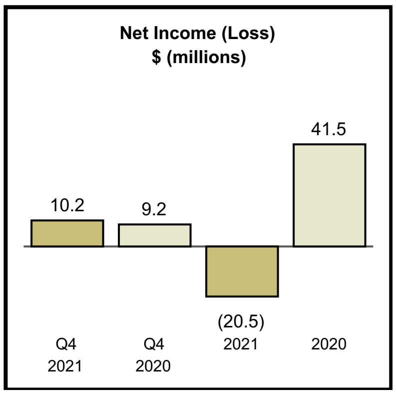
In this MD&A, references to Chorus refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to Jazz. Please refer to Section 25 - Glossary of Terms for definition of capitalized terms and acronyms used in this MD&A.

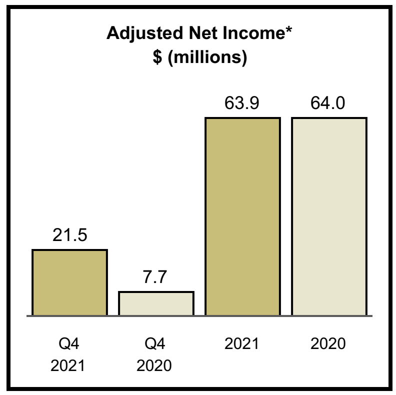
This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2021 and 2020 and Chorus' 2021 Annual Information Form with a date of February 16, 2022. All financial information has been prepared in accordance with GAAP, as set out in the CPA Canada Handbook, except for any financial information specifically denoted otherwise. Except as otherwise noted or where the context may otherwise require, this MD&A is prepared as of February 16, 2022.

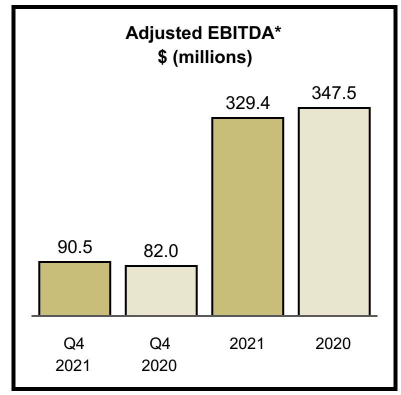
The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to the discussion of specific risks in Section 8 – Capital Structure and Section 10 – Risk Factors.

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

1 OVERVIEW







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

Q4 2021 Financial Highlights:

- Net income of $10.2 million, or $0.06 per basic Share, a quarter-over-quarter increase of $1.0 million primarily due to lower impairment and expected credit loss provisions of $31.0 million in the RAL segment in addition to increased revenue in the RAS segment partially offset by a reduction in unrealized foreign exchange gains of $35.4 million.
- Adjusted net income of $21.5 million, or $0.12 per basic Share, an increase of $13.8 million quarter-over-quarter primarily due to additional aircraft earning leasing revenue, lower depreciation and a reduction in realized foreign exchange losses.
- Adjusted EBITDA of $90.5 million, an increase of $8.5 million quarter-over-quarter due to additional aircraft earning leasing revenue in addition to a lower expected credit loss provision partially offset by decreased earnings due to a lower US dollar exchange rate.

2021 Annual Financial Highlights:

- Net loss of $20.5 million, or $0.12 per basic Share, a year-over-year decrease in net income of $62.0 million primarily due to CPA restructuring costs of $58.9 million net of tax recoveries in accordance with the 2021 CPA Amendments.
- Adjusted net income of $63.9 million consistent with the prior year, or $0.37 per basic Share.
- Adjusted EBITDA of $329.4 million a decrease of $18.0 million year-over-year, primarily due to lower lease revenue attributable to off-lease aircraft, negotiated lease amendments (including extensions) and decreased Fixed Margin, partially offset by additional aircraft earning leasing revenue and a lower expected credit loss provision.

Chorus remains focused on managing its available liquidity, protecting its assets, preserving operations and supporting its customers. Chorus also sees opportunity for its aircraft leasing segment, as lessors take on a greater role in funding new aircraft deliveries, as it is expected that most airlines will remain capital constrained for the foreseeable future.

Liquidity

As of December 31, 2021, Chorus' liquidity was $188.5 million including cash of $123.6 million and $64.9 million of available room on its operating credit facility. Liquidity decreased from the third quarter of 2021 by $69.6 million primarily due to the redemption of $85.0 million principal amount of the 6.00% Debentures which was partially offset by a reduction in restricted cash.

In 2021, Chorus managed its liquidity by:

- Entering into a new three-year committed operating credit facility in the fourth quarter of 2021 with a limit of $75.0 million plus a $25.0 million uncommitted accordion.
- Issuing $85.0 million aggregate principal amount of Series C Debentures for net proceeds of $81.2 million in the third quarter of 2021 and subsequently using the proceeds thereof to redeem $85.0 million principal amount of the 6.00% Debentures in the fourth quarter of 2021. As a result of this redemption, $115.0 million aggregate principal amount of the 6.00% Debentures currently remain outstanding.
- Completing a concurrent public offering and private placement of Equity Units and Series B Debentures for net proceeds of $138.1 million which was partially used to repay amortizing term loans on six aircraft totaling $71.7 million and deferred amounts owing under aircraft loans with its largest lender in the amount of $33.9 million in the second quarter of 2021.

Chorus anticipates having sufficient liquidity to fund ongoing operations, planned capital expenditures and principal and interest payments related to long-term borrowings (refer to Section 4 - Outlook, Section 8 - Capital Structure for further information on the transactions referenced above and to Section 25 - Caution Regarding Forward-Looking Information).

Regional Aircraft Leasing

- CAC collected approximately 83% of lease revenue recognized in the fourth quarter of 2021, up from 77% in the third quarter of 2021.
- CAC successfully re-leased all of its 13 off-lease aircraft as follows:
    - In February 2022, executed short-term leases for two CRJ900s to CityJet. Both aircraft are anticipated to be delivered in the first half of 2022.
    - In August 2021, executed long-term leases for six ATR72-600s to Emerald Airlines of Dublin, Ireland. Two of the aircraft were delivered prior to year-end and the remaining four deliveries are expected in the first half of 2022.
    - In August 2021, executed long-term leases for two Dash 8-400s to Waltzing Matilda Aviation of Boston, Massachusetts, doing business as Connect Airlines. The aircraft were delivered in the fourth quarter of 2021.
    - In April 2021, executed a long-term lease for one Dash 8-400 to National Jet Express, a subsidiary of Cobham Aviation Services. The aircraft was delivered in the second quarter of 2021.
    - In April 2021, executed long-term leases for two Dash 8-400s to Sky Alps of Bolzano, Italy. The aircraft were delivered in the second quarter of 2021.
- On December 31, 2021, Philippine Airlines successfully completed its restructuring under Chapter 11 of the United States Bankruptcy Code. CAC currently has three Dash 8-400s on lease to Philippine Airlines, two have been retained under lease on revised terms negotiated by the parties and one is expected to be returned in the first quarter of 2022. CAC will have 24 months to remarket the returned Dash 8-400 under the terms of its loan agreement for this aircraft. The financial impact of the anticipated lease termination and lease restructurings is included in Chorus' general aircraft impairment and expected credit loss provisions.
- On November 4, 2021, Aeromexico and CAC executed amended and restated lease agreements in respect of all three E190s currently leased by CAC to Aeromexico. These agreements (which became effective on January 31, 2022) reflect revised commercial terms negotiated by the parties following Aeromexico's voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on June 30, 2020. On January 28, 2022, the U.S. bankruptcy court approved Aeromexico’s plan of reorganization, clearing the way for Aeromexico’s emergence from Chapter 11.

- Since the onset of the COVID-19 pandemic, CAC has negotiated significant lease extensions with some of its lessees in exchange for reductions to the original lease rates. This resulted in reduced revenue over the remaining period of the original lease term as they are accounted for as a new lease from the effective date of the amendments, with revenue recognized on a straight-line basis over the remaining term, in accordance with IFRS 16 (refer to Section 4 - Outlook).
- CAC recorded a general impairment provision during the fourth quarter and year ended 2021 of $12.1 million and $18.4 million, respectively, based on management's assessment of the continued economic impact of COVID-19 (fourth quarter and year ended 2020 - $39.4 million and $66.1 million, respectively).

Regional Aviation Services

Jazz

In the fourth quarter of 2021, Jazz operated at approximately 76% of its fourth quarter 2019 (pre-COVID-19) levels. Jazz also recalled substantially all of its front-line and administrative employees to meet the increase in its flying schedule during the second half of 2021.

On March 15, 2021, the CPA between Jazz and Air Canada was amended ("2021 CPA Amendments"). The 2021 CPA Amendments became effective on a retroactive basis to January 1, 2021 and included the following principal changes:

- 25 E175s were added to the Covered Aircraft fleet in 2021, increasing the Fixed Margin over the remaining term of the CPA by $46.0 million;
- Jazz became the exclusive Air Canada Express operator of 70-78 seat regional capacity until the end of 2025 and is currently the sole provider of Air Canada Express services;
- 19 Dash 8-300s were removed from the Covered Aircraft fleet effective January 1, 2021, thereby reducing aircraft leasing revenue under the CPA by $56.0 million over the remaining term of the CPA; and
- the Controllable Cost Guardrail receivable was capped at $20.0 million, improving Jazz's working capital without changing the $2.0 million Controllable Cost Guardrail exposure.

As a result of the 2021 CPA Amendments, Chorus recorded one-time restructuring costs of $80.7 million in the first quarter of 2021 (refer to Section 7 - Segmented Analysis).

Chorus also agreed to pay Air Canada a $20.0 million contract fee in connection with the transfer and integration of the E175s into the Covered Aircraft fleet of which $15.0 million was paid in March 2021 and the remaining $5.0 million is due on or before March 31, 2022.

All other material terms of the CPA, including the December 31, 2035 expiry date, were unchanged.

Voyageur

Voyageur's 2021 contract flying, charter sales and MRO services revenues increased by approximately 20% over 2020 primarily related to the following new contracts:

- an eight-year contract for the in-service-support of the Canadian Armed Forces' ("CAF") manned airborne intelligence surveillance and reconnaissance program, in partnership with General Dynamics Mission Systems–Canada. Voyageur will also service CAF's newly acquired fleet of three Beechcraft King Air 350ERs and associated mission systems;
- a three-year contract with Purolator for the provision of air cargo charter services following the successful completion of an initial six-month trial service;

- a three-year contract to upgrade and modify Transport Canada's national aerial surveillance program fleet of three Dash 8-100s and one Dash 7-100 with new surveillance equipment and Voyageur will also install a long-range fuel system on the Dash 8-100s; and
- a five-year extension to its contract with Ambulance New Brunswick for the provision of fixed-wing air ambulance service thereby adding to the existing 25-year relationship.

Fourth Quarter Summary

In the fourth quarter of 2021, Chorus reported Adjusted EBITDA of $90.5 million, an increase of $8.5 million over the fourth quarter of 2020.

The RAL segment's Adjusted EBITDA increased by $5.9 million due to additional aircraft earning lease revenue and a $3.6 million lower expected credit loss provision partially offset by lower lease revenue attributable to negotiated lease amendments (including extensions) and decreased earnings due to a lower US dollar exchange rate.

The RAS segment's Adjusted EBITDA increased by $2.6 million. The fourth quarter results were impacted by:

- an increase in other revenue due to an increase in third-party MRO activity, part sales and contract flying;
- an increase in capitalization of major maintenance overhauls on owned aircraft of $2.8 million; and
- an increase in aircraft leasing revenue under the CPA of $0.5 million primarily due to six incremental CRJ900s offset by the removal of the Dash 8-300 fleet and lower earnings of $1.1 million due to a lower US dollar exchange rate; offset by
- a decrease in Fixed Margin of $2.4 million in accordance with the CPA; and
- an increase in general administrative expenses attributable to increased operations.

Adjusted net income of $21.5 million for the quarter, an increase of $13.8 million due to:

- a $8.5 million increase in Adjusted EBITDA as previously described;
- a decrease of $5.0 million primarily due to a decrease in unrealized foreign exchange losses on working capital and realized foreign exchange losses;
- a decrease in depreciation expense of $3.5 million; and
- an increase of $1.7 million related to gains on property and equipment and asset backed commercial paper; offset by
- a $3.8 million increase in adjusted income tax expense; and
- an increase in net interest costs of $1.1 million primarily related to interest on Series B Debentures and Series C Debentures offset by the repayment of certain aircraft financing.

Net income increased $1.0 million over the prior period due to:

- the previously noted increase in Adjusted net income of $13.8 million;
- a decrease in impairment provisions of $27.0 million; and
- a decrease in employee separation program costs and signing bonuses of $1.0 million; offset by
- a decrease in net unrealized foreign exchange gains primarily on long-term debt of $35.4 million;
- a decrease in income tax recoveries on adjusted items of $3.2 million;
- an increase in lease repossession costs of $1.2 million; and
- an increase in Dash 8-300 inventory provision of $1.0 million.

chorus aviation inc.

Annual Summary

Chorus reported Adjusted EBITDA of $329.4 million for 2021, a decrease of $18.0 million over the same prior year period.

The RAL segment's Adjusted EBITDA decreased by $13.0 million primarily due to lower lease revenue attributable to off-lease aircraft, negotiated lease amendments (including extensions) and decreased earnings due to a lower US dollar exchange rate partially offset by additional aircraft earning lease revenue and a lower expected credit loss provision.

The RAS segment's Adjusted EBITDA decreased by $5.0 million due to:

- a decrease in Fixed Margin of $9.5 million in accordance with the CPA; and
- an increase in general administrative expenses attributable to increased operations; partially offset by
- a decrease in stock-based compensation of $5.1 million due to a decrease in the Share price inclusive of the change in fair value of the Total Return Swap (refer to Section 8 - Capital Structure - Equity Price Risk);
- an increase in aircraft leasing revenue under the CPA of $3.6 million primarily due to incremental CRJ900s, partially offset by the removal of the Dash 8-300 fleet and lower earnings of $8.5 million due to a lower US dollar exchange rate;
- an increase in other revenue due to an increase in third-party MRO activity, part sales and contract flying; and
- an increase in capitalization of major maintenance overhauls on owned aircraft of $1.9 million.

Adjusted net income of $63.9 million was unchanged from 2020 due to the following items:

- a decrease of $11.7 million in realized foreign exchange losses and increased unrealized foreign exchange gains on working capital;
- a decrease in depreciation expense of $9.6 million; and
- an increase of $4.0 million related to gains on property and equipment and asset backed commercial paper; offset by
- a $18.0 million decrease in Adjusted EBITDA as previously described;
- an increase in net interest costs of $5.6 million primarily related to the Series B Debentures, the Series C Debentures, increased indebtedness under credit facilities and additional debt related to aircraft purchased since the second quarter of 2020; and
- a $1.9 million increase in adjusted income tax expense.

Net loss of $20.5 million, a decrease of $62.0 million over the prior period due to:

- one-time restructuring costs of $80.7 million related to the 2021 CPA Amendments;
- a change in net unrealized foreign exchange primarily on long-term debt of $41.4 million;
- an increase in lease repossession costs of $5.7 million; and
- an increase in Dash 8-300 inventory provisions of $1.0 million; offset by
- a decrease in impairment provisions of $47.3 million;
- an increase in income tax recoveries on adjusted items of $14.8 million; and
- a decrease in employee separation program costs, exclusive of the cost attributable to the pilot early retirement program and signing bonuses of $4.9 million.

2 ABOUT CHORUS

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

Chorus groups its businesses into two reporting segments:

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

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

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

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

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

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

2) **Regional Aircraft Leasing**: Chorus provides aircraft leasing to third-party air operators, commonly referred to as "dry leasing", through its wholly-owned subsidiary, CAC. As of December 31, 2021, CAC's portfolio of leased aircraft consists of 62 aircraft of which 56 aircraft are under lease with airline customers comprising 23 Dash 8-400s, 18 ATR72-600s, four CRJ1000s, four E190s, two E195s and five A220-300s. CAC has executed leases on the six aircraft not currently on lease which are expected to be delivered in the first half of 2022. One Dash 8-400 on lease to Philippine Airlines is expected to be returned in the first quarter of 2022 as a result of the airline's recent restructuring under Chapter 11 of the United States Bankruptcy Code (refer to Section 25 - Caution Regarding Forward-Looking Information).

Jazz earns revenue under the CPA in five ways:

1. *Fixed Margin*

Jazz earns a Fixed Margin based on the number of Covered Aircraft under the CPA and does not vary based on flight activity. In 2020, Jazz earned a Fixed Margin which was set as an aggregate amount irrespective of the number of Covered Aircraft.

2. *Performance Incentives*

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

3. *Controllable Cost Revenue*

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

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

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

4. *Pass-Through Revenue*

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

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

5. *Aircraft leasing under the CPA*

Jazz earns aircraft leasing revenue under the CPA from the following owned assets: 34 Dash 8-400s, 14 CRJ900s, and five spare engines. Effective January 1, 2021 in accordance with the 2021 CPA Amendments, Jazz no longer earns aircraft leasing revenue on the Dash 8-300s that were previously Covered Aircraft.

Jazz incurs two types of costs under the CPA:

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

Aircraft fleet under the CPA

From January 1, 2021 through December 31, 2025, the minimum number of Covered Aircraft is set at 105. From January 1, 2026 through December 31, 2035, Air Canada will determine the composition of the Covered Aircraft fleet on the condition that the fleet must have a minimum of 80 aircraft with 75-78 seats (refer to Section 25 - Caution Regarding Forward-Looking Information).

3 STRATEGY

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

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

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

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

CAC was established at the beginning of 2017 with the objective of further diversifying Chorus' earnings through developing its aircraft leasing activity into a global business. CAC is focused on building a diversified portfolio of regional aircraft manufactured by Airbus, ATR, De Havilland and Embraer for lease to regional aircraft operators around the world.

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

4 OUTLOOK

The discussion that follows includes forward-looking information. This outlook is provided for the purpose of providing information about current expectations for 2022 and beyond. This information may not be appropriate for other purposes (refer to Section 25 - Caution Regarding Forward-Looking Information).

Chorus' business model does not directly expose it to the market risks ordinarily faced by airlines; however, substantially all of its revenue is derived from airline customers, through the CPA and its leasing of aircraft to airline customers globally. Although the COVID-19 pandemic continues to impact airlines due to the emergence of the Omicron variant, demand for passenger air travel continued to increase throughout 2021 with the global roll-out of vaccines and proof of vaccination assisting the recovery.

Regional Aviation Services:

In the fourth quarter of 2021, Jazz operated at approximately 76% of its fourth quarter 2019 (pre-COVID-19) levels. Provided the public health impacts of the COVID-19 pandemic do not worsen and travel restrictions are not increased, Jazz's first quarter 2022 flying is expected to operate between approximately 50% to 65% of its 2019 (pre-COVID-19) levels. In 2022, Jazz expects its aircraft leasing revenue under the CPA and its Fixed Margin revenue to be US $114.7 million and $65.7 million, respectively.

Voyageur continues to perform overseas humanitarian flights and cargo services, and the air ambulance operation in New Brunswick. Voyageur's contract flying, charter sales and MRO services revenues began to increase in 2021. The momentum is expected to be sustained with the impact of the four new long-term contracts which will begin to positively impact Voyageur's earnings throughout 2022 and beyond. Voyageur represents less than 10% of Chorus' consolidated revenue and net income.

Regional Aircraft Leasing:

In February 2022, CAC executed short-term leases for two CRJ900s to CityJet. Both aircraft are anticipated to be delivered in the first half of 2022. In August 2021, CAC executed long-term leases for six ATR72-600s to Emerald Airlines of Dublin, Ireland. Two of the aircraft were delivered prior to year end and the remaining four deliveries are expected in the first half of 2022. One Dash 8-400 on lease to Philippine Airlines is expected to be returned in the first quarter of 2022 as a result of the airline's recent restructuring under Chapter 11 of the United States Bankruptcy Code.

Following the onset of the COVID-19 pandemic, CAC received requests from substantially all of its customers for some form of temporary rent relief, as they coped with an unprecedented reduction in demand for passenger air travel. Under rent relief arrangements, certain of which include lease term extensions, the repayment of the deferred amounts typically coincides with the lease term extensions. As of December 31, 2021, CAC's gross lease receivable was $84.0 million (US $66.3 million) (December 31, 2020 - $56.3 million (US $44.2 million)). The gross lease receivable may increase to approximately $90.0 million (US $70.0 million) by the end of 2022 due to rent relief arrangements and potential delays in payments.

As of December 31, 2021, the net lease receivable, after an expected credit loss provision, was $76.8 million (US $60.6 million) (December 31, 2020 - $48.3 million (US $38.0 million)). CAC's lease deferral receivable exposure is also partially mitigated by security packages held of approximately $26.8 million (US $21.1 million) (December 31, 2020 - $30.7 million (US $24.1 million)).

Chorus collected approximately 83% of its lease revenue recognized in the fourth quarter, up from 77% in the third quarter of 2021, from its lessees.

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

Customer	Aircraft type	Completed Transactions		
		Q3 2021	Q4 2021	Total
Aeromexico[(1)]	E190	3		3
Air Nostrum	CRJ1000	4		4
airBaltic	A220-300	5		5
Azul Airlines[(2)]	ATR72-600/E195	5		5
Cobham	Dash 8-400	1		1
Croatia Airlines	Dash 8-400	2		2
Emerald Airlines[(3)]	ATR72-600	1	1	2
Ethiopian Airlines	Dash 8-400	5		5
Indigo	ATR72-600	8		8
Jambojet	Dash 8-400	3		3
KLM Cityhopper	E190	1		1
Malindo Air	ATR72-600	4		4
Philippine Airlines[(4)]	Dash 8-400	3		3
Sky Alps	Dash 8-400	2		2
SpiceJet	Dash 8-400	5		5
Waltzing Matilda	Dash 8-400	—	2	2
Wings Air	ATR72-600	1		1
Total Regional Aircraft Leasing[(5)]		53	3	56
Total Regional Aviation Services[(6)]	Dash 8-400/CRJ900	48	—	48
Chorus Total Aircraft		101	3	104

(1) On November 4, 2021, Aeromexico and CAC executed amended and restated lease agreements in respect of all three E190s currently leased by CAC to Aeromexico. These agreements (which became effective on January 31, 2022) reflect revised commercial terms negotiated by the parties following Aeromexico's voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on June 30, 2020. On January 28, 2022, the U.S. bankruptcy court approved Aeromexico's plan of reorganization, clearing the way for Aeromexico's emergence from Chapter 11.

(2) Consists of three ATR72-600s and two E195s.

(3) CAC executed long-term leases for six ATR72-600s to Emerald Airlines. Two of the aircraft were delivered prior to year end and the remaining four deliveries are expected in the first half of 2022.

(4) On December 31, 2021 Philippine Airlines successfully completed its restructuring under Chapter 11 of the United States Bankruptcy Code. Two aircraft have been retained under lease on revised terms and one is expected to be returned in the first quarter of 2022.

(5) RAL executed leases for six aircraft remaining off-lease which are expected to be delivered in the first half of 2022: four ATR72-600s to Emerald Airlines and two CRJ900s under short-term leases to CityJet.

(6) RAS segment breakdown includes the following aircraft earning lease revenue under the CPA: 34 Dash 8-400s and 14 CRJ900s.

Capital expenditures in 2022, including capitalized major maintenance overhauls but excluding expenditures for the acquisition of aircraft are expected to be between $21.0 million and $33.0 million. Aircraft acquisitions and improvements in 2022 are expected to be between $5.0 million and $11.0 million.[(1)]

		Actual	
(expressed in thousands of Canadian dollars)	**Planned 2022**[(1)] **$**	**Year ended December 31, 2021 $**	**Year ended December 31, 2020**[(2)] **$**
Capital expenditures, excluding aircraft acquisitions	15,000 to 21,000	7,019	11,727
Capitalized major maintenance overhauls[(3)]	6,000 to 12,000	20,296	7,529
Aircraft acquisitions and improvements	5,000 to 11,000	47,392	386,881
	26,000 to 44,000	74,707	406,137

(1) The 2022 plan includes reconfiguration costs on re-leased aircraft in the RAL segment which have been converted using a foreign exchange rate of 1.2678, the December 31, 2021 closing day rate from the Bank of Canada.
(2) The 2020 actual includes the completion of two ESPs.
(3) The 2022 plan includes between $2.0 million to $5.0 million of costs that are expected to be included in Controllable Costs. Actual 2021 and 2020 costs include $8.1 million and $6.1 million, respectively which were included in Controllable Costs.

With the current recovery in passenger demand for air travel and further improvement expected, Chorus anticipates it will invest between $300.0 million to $400.0 million in its Regional Aircraft Leasing segment in 2022 financed through existing cash resources, capital raises, secured debt financing or a combination thereof.

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5 FLEET

The following table provides the total number of aircraft in Chorus' fleet as at December 31, 2021 and December 31, 2020.

	December 31, 2020	2021 Fleet Changes			December 31, 2021	Owned
		Additions	Removals	Transfers		
Regional Aircraft Leasing						
Third-Party Leased Aircraft						
CRJ900	2	—	—	—	2	2
CRJ1000	4	—	—	—	4	4
Dash 8-400	23	—	—	—	23	23
E190	4	—	—	—	4	4
E195	2	—	—	—	2	2
ATR72-600	22	—	—	—	22	22
A220-300	5	—	—	—	5	5
Total Regional Aircraft Leasing	62	—	—	—	62	62
Regional Aviation Services						
Covered Aircraft Leased Under the CPA						
Dash 8-400	34	—	—	—	34	34
CRJ900	13	1	—	—	14	14
Dash 8-300(1)	15	—	—	(15)	—	—
Total Covered Aircraft Leased Under the CPA	62	1	—	(15)	48	48
Other Covered Aircraft						
CRJ200	15	—	—	—	15	—
CRJ900	21	—	—	—	21	—
Dash 8-300(1)	4	—	—	(4)	—	—
Dash 8-400	9	—	(4)	—	5	—
E175	—	25	—	—	25	—
Total Other Covered Aircraft	49	25	(4)	(4)	66	—
Jazz Other Aircraft						
Dash 8-300 - Charter(1)(2)	1	—	—	(1)	—	—
Dash 8-300 - Other(1)(2)	—	—	—	9	9	9
Total Jazz Other Aircraft	1	—	—	8	9	9
Voyageur Aircraft						
CRJ200	7	—	—	—	7	7
King Air 200	2	—	—	—	2	2
Dash 8-100(3)	7	—	—	—	7	7
Dash 8-300(4)	5	—	—	2	7	7
Dash 8-400	1	—	—	—	1	1
Total Voyageur Aircraft	22	—	—	2	24	24
Non-Operational Aircraft						
Dash 8-100(2)	16	—	—	—	16	16
Dash 8-300(1)(2)	—	—	—	9	9	9
Total Non-Operational Aircraft	16	—	—	9	25	25
Total Regional Aviation Services	150	26	(4)	—	172	106
Total Aircraft	212	26	(4)	—	234	168

(1) 19 Dash 8-300s were removed from the Covered Aircraft per the 2021 CPA Amendments.
(2) Chorus plans to sell, lease, part-out, or operate these aircraft.
(3) Includes six aircraft leased to a third party.
(4) Includes three aircraft leased to a third party.

6 CONSOLIDATED FINANCIAL ANALYSIS

This section provides detailed information and analysis about Chorus' performance for the three months and year ended December 31, 2021 compared to the three months and year ended December 31, 2020. It focuses on Chorus' consolidated operating results and provides financial information for Chorus' operating segments. For further discussion and analysis of Chorus' business segments, refer to Section 7 - Segmented Analysis.

	Three months ended December 31,				Year ended December 31,			
(expressed in thousands of Canadian dollars)	**2021** $	**2020** $	**Change** $	**Change** %	**2021** $	**2020** $	**Change** $	**Change** %
Operating revenue	346,516	218,166	128,350	58.8	1,023,275	948,721	74,554	7.9
Operating expenses	309,952	219,383	90,569	41.3	952,296	834,174	118,122	14.2
Operating income (loss)	36,564	(1,217)	37,781	3,104.4	70,979	114,547	(43,568)	(38.0)
Net interest expense	(24,565)	(23,493)	(1,072)	4.6	(96,333)	(90,774)	(5,559)	6.1
Foreign exchange gain (loss)	899	31,297	(30,398)	(97.1)	(4,595)	25,156	(29,751)	(118.3)
Gain (loss) on property and equipment	7	(1,370)	1,377	100.5	1,725	(1,946)	3,671	188.6
Other	344	—	344	100.0	344	—	344	100.0
Income (loss) before income tax	13,249	5,217	8,032	154.0	(27,880)	46,983	(74,863)	(159.3)
Income tax (expense) recovery	(3,090)	3,940	(7,030)	178.4	7,395	(5,497)	12,892	(234.5)
Net income (loss)	10,159	9,157	1,002	10.9	(20,485)	41,486	(61,971)	(149.4)
Adjusted EBITDA(1)	90,463	81,972	8,491	10.4	329,440	347,454	(18,014)	(5.2)
Adjusted EBT(1)	27,209	9,578	17,631	184.1	82,742	80,995	1,747	2.2
Adjusted net income(1)	21,456	7,667	13,789	179.8	63,890	64,041	(151)	(0.2)

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

For the three months and year ended December 31, 2021, consolidated operating revenue increased 58.8% and 7.9%, compared to the same periods last year. Increased revenue in the RAS segment was attributable to the increase in Controllable Cost Revenue and Pass-Through Revenue as a result of increased flying activity and increased other revenue due to increased third-party MRO activity and part sales. The RAS segment's increased revenue was partially offset by decreased revenue in the RAL segment which was attributable to the loss of revenue due to off-lease aircraft, negotiated lease amendments (including extensions) and lower earnings due to a lower US dollar exchange rate, partially offset by an increase in aircraft earning lease revenue over the prior period.

Operating expenses increased 41.3% for the three months ended December 31, 2021 over the comparative period primarily related to higher salaries, wages and benefits due to higher FTEs and a decrease in the CEWS government grant, increased engine overhaul maintenance events, increased Pass-Through Costs and increased lease repossession costs offset by lower impairment and expected credit loss provisions.

Operating expenses increased 14.2% for the year ended December 31, 2021 over the comparative period related to one-time restructuring costs related to the 2021 CPA Amendments, higher salaries, wages and benefits due to higher FTEs and a decrease in the CEWS government grant, increased engine overhaul maintenance events, increased Pass-Through Costs and increased lease repossession costs offset by lower impairment and expected credit loss provisions and stock-based compensation.

Net interest expense increased 4.6% for the three months ended December 31, 2021 compared to the same period last year due to the issuance of the Series B Debentures and the Series C Debentures; offset by the repayment of certain aircraft financing in the RAL segment in the second quarter of 2021.

Net interest expense increased 6.1% for the year ended December 31, 2021 compared to the same period last year primarily due to the issuance of the Series B Debentures, the Series C Debentures, additional long-term borrowings related to aircraft acquisitions and additional credit facilities as well as the derecognition of hedge accounting on one of the interest rate swaps; offset by repayment of certain aircraft financing and repayment of all deferred amounts owing under aircraft loans in the RAL segment in the second quarter of 2021.

Foreign exchange gain decreased for the three months ended December 31, 2021 compared to the same period last year primarily related to a decrease in unrealized foreign exchange gains primarily on long-term debt of $35.4 million due to a decrease in the value of the Canadian dollar relative to the United States dollar. Foreign exchange losses increased for the year ended December 31, 2021 compared to the same period last year primarily related to decreased gains in unrealized foreign exchange primarily on long-term debt of $41.4 million offset by a decrease in realized foreign exchange losses and increased unrealized foreign exchange gains on working capital. The RAS segment manages the majority of its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. As a result, due to the nature of the underlying associated revenue stream provided by the CPA, the unrealized foreign exchange losses/gains on long-term debt and lease liability do not materially affect current or future cash flows. The RAL segment's functional currency is the US dollar.

Income tax expense increased for the three months ended December 31, 2021 compared to the same period last year primarily due to the increase in EBT, adjusted to remove non-taxable unrealized foreign exchange gains. Income tax recovery increased for the year ended December 31, 2021 compared to the same period last year due primarily to a reduction in EBT.

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7 SEGMENTED ANALYSIS

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

	For the three months ended December 31, 2021			For the three months ended December 31, 2020		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
(in thousands of Canadian dollars)	$	$	$	$	$	$
Operating revenue	313,495	33,021	346,516	184,124	34,042	218,166
Operating expenses	277,923	32,029	309,952	153,590	65,793	219,383
Operating income (loss)	35,572	992	36,564	30,534	(31,751)	(1,217)
Net interest expense	(15,167)	(9,398)	(24,565)	(11,742)	(11,751)	(23,493)
Foreign exchange gain (loss)	3,055	(2,156)	899	28,011	3,286	31,297
Gain (loss) on property and equipment	7	—	7	(1,370)	—	(1,370)
Other	344	—	344	—	—	—
Earnings (loss) before income tax	23,811	(10,562)	13,249	45,433	(40,216)	5,217
Income tax (expense) recovery	(4,407)	1,317	(3,090)	(1,556)	5,496	3,940
Net income (loss)	**19,404**	**(9,245)**	**10,159**	**43,877**	**(34,720)**	**9,157**
Operating income (loss)	35,572	992	36,564	30,534	(31,751)	(1,217)
Depreciation and amortization excluding impairment(1)	20,216	16,399	36,615	23,037	17,088	40,125
Impairment provisions(1)	2,500	12,093	14,593	2,136	39,447	41,583
Inventory provision(1)	1,000	—	1,000	—	—	—
Lease repossession costs(1)	—	1,724	1,724	—	498	498
Employee separation program(1)	(34)	—	(34)	436	—	436
Signing bonuses(1)	1	—	1	547	—	547
Adjusted EBITDA(2)	**59,255**	**31,208**	**90,463**	**56,690**	**25,282**	**81,972**
Earnings (loss) before income tax	23,811	(10,562)	13,249	45,433	(40,216)	5,217
Impairment provisions(1)	2,500	12,093	14,593	2,136	39,447	41,583
Lease repossession costs(1)	—	1,724	1,724	—	498	498
Inventory provision(1)	1,000	—	1,000	—	—	—
Unrealized foreign exchange (gain) loss	(5,367)	2,043	(3,324)	(35,563)	(3,140)	(38,703)
Employee separation program(1)	(34)	—	(34)	436	—	436
Signing bonus(1)	1	—	1	547	—	547
Adjusted EBT(2)	**21,911**	**5,298**	**27,209**	**12,989**	**(3,411)**	**9,578**

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

(in thousands of Canadian dollars)	For the year ended December 31, 2021			For the year ended December 31, 2020		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Operating revenue	893,149	130,126	1,023,275	801,336	147,385	948,721
Operating expenses	840,011	112,285	952,296	673,569	160,605	834,174
Operating income (loss)	53,138	17,841	70,979	127,767	(13,220)	114,547
Net interest expense	(52,703)	(43,630)	(96,333)	(41,441)	(49,333)	(90,774)
Foreign exchange gain (loss)	4,112	(8,707)	(4,595)	18,008	7,148	25,156
Gain (loss) on property and equipment	1,725	—	1,725	(1,946)	—	(1,946)
Other	344	—	344	—	—	—
Earnings (loss) before income tax	6,616	(34,496)	(27,880)	102,388	(55,405)	46,983
Income tax recovery (expense)	3,291	4,104	7,395	(12,569)	7,072	(5,497)
Net income (loss)	**9,907**	**(30,392)**	**(20,485)**	**89,819**	**(48,333)**	**41,486**
Operating income (loss)	53,138	17,841	70,979	127,767	(13,220)	114,547
Depreciation and amortization excluding impairment(1)	80,446	66,091	146,537	87,918	68,239	156,157
Impairment provisions(1)	36,163	18,426	54,589	2,136	66,061	68,197
Inventory provision(1)	10,090	—	10,090	—	—	—
Employee separation program(1)(2)	26,685	—	26,685	4,775	—	4,775
Defined benefit pension curtailment(1)	8,868	—	8,868	—	—	—
Integration costs(1)	2,000	—	2,000	547	—	547
Signing bonuses(1)	722	—	722	—	—	—
Lease repossession costs(1)	—	8,970	8,970	—	3,231	3,231
Adjusted EBITDA(3)	**218,112**	**111,328**	**329,440**	**223,143**	**124,311**	**347,454**
Earnings (loss) before income tax	6,616	(34,496)	(27,880)	102,388	(55,405)	46,983
Impairment provisions(1)	36,163	18,426	54,589	2,136	66,061	68,197
Inventory provision(1)	10,090	—	10,090	—	—	—
Employee separation program(1)(2)	26,685	—	26,685	4,775	—	4,775
Defined benefit pension curtailment(1)	8,868	—	8,868	—	—	—
Integration costs(1)	2,000	—	2,000	—	—	—
Signing bonuses(1)	722	—	722	547	—	547
Lease repossession costs(1)	—	8,970	8,970	—	3,231	3,231
Unrealized foreign exchange (gain) loss	(9,456)	8,154	(1,302)	(35,795)	(6,943)	(42,738)
Adjusted EBT(3)	**81,688**	**1,054**	**82,742**	**74,051**	**6,944**	**80,995**

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

Regional Aviation Services Analysis

Operating Income

The RAS segment reported quarterly operating income of $35.6 million an increase of $5.0 million and annual operating income of $53.1 million, a decrease of $74.6 million compared to the same periods last year.

The results for the quarter were impacted by:

- an increase in other revenue due to an increase in third-party MRO activity, part sales and contract flying;
- an increase in capitalization of major maintenance overhauls on owned aircraft of $2.8 million; and
- an increase in aircraft leasing revenue under the CPA of $0.5 million primarily due to six incremental CRJ900s, partially offset by the removal of the Dash 8-300 fleet and lower earnings of $1.1 million due to a lower US dollar exchange rate; partially offset by
- a decrease in Fixed Margin of $2.4 million in accordance with the CPA; and
- an increase in general administrative expenses attributable to increased operations.

The annual results were impacted by:

- one-time restructuring costs of $80.7 million related to the 2021 CPA Amendments as follows:
    - aircraft impairment and inventory provisions on the Dash 8-300s of $42.8 million;
    - early pilot retirement program costs of $26.3 million;
    - defined benefit pension plan curtailment of $8.9 million;
    - integration costs for the E175s of $2.0 million; and
    - signing bonuses of $0.7 million for Jazz pilots;
- a decrease in Fixed Margin of $9.5 million in accordance with the CPA; and
- an increase in general administrative expenses attributable to increased operations; partially offset by
- an increase in other revenue due to an increase in third-party MRO activity, part sales and contract flying;
- a decrease in stock-based compensation of $5.1 million due to a decrease in the Share price inclusive of the change in fair value of the Total Return Swap (refer to Section 8 - Capital Structure - Equity Price Risk);
- an increase in aircraft leasing revenue under the CPA of $3.6 million primarily due to incremental CRJ900s partially offset by the removal of the Dash 8-300 fleet and lower earnings of $8.5 million due to a lower US dollar exchange rate; and
- an increase in capitalization of major maintenance overhauls on owned aircraft of $1.9 million.

Non-Operating Expenses

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

Adjusted EBITDA

Adjusted EBITDA increased $2.6 million and decreased $5.0 million for the three months and year ended December 31, 2021, respectively compared to the same periods last year primarily due to changes described above for operating income.

Portfolio of Aircraft Leasing under the CPA

- Current fleet of 48 aircraft and five spare engines
- Current net book value of $956.6 million
- Approximately US $717.5 million in future contracted lease revenue[1]
- Current weighted average fleet age of 5.6 years[2]
- Current weighted average remaining lease term of 7.7 years[2]
- 100% debt is fixed rate
- Current weighted average cost of borrowing of 3.36%

1 Refer to Section 25 - Caution Regarding Forward-Looking Information.
2 Fleet age and remaining lease term is calculated based on the weighted-average of the aircraft net book value.

Regional Aircraft Leasing Analysis

Operating Income

The RAL segment reported an operating income of $1.0 million for the three months ended December 31, 2021, an improvement of $32.7 million compared to the same period last year.

The quarter-over-quarter results were impacted by:

- an increase in revenue due to new leases added in the second half of 2020;
- a decrease in the impairment provision of $27.4 million; and
- a decrease in the expected credit loss provision of $3.6 million; offset by
- an increase in lease repossession costs of $1.2 million; and
- a decrease in revenue due to negotiated lease amendments (including extensions) and a lower US dollar exchange rate.

The RAL segment reported an operating income of $17.8 million for the year ended December 31, 2021, an increase of $31.1 million compared to the same period last year.

The annual results were impacted by:

- a decrease in the impairment provision of $47.6 million;
- an increase in revenue due to new leases added in the second half of 2020; and
- a decrease in the expected credit loss provision of $3.4 million; partially offset by
- a decrease in revenue due to off-lease aircraft, negotiated lease amendments (including extensions) and a lower US dollar exchange rate; and
- an increase in lease repossession costs of $5.7 million.

Non-Operating Expenses

Net interest expense decreased for the three months and year ended December 31, 2021 primarily due to the repayment of certain aircraft financing and repayment of all deferred amounts owing under aircraft loans; offset by the derecognition of hedge accounting.

Adjusted EBT

Adjusted EBT increased by $8.7 million for the three months ended December 31, 2021 primarily related to additional aircraft earning leasing revenue and a decrease in the expected credit loss provision. These positive changes were partially offset by lower leasing revenue attributable to negotiated lease amendments (including extensions) and lower earnings due to a lower US dollar exchange rate.

Adjusted EBT decreased by $5.9 million for the year ended December 31, 2021 primarily related to lower leasing revenue attributable to off-lease aircraft, negotiated lease amendments (including extensions) and lower earnings due to a lower US dollar exchange rate, partially offset by additional aircraft earning leasing revenue and a decrease in the expected credit loss provision.

Portfolio

Fleet *(as at December 31, 2021)*

- Fleet of 62 aircraft[1]
- Approximately US $705.4 million in future contracted lease revenue[2]
- Current net book value of approximately US $1.1 billion
- Current weighted average fleet age of 4.8 years[3]
- The RAL segment has limited net exposure to changes in the interest rates due to its debt and contract terms of 98.1% fixed rate debt (inclusive of floating rate debt that is fixed through the use of swaps) and the remaining 1.9% floating rate debt (the majority of which have leases that float on the same basis as the debt)
- Current weighted average cost of borrowing of 3.85%

1 Executed four long-term and two short-term leases for six aircraft. The aircraft are expected to be delivered in the first half of 2022.
2 Refer to Section 25 - Caution Regarding Forward-Looking Information.
3 Fleet age is calculated based on the weighted-average of aircraft net book value.

8 CAPITAL STRUCTURE

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

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

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

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

Chorus' capital structure was as follows as at December 31, 2021 and December 31, 2020.

(expressed in thousands of Canadian dollars)	**December 31, 2021 $**	**December 31 2020 $**	**Change $**
Equity			
Capital	356,611	288,475	68,136
Contributed surplus	1,039,832	1,039,832	—
Deficit	(707,908)	(684,375)	(23,533)
Exchange differences on foreign operations	(5,243)	(5,570)	327
Equity component of Convertible Units/debentures	5,664	2,981	2,683
Warrants	1,513	—	1,513
	690,469	641,343	49,126
Long-term debt	1,903,677	2,182,606	(278,929)
Lease liabilities	10,137	11,985	(1,848)
Total capital	2,604,283	2,835,934	(231,651)

As at February 7, 2022 and December 31, 2021, the issued and outstanding Shares of Chorus were as follows:

	February 7, 2022	**December 31, 2021**
Total issued and outstanding Shares	177,650,988	177,650,988
Shares potentially issuable		
Stock-based compensation plans	2,942,664	2,942,664
Total outstanding and potentially dilutive Shares	180,593,652	180,593,652

On April 6, 2021, the Corporation issued 15,783,500 Equity Units for net proceeds of $68.6 million.

In addition, and subject to adjustment in certain circumstances:

- up to 24,242,424 Shares are issuable at a price of $8.25 per Share upon the exercise of the Stapled Warrants;
- up to 7,891,650 Shares are issuable at a price of $6.20 per Share upon the exercise of the Unit Warrants; and
- up to 11,417,322 Shares are issuable upon conversion of all of the Series B Debentures by the holders thereof.

Long-term debt

Long-term debt consists of the following:

(expressed in thousands of Canadian dollars)	December 31, 2021 $	December 31, 2020 $
Secured long-term debt and credit facilities[1]		
Amortizing term loans		
Secured by aircraft	1,334,143	1,579,555
Secured by engines	5,542	7,178
Warehouse credit facility	91,950	162,792
Nova Scotia Jobs Fund loan - secured by office building	6,000	7,000
Operating credit facility	—	30,000
6.00% Debentures	115,000	200,000
	1,552,635	1,986,525
Unsecured long-term debt[1]		
Series A Debentures	86,250	86,250
Series B Debentures	72,500	—
Series C Debentures	85,000	—
Unsecured Revolving Credit Facility	126,780	127,320
	1,923,165	2,200,095
Less:		
Deferred financing fees	(16,247)	(15,741)
Accretion discount on Convertible Units and Debentures	(3,241)	(1,748)
	1,903,677	2,182,606
Less: Current portion[2]	226,509	216,796
	1,677,168	1,965,810

(1) The majority of long-term debt is payable in US dollars and has been converted to Canadian currency at 1.2678 which was the exchange rate in effect at closing on December 31, 2021 (December 31, 2020 - 1.2732).
(2) The current portion of long-term debt in the above table includes deferred financing fees of $1.3 million for the year ended December 31, 2021 (December 31, 2020 - $3.3 million).

On September 27, 2021, Chorus issued $85.0 million aggregate principal amount of Series C Debentures which are due on June 30, 2027. The net proceeds were used to redeem $85.0 million principal amount of the 6.00% Debentures on December 31, 2021.

In the second quarter of 2021, Chorus used a portion of the net proceeds from the 2021 (April) Capital Raise of $138.1 million to repay all deferred amounts owing under aircraft loans with EDC in the amount of $33.9 million and fully repaid amortizing term loans on six aircraft financed by other lenders totaling $71.7 million (US $59.3 million). Repayment under these secured debt facilities brought the carrying value of the RAL segment's nine unencumbered aircraft to $146.8 million (US $115.8 million).

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

Amortizing term loans

Chorus' aircraft amortizing term loans are repayable in instalments, bearing fixed, floating, and floating interest fixed via swap agreements, at a weighted average rate of 3.52%, maturing between July 2022 and February 2033, each secured primarily by the aircraft and engines financed by the loans, as well as an assignment of any leases in respect thereof.

The engine loans are repayable in instalments, bearing fixed and floating interest at a weighted average rate of 4.30%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine.

Chorus' aircraft warehouse credit facility includes a series of term loans repayable in instalments, bearing floating interest at a weighted average rate of 2.85%, amortizing to January 2025, each secured primarily by the aircraft financed by the loans and a security assignment of the leases in respect thereof. Floating interest rates have been fixed via swap agreements on a portfolio basis related to these loans at a weighted average rate of 4.82%.

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

Financial Covenants under amortizing term loans

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

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

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

As at December 31, 2021, Chorus was in compliance with all of these financial covenants.

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

Convertible Units

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

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

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

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

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

24,242,424 Shares are issuable upon the exercise of all of the Warrants. Fairfax had agreed to hold the Convertible Units until at least December 31, 2019. Fairfax is no longer bound by that restriction, however, the Collateral Security will be released if Fairfax sells or otherwise disposes of any of the 6.00% Debentures.

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

Series A Debentures

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

The Series A Debentures are not convertible by the holders thereof into Shares at any time.

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

Chorus received proceeds of $82.4 million, net of $3.9 million in transaction costs associated with the offering. Transaction costs are capitalized and offset against the Series A Debentures and amortized over the life of the debentures using the effective interest rate.

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

Series B Debentures

On April 6, 2021, the Corporation issued $72.5 million aggregate principal amount of Series B Debentures, which bear interest at a rate of 6.00% per annum, and mature on June 30, 2026. Subject to adjustment in certain circumstances, the Series B Debentures are convertible at the holder's option into 157.4803 Shares per $1,000 principal amount of such debentures, initially representing a conversion price of $6.35 per Share. The net proceeds, after transactions costs, were $69.5 million. Transaction costs are capitalized and offset against the debt and equity portions of the Series B Debentures and amortized over the life of the debentures using the effective interest rate.

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

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

Series C Debentures

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

The Series C Debentures are not convertible by the holders thereof into Shares at any time.

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

Chorus received proceeds of $81.2 million, net of $3.8 million in transaction costs associated with the offering. Transaction costs are capitalized and offset against the Series C Debentures and amortized over the life of the Series C Debentures using the effective interest rate.

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

Loan facilities

<u>Operating credit facility</u>

On October 14, 2021, Chorus entered into an agreement for a three-year committed operating credit facility with The Bank of Nova Scotia as lender, sole lead arranger, bookrunner, administrative agent and issuing bank, and the

Canadian Imperial Bank of Commerce and the Bank of Montreal as lenders (the "Operating Credit Facility"). The Operating Credit Facility replaces the Prior Facility and has a maturity date of October 14, 2024. Letters of credit outstanding under the Prior Facility have been transferred to the Operating Credit Facility.

The Operating Credit Facility provides Chorus and certain designated subsidiaries including CACC, Jazz and Voyageur (collectively, the "Credit Parties") with a committed limit of up to $75.0 million, subject to a borrowing base calculation, plus a $25.0 million uncommitted accordion. Chorus has also provided letters of credit totaling $10.1 million that reduce the amount available under this facility.

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

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

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

Prior to October 14, 2021, Chorus had a three-year committed operating credit facility with a maturity date of August 30, 2022 (referred herein as the "Prior Facility"). The Prior Facility provided Chorus and certain designated subsidiaries with a committed facility of $75.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis. On October 12, 2021, Chorus repaid the balance outstanding under the Prior Facility in the amount of $30.0 million.

Warehouse credit facility

In December 2020, Chorus amended the terms of its aircraft warehouse credit facility to, among other things, cancel the remaining available credit under the facility and eliminate the associated commitment fees. The balance outstanding under this facility as at December 31, 2021 was $92.0 million (US $72.5 million).

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

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

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

The facility contains covenants that must be met on an ongoing basis. The financial covenants include a minimum amount of cash, tangible net worth, and a maximum debt to equity ratio in certain subsidiaries. As at December 31, 2021, Chorus was in compliance with these covenants.

Unsecured Revolving Credit Facility - US $100.0 million

In April 2020, the Corporation obtained the Unsecured Revolving Credit Facility. The facility has a committed availability period of two years from April 28, 2020 to April 28, 2022. The facility must be repaid over eight equal instalments of principal and interest starting in July 2022 and ending in April 2024. The facility contains customary covenants and events of default, including restrictions on share repurchases and the payment of dividends exceeding $0.48 per share per year, a mandatory prepayment upon the occurrence of a change of control of Chorus, an event of default that would be triggered upon the acceleration of Chorus indebtedness in excess of US $10.0 million and an event of default triggered upon an event of default under any other indebtedness owed by Chorus to the lender. In addition, this credit facility contains a covenant to not exceed a prescribed total leverage ratio of debt to EBITDA. The Corporations' obligations to pay principal and interest under this facility rank at least pari passu in right of payment with all unsecured and unsubordinated indebtedness. In the event that Chorus enters into an agreement with an arm's length lender, prior to April 28, 2022, pursuant to which additional unsecured indebtedness may be incurred (other than to repay, refinance, amend or modify existing indebtedness), the Corporation is required to repay this facility in an amount equal to 35% of such additional indebtedness.

Total scheduled principal payments on long-term debt on December 31, 2021, excluding unamortized deferred financing fees, are as follows:

(expressed in thousands of Canadian dollars)	$
No later than one year	227,765
Later than one year and no later than five years	1,162,841
Later than five years	532,559
	1,923,165

Covenant Default Risk

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

Chorus' largest lender currently holds approximately 61% of Chorus' consolidated long-term debt. Of this amount, the Corporation owes 11% under the Unsecured Revolving Credit Facility, CACIL owes approximately 39% under aircraft loans, the Jazz Group owes approximately 50% under aircraft loans, and Voyageur owes approximately less than 1% under aircraft loans. The Corporation's indebtedness under the Unsecured Revolving Credit Facility is cross-defaulted to any event of default under any other loan between this lender and the Corporation or any of its subsidiaries. In addition, approximately 42% of Chorus Aviation Capital's indebtedness to this lender is cross-defaulted to any payment default by Jazz Leasing (which is a member of the Jazz Group). Further, all loans with this lender extended to Chorus Aviation Capital are cross-defaulted and cross-collateralized with each other, and all loans with this lender extended to the Jazz Group are cross-defaulted and cross-collateralized with each other. Finally, all loans with Chorus' largest lender, and indeed with all lenders, contain customary event of default clauses that may be triggered when any other financial indebtedness of the borrowers or guarantors thereunder (subject to prescribed thresholds) is in default or is declared due prior to its scheduled maturity. The foregoing is a general summary only and is qualified in its entirety by the specific terms and conditions of Chorus' loan agreements.

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

Interest Rate Risk

The majority of Chorus' debt is not subject to interest rate volatility as it bears interest at fixed rates or at floating rates that are fixed via interest rate swaps. Excluding revolving debt facilities, at December 31, 2021, 98.6% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 1.4% was floating rate debt. The floating rate debt represents 63.2% and relates to aircraft for which Chorus has a variable lease rate with the underlying lessee and therefore has limited the exposure to the fluctuating rate of those loans.

Chorus has entered into interest rate swaps on certain of its amortizing term loans and its aircraft warehouse credit facility, converting a portion of its floating interest rate debt to fixed rates for the average duration of each loan and facility. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. Certain of the interest rate swaps are designated and effective as cash flow hedges.

The fair value of interest rate swaps was a $4.0 million liability at December 31, 2021 ($11.7 million liability as at December 31, 2020) and is recorded in other long-term liabilities. Changes in the fair value of effective interest rate swaps are recorded in other comprehensive income (loss) and ineffective interest rate swaps are recorded in income. During the three months and year ended December 31, 2021, Chorus recognized a gain of $1.8 million and $6.8 million related to effective interest rates swaps, respectively, net of tax in other comprehensive income (for the three months and year ended December 31, 2020 - gain of $0.8 and loss $9.2 million, respectively, net of tax). Chorus recognized a gain of $0.2 million and a loss of $1.7 million for the three months and year ended December 31, 2021, respectively, on an ineffective interest rate swap in income (for the three months and year ended December 31, 2020 - $nil). Should Chorus be required to repay loans associated with these swaps, it would also be required, in most cases to close out the related swap agreements and settle any amounts owing.

In July 2017 the U.K. Financial Conduct Authority announced that the LIBOR will be phased out by the end of 2021. At present, USD LIBOR rates will continue to be published until June 2023. Chorus' exposure to changes in LIBOR rates is confined to those loans, credit facilities, and derivative agreements that have floating rates that reference USD LIBOR and that do not mature before December 31, 2021. As at December 31, 2021, Chorus had 20 loans which totaled $320.7 million and 10 derivative agreements which referenced notional amounts totaling $168.3 million that will be impacted by the transition from USD LIBOR to alternative reference rates as they mature after December 31, 2021. Chorus continues to monitor, and plan for, the transition to alternative reference rates and does not anticipate any material impacts on its financial results (refer to Section 25 - Caution Regarding Forward-Looking Information).

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

A 1% change in the interest rate would not have a material impact on net income for the year ended December 31, 2021.

Foreign Exchange Rate Risk

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

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

The amount of US dollar denominated financial assets was $126.4 million and US denominated financial liabilities was $621.2 million at December 31, 2021. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $4.9 million. A 1¢ change in the Euro versus Canadian dollar exchange rate would not have a material impact on unrealized gains or losses.

Equity Price Risk

Chorus has equity price risk exposure to Shares that it issues under its various stock-based compensation programs. To mitigate this risk, Chorus hedges the variability of Chorus' Share price affecting settlement under its various stock-based compensation programs with a Total Return Swap. The current swap is for 3.4 million shares at $4.28 per share and matures in February 2022. Chorus does not apply hedge accounting to the Total Return Swap and as such, gains and losses arising from changes in its fair value are recognized in operating income in the period in which they arise.

The fair value of the Total Return Swap was a $3.2 million liability at December 31, 2021 and is recorded in other long-term liabilities ($8.1 million liability as at December 31, 2020 recorded in other long-term liabilities). During the year ended December 31, 2021, a corresponding loss of $1.7 million, which includes a settlement of $6.6 million, has been recorded in operating income (year ended December 31, 2020 - $13.0 million loss, including $4.2 million related to settlement). 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.

9 LIQUIDITY

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

Chorus has a number of treasury management practices designed to 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 December 31, 2021, Chorus' liquidity was $188.5 million including cash of $123.6 million and $64.9 million of available room on its operating credit facility, a decrease from the third quarter of 2021 of $69.6 million primarily due to the redemption of $85.0 million principal amount of the 6.00% Debentures which was partially offset by a reduction in restricted cash.

During the quarter, Chorus generated cash flow from operations of $48.9 million. Other key liquidity movements during the quarter are as follows:

- Increased cash by $20.1 million due to an increase in security deposits and maintenance reserves.
- Increased cash by $14.9 million due to a decrease in restricted cash.
- Decreased cash by $50.2 million due to scheduled debt repayments.
- Decreased cash by $30.0 million due to repayment of the Prior Facility.
- Decreased cash by $18.4 million due to an increase in capital expenditures.
- Decreased cash by $17.4 million due to an increase in working capital driven by an increase in the receivable from Air Canada offset by increased accounts payable.

At December 31, 2021, the Controllable Cost Guardrail receivable was $44.9 million. This amount was paid in January 2022 in accordance with the 2021 CPA Amendments.

Chorus anticipates having sufficient liquidity to fund ongoing operations, planned capital expenditures, principal and interest payments related to long-term borrowings and short-term and long-term receivables related to rent relief with its leasing customers (refer to Section 25 - Caution Regarding Forward-Looking Information).

Working Capital

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

Chorus' working capital deficit as reflected on the December 31, 2021 balance sheet was $101.6 million (December 31, 2020 - $1.8 million). The current portion of contracted aircraft operating lease receivables as at December 31, 2021 is estimated to be approximately $132.9 million converted to CAD at the December 31, 2021 rate of 1.2678. Working capital adjusted for the current portion of estimated long-term aircraft operating lease receivables reflects a surplus of approximately $31.3 million (refer to Section 25 - Caution Regarding Forward-Looking Information).

Leverage

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

Chorus' leverage ratio (measured as Adjusted net debt to trailing 12-month Adjusted EBITDA) was 5.4 as at December 31, 2021 a reduction from year ended December 31, 2020 ratio of 5.8 due to an overall reduction in long-term debt partially offset by lower Adjusted EBITDA (refer to Section 18 - Non-GAAP Financial Measures).

Cash Flows

The following table provides information on Chorus' cash flows for the three months and year ended December 31, 2021 and December 31, 2020.

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2021 $	Three months ended December 31, 2020 $	Year ended December 31, 2021 $	Year ended December 31, 2020 $
Cash provided by operating activities	48,938	56,786	184,968	156,638
Cash (used in) provided by financing activities	(165,664)	160,170	(180,925)	334,560
Cash provided by (used in) investing activities	17,141	(226,214)	(45,745)	(407,589)
Cash flow from operating, financing and investing activities	(99,585)	(9,258)	(41,702)	83,609
Effect of foreign exchange rate changes on cash	(37)	(7,386)	(442)	(5,059)
Net change in cash during the periods	(99,622)	(16,644)	(42,144)	78,550
Cash – Beginning of periods	223,195	182,361	165,717	87,167
Cash – End of periods	123,573	165,717	123,573	165,717

Cash provided by operating activities

Chorus had cash inflows from operations of $48.9 million for the three months ended December 31, 2021, compared to cash inflows from operations of $56.8 million for the three months ended December 31, 2020. The decrease was primarily due to changes in working capital related to an increase in the receivables from Air Canada and increased receivables related to rent relief arrangements; offset by increased accounts payable.

Chorus had cash inflows from operations of $185.0 million for the year ended December 31, 2021, compared to cash inflows from operations of $156.6 million for the year ended December 31, 2020. The increase was primarily due to changes in working capital related to higher accounts payable primarily due to increased operations and higher commodity taxes due to the timing of cash payments; partially offset by increased receivables from Air Canada and rent relief arrangements.

Cash (used in) provided by financing activities

Cash used in financing activities for the three months ended December 31, 2021 was $165.7 million, comprised of the redemption of $85.0 million principal amount of the 6.00% Debentures, the repayment of the Prior Facility of $30.0 million and payments on scheduled long-term borrowings of $50.2 million.

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

Cash used in financing activities for the year ended December 31, 2021 was $180.9 million, comprised primarily of payments on long-term borrowings of $421.3 million (which included scheduled payments of $200.7 million, the redemption of $85.0 million principal amount of the 6.00% Debentures, the repayment of the Prior Facility of $30.0 million, repayment of deferrals of $33.9 million and early repayments of amortizing term loans on six aircraft totaling $71.7 million), offset by net proceeds of $138.1 million related to the 2021 (April) Capital Raise, net proceeds of $81.2 million related to the issuance of the Series C Debentures and $25.1 million of borrowings, net of financing fees on a new loan related to an aircraft acquisition.

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

Cash provided by (used in) investing activities

Cash provided by investing activities for the three months ended December 31, 2021 was $17.1 million, which includes decreased restricted cash of $14.9 million and increased security deposits and maintenance reserves of $20.1 million related to leased aircraft. This was partially offset by capital expenditures of $18.4 million for the reconfiguration costs on certain off-lease and re-leased aircraft, as well as major maintenance overhauls and other capital expenditures.

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

Cash used in investing activities for the year ended December 31, 2021 was $45.7 million, which includes capital expenditures of $74.7 million for the acquisition of one aircraft and the reconfiguration costs on certain off-lease and re-leased aircraft, as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $17.9 million. This was partially offset by increased security deposits and maintenance reserves of $42.9 million related to leased aircraft and insurance proceeds of $1.7 million.

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

chorus aviation inc.

Capital expenditures

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

(expressed in thousands of Canadian dollars)	Three months ended December 31,			Year ended December 31,		
	2021 **$**	**2020** **$**	**Change** **$**	**2021** **$**	**2020** **$**	**Change** **$**
Capital expenditures, excluding aircraft acquisitions	3,340	1,840	1,500	7,019	11,727	(4,708)
Capitalized major maintenance overhauls	10,461	1,491	8,970	20,296	7,529	12,767
Aircraft acquisitions and improvements(1)(2)	4,646	225,478	(220,832)	47,392	386,881	(339,489)
Total capital expenditures	18,447	228,809	(210,362)	74,707	406,137	(331,430)

(1) 2021 includes the acquisition of one CRJ900 and reconfiguration costs on certain off-lease and re-leased aircraft.
(2) 2020 includes the acquisition of eight CRJ900s, three A220-300s and the completion of two ESPs.

Actual capitalized major maintenance overhauls of $20.3 million in 2021 were higher than anticipated expenditures of $12.0 million to $18.0 million due to additional aircraft requiring a major maintenance overhaul earlier than expected.

Commitments for capital expenditures

Chorus has no material commitments for capital expenditures.

Dividends

On April 6, 2020, Chorus suspended its monthly dividend of $0.04 per Share following the payment of the dividends payable on April 17, 2020 to Shareholders of record on March 31, 2020. Dividends are subject to the discretion of Chorus' Board of Directors, and there can be no assurance that dividends will be resumed.

Chorus did not declare dividends for the three months and year ended December 31, 2021 (three months and year ended December 31, 2020 - $nil and $19.5 million, respectively).

Contractual obligations and other commitments

Chorus has commitments related to scheduled payments of principal and interest on long-term debt and lease liabilities for the years 2022 through to 2026 and thereafter, all of which are summarized in the following table.

		Payments Due by Period			
(expressed in thousands of Canadian dollars)	**Total** $	**Within 1 year** $	**2 - 3 years** $	**4 - 5 years** $	**After 5 years** $
Long-term debt	2,206,724	305,336	822,584	510,982	567,822
Lease liabilities	11,237	4,370	5,423	694	750
	2,217,961	309,706	828,007	511,676	568,572

A significant portion of long-term debt and lease liabilities are payable in US dollars and have been converted using a foreign exchange rate of 1.2678.

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

Future lease payments from lessees under operating leases

As at December 31, 2021, Chorus has commitments from aircraft lessees related to scheduled payments under operating leases for aircraft for the years 2022 through to 2026 and thereafter, all of which are summarized in the following table:

		Payments Due by Period			
(expressed in thousands of Canadian dollars)	**Total** $	**Within 1 year** $	**2 - 3 years** $	**4 - 5 years** $	**After 5 years** $
Operating leases	1,678,029	242,315	482,069	376,316	577,329

A significant portion of lease payments are receivable in US dollars and Euro and have been converted using a foreign exchange rate of 1.2678 and 1.4416, respectively.

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

Off balance sheet arrangements and guarantees

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

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

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

10 RISK FACTORS

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

11 ECONOMIC DEPENDENCE

Chorus and Air Canada are parties to the CPA under which Air Canada currently purchases substantially all of Jazz's fleet capacity on the Covered Aircraft. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on the CPA (refer to Section 2 - About Chorus and note 21 of the audited consolidated financial statements of Chorus for the years ended December 31, 2021 and 2020).

12 CRITICAL ACCOUNTING ESTIMATES

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

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

COVID-19

The COVID-19 pandemic has led to worldwide economic uncertainty with companies around the globe trying to manage through this unprecedented, ever changing event. For the aviation industry, it led to decreased passenger demand due to strict travel restrictions and health concerns. Although the COVID-19 pandemic continues to impact airlines due to the emergence of the Omicron variant, demand for passenger air travel continued to increase throughout 2021 with the global roll-out of vaccines and proof of vaccination assisting the recovery.

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

[1] (Refer to Section 25 - Caution Regarding Forward-Looking Information.) The significant accounting policies of Chorus are described in note 3 of the audited consolidated financial statements of Chorus for the years ended December 31, 2021 and 2020.

Employee future benefits

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

- The cost of Pension Benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees. Obligations are attributed to the period beginning on the date the employee joins the plan and ending on the earlier of the date of termination, death or retirement. Actuarial gains and losses on the pension benefits are recognized in full in the period in which they occur in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the interest income on plan assets and the interest arising on the pension liability are included in salaries, wages and benefits in the statement of income.
- Other Employee Benefits consist of two categories of benefits:
    - Medical and dental benefits provided to employees while on long-term disability, and Worker's Compensation and Workers Safety Insurance Board benefits in respect of Ontario employees, are collectively referred to as other long-term benefits. The actuarial gains and losses for this component of Other Employee Benefits are charged to operating expense in the year they occur.
    - Sick leave benefits are paid to certain employees upon or just prior to retirement. The actuarial gains and losses on this component of other employee benefits are charged to other comprehensive income in the year they occur.
- The cost of the Other Employee Benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation, as applicable to each of the categories of benefits.
- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan and other employee benefit plans are recognized immediately in income.
- The registered pension plan is subject to certain minimum funding requirements. The liability, where applicable, in respect of the minimum funding requirement is determined using the projected minimum funding requirements based on actuarial forecasts. The liability in respect of the minimum funding requirement and any subsequent re-measurement of that liability is recognized in other comprehensive income without subsequent reclassification to income.

- The measurement date of each of the plans' assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement. The obligations relating to other employee benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).
- Chorus also maintains several defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable.

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

- The discount rate used to determine the pension and benefit obligation and the interest income on assets was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.
- The health care inflation used to determine cost of Other Future Employee Benefits costs is based on recent industry experience and long-term expectations. The weighted average health care inflation assumption used for the health care plans is 5.4% per annum for 2021 and 4.0% per annum for 2040 and later years.
- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, which is recognized each period through other comprehensive income.

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

	Fiscal year ended December 31, 2021	2020
Weighted average assumptions used to determine accrued benefit obligation		
- Discount rate	2.8% - 3.1%	2.0% - 2.5%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation — Select	5.3%	5.4%
- Health care inflation — Ultimate	4.0%	4.0%
- Year ultimate trend reached	2040	2040
Weighted average assumptions used to determine pension and benefit costs		
- Discount rate	2.0% - 2.5%	2.9%-3.1%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation — Select	5.4%	5.5%
- Health care inflation — Ultimate	4.0%	4.0%
- Year ultimate trend reached	2040	2040

Depreciation and amortization of long-lived assets

Management makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current fair value of the assets, Chorus' fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. These adjustments are accounted for on a prospective basis, through depreciation, amortization and impairment expense. A 10% reduction to the residual values of aircraft would result in an increase of approximately $6.7 million to annual depreciation expense.

Impairment of non-financial assets

In accordance with IAS 36 – *Impairment of Assets*, Chorus' aircraft that are to be held and used, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the aircraft may not be recoverable. Aircraft leased to third parties are not reviewed for impairment until after five years from the date of manufacture unless changes in circumstances suggest that there is an indicator of impairment. Management considers the current appraisal values, among other factors in assessing possible indicators of impairment.

For the purposes of measuring recoverable amounts, assets are grouped at the lowest level for which identifiable cash flows are largely independent of other groups of assets.

For any aircraft for which an indicator of impairment is present, management estimates the recoverable amount which is the greater of fair value less cost of disposal and value in use. An impairment charge is recorded if the estimated recoverable amount is less than the carrying amount of the assets being tested. For the three months and year ended December 31, 2021, Chorus recorded impairment provisions of $14.6 million and $54.6 million, net of recoveries, respectively (three months and year ended December 31, 2020 - $41.6 million and $68.2 million, respectively).

In assessing recoverable amounts, Chorus makes significant estimates and assumptions about the expected useful lives and the expected residual value of aircraft, supported by estimates received from independent appraisers, for the same or similar aircraft types, and considers contractual cash flows, the creditworthiness of its lessees and Chorus' anticipated utilization of the aircraft. In determining the residual value of the aircraft, Chorus also applies a future inflation rate assumption of 2.0%. The December 31, 2021 value in use was estimated by taking the present value of future cash flows obtainable as a result of an asset's continued use, including those from its ultimate disposition, discounted at 6.39% (2020 - 7.25%).

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

Impairment of financial assets

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

Chorus has entered into rent relief arrangements with substantially all its lessees. If COVID-19 and associated government restrictions continue for a prolonged period of time, the risks associated with the payment of deferred and future lease payments could significantly increase.

Chorus uses the IFRS 9 simplified approach to measure the allowance for ECL which uses a lifetime expected loss for all trade receivables, deferred receivables and long-term receivables by establishing a provision matrix that is based on Chorus' historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Significant judgements are made in determining these factors. Letters of credit and security deposits held are considered an integral part of trade receivables and considered in the calculation of impairment.

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

Due mainly to the COVID-19 pandemic and related government restrictions on travel, for the three months and year ended December 31, 2021, Chorus recorded a charge related to the allowance for expected credit loss of trade and other receivables of $nil and $5.4 million, respectively (three months and year ended December 31, 2020 - $4.2 million and $10.3 million, respectively), which is included in operating expense.

13 CHANGES IN ACCOUNTING STANDARDS

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

14 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

- Finance lease receivables

  At December 31, 2021, the finance lease receivables had a fair value of $6.5 million versus a carrying value of $6.1 million. Chorus' annual cash flows have been discounted at the relevant market interest rates.

- Amortizing term loans

  At December 31, 2021, the term loans had a fair value of $1,426.7 million versus a carrying value of $1,437.6 million, excluding deferred financing fees of $6.6 million. The fair values were calculated by discounting the future cash flow of the respective long-term debt at relevant market interest rates of similar debt instruments.

- 6.00% Debentures

  At December 31, 2021, the 6.00% Debentures had a fair value of $119.5 million versus a carrying value of $114.2 million, excluding deferred financing fees of $1.0 million. The fair value was calculated by valuing Warrants held within Convertible Units and discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

- Series A Debentures

  At December 31, 2021, the Series A Debentures had a fair value of $85.3 million versus a carrying value of $86.3 million, excluding deferred financing fees of $2.5 million. The fair value is based on quoted prices observed in active markets.

- Series B Debentures

  At December 31, 2021, the Series B Debentures had a fair value of $71.6 million versus a carrying value of $70.0 million, excluding deferred financing fees of $2.5 million. The fair value is based on quoted prices observed in active markets.

- Series C Debentures

  At December 31, 2021, the Series C Debentures had a fair value of $77.3 million versus a carrying value of $85.0 million, excluding deferred financing fees of $3.6 million. The fair value is based on quoted prices observed in active markets.

- Unsecured Revolving Credit Facility

  At December 31, 2021, the Unsecured Revolving Credit Facility had a fair value of $125.0 million versus a carrying value of $126.8 million. The fair value of Unsecured Revolving Credit Facility is calculated by discounting the future cash flow of the credit facility at a relevant market interest rate.

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- Interest rate swaps

  At December 31, 2021, the interest rate swap liabilities had a fair value and carrying value of $4.0 million. The fair value of interest rate swaps, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

- Total Return Swap

  At December 31, 2021, the Total Return Swap liability had a fair value and carrying value of $3.2 million. The fair value of Total Return Swap, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

15 PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2022 to 2026:

(expressed in thousands of Canadian dollars)	**2022** **$**	**2023** **$**	**2024** **$**	**2025** **$**	**2026** **$**
Defined benefit pension plans, current service	28,100	28,000	27,700	27,100	26,600
Defined contribution pension plans	18,400	20,200	21,300	21,500	21,900
Projected pension funding obligations	46,500	48,200	49,000	48,600	48,500

Chorus' pension funding obligations for 2021 was $24.3 million for the defined benefit pension plans and $13.5 million for the defined contribution pension plans.

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

The funding requirements for the Pilot DB Plan are based on the estimated January 1, 2022 financial position of the plan for funding purposes and an estimate of the pilot payroll over the projection period, and could differ significantly from these estimates. The estimated funding requirements for the SERP DB Plan are based on a funding policy adopted by Chorus and the January 1, 2021 financial position of the plan for funding purposes.

The solvency surplus for the Pilot DB Plan as at January 1, 2021 was $27.4 million compared to $11.3 million as at January 1, 2020.

The January 1, 2021 financial position of the Pilot DB Plan for funding purposes applies an average of the solvency ratio over a three-year period. As at January 1, 2022, the financial position of the Pilot DB Plan on a market value basis is expected to be in a small surplus, while minimum funding levels will continue to be based on an average of solvency ratios over a three-year period.

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

16 RELATED PARTY TRANSACTIONS

As at December 31, 2021, Chorus had no transactions with related parties as defined in the CPA Canada Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements or otherwise not material to Chorus and/or the individuals involved.

17 CONTROLS AND PROCEDURES

Chorus' disclosure controls and procedures ("DC&P") have been designed to provide reasonable assurance that the relevant information is recorded, processed, summarized and reported to its President and Chief Executive Officer ("CEO"), its Chief Financial Officer ("CFO") and its Disclosure Policy committee in a timely basis to ensure appropriate and timely decisions are made regarding public disclosure. Chorus' internal controls over financial reporting ("ICFR") have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

An evaluation of the design and effectiveness of Chorus' DC&P and ICFR has been conducted by management, under the supervision of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2021, Chorus' disclosure controls and procedures and internal control over financial reporting, as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, are operating effectively.

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

There has been no change in Chorus' internal control over financial reporting that occurred during the year ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, Chorus' ICFR.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A and the consolidated financial statements of Chorus for December 31, 2021 and approved these documents prior to their release.

18 NON-GAAP FINANCIAL MEASURES

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

Adjusted Net Income, Adjusted EBT and Adjusted EBITDA

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

Adjusted net income and Adjusted net income per Share are used by Chorus to assess performance without the effects of unrealized foreign exchange gains or losses on long-term debt and lease liability related to aircraft, signing bonuses, employee separation program costs, impairment provisions, lease repossession costs net of security packages realized, Dash 8-300 inventory provision, defined benefit pension curtailment, integration costs, strategic advisory fees and the applicable tax expense (recovery). Chorus manages its exposure to currency risk on such long-term debt by billing the lease payments within the CPA in the underlying currency (US dollars) related to the aircraft debt. These items are excluded because they affect the comparability of Chorus' financial results, period-over-period, and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are non-recurring due to ongoing currency fluctuations between the Canadian and US dollar (refer to Section 25 - Caution Regarding Forward-Looking Information).

Chorus revised its definition of Adjusted EBT and Adjusted EBITDA in the first quarter of 2021 to include the Dash 8-300 inventory provision, the defined benefit pension curtailment resulting from the pilot early retirement program and integration costs related to the 2021 CPA Amendments to facilitate comparability of its results. Adjusted EBT and EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements.

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

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

(expressed in thousands of Canadian dollars, except per Share amounts)	Three months ended December 31, 2021 $	2020 $	Change $	Year ended December 31, 2021 $	2020 $	Change $
Net income (loss)	**10,159**	**9,157**	**1,002**	**(20,485)**	**41,486**	**(61,971)**
Add (Deduct) items to get to Adjusted net income						
Impairment provisions[1]	14,593	41,583	(26,990)	54,589	68,197	(13,608)
Inventory provision[1]	1,000	—	1,000	10,090	—	10,090
Employee separation program[1][2]	(34)	436	(470)	26,685	4,775	21,910
Defined benefit pension curtailment[1]	—	—	—	8,868	—	8,868
Integration costs[1]	—	—	—	2,000	—	2,000
Signing bonuses[1]	1	547	(546)	722	547	175
Lease repossession costs[1]	1,724	498	1,226	8,970	3,231	5,739
Unrealized foreign exchange gain	(3,324)	(38,703)	35,379	(1,302)	(42,738)	41,436
Tax recovery on adjusted items	(2,663)	(5,851)	3,188	(26,247)	(11,457)	(14,790)
	11,297	(1,490)	12,787	84,375	22,555	61,820
Adjusted net income	**21,456**	**7,667**	**13,789**	**63,890**	**64,041**	**(151)**
Adjusted net income per Share - basic	**0.12**	**0.05**	**0.07**	**0.37**	**0.40**	**(0.03)**
Add items to get to Adjusted EBT						
Income tax expense (recovery)	3,090	(3,940)	7,030	(7,395)	5,497	(12,892)
Tax recovery on adjusted items	2,663	5,851	(3,188)	26,247	11,457	14,790
Adjusted EBT	**27,209**	**9,578**	**17,631**	**82,742**	**80,995**	**1,747**
Add (Deduct) items to get to Adjusted EBITDA						
Net interest expense	24,565	23,493	1,072	96,333	90,774	5,559
Depreciation and amortization excluding impairment	36,615	40,125	(3,510)	146,537	156,157	(9,620)
Foreign exchange loss	2,425	7,406	(4,981)	5,897	17,582	(11,685)
(Gain) loss on disposal of property and equipment	(7)	1,370	(1,377)	(1,725)	1,946	(3,671)
Other	(344)	—	(344)	(344)	—	(344)
	63,254	72,394	(9,140)	246,698	266,459	(19,761)
Adjusted EBITDA	**90,463**	**81,972**	**8,491**	**329,440**	**347,454**	**(18,014)**

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

Adjusted Net Debt to Adjusted EBITDA

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

(expressed in thousands of Canadian dollars)	**December 31, 2021** **$**	**December 31, 2020** **$**	**Change** **$**
Long-term debt (including current portion)	1,913,814	2,194,591	(280,777)
Less:			
Cash	(123,573)	(165,717)	42,144
Restricted cash[(1)]	(10,353)	(6,844)	(3,509)
Net debt	1,779,888	2,022,030	(242,142)
Adjusted net debt	1,779,888	2,022,030	(242,142)
Adjusted EBITDA	329,440	347,454	(18,014)
Leverage ratio	5.4	5.8	(0.4)

(1) The 6.00% Debentures are secured primarily by certain Dash 8-100s and Dash 8-300s. A restricted cash placement of US $8.0 million (2020 - US $ 5.4 million), in accordance with the terms of the agreement, relates to the release of the security on one Dash 8-300 in the third quarter of 2021 and one Dash 8-300 in 2019. The restricted cash will become unrestricted once the 6.00% Debentures are fully redeemed (refer to Section 8 - Capital Structure).

Adjusted net debt is a non-GAAP financial measure used by Chorus and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of capital management by Chorus and provides management with a measure of its net indebtedness.

As at December 31, 2021, Adjusted net debt decreased by $242.1 million or 12.0% from December 31, 2020. The decrease was primarily related to $204.7 million in scheduled payments on long-term borrowings and lease liabilities, the redemption of $85.0 million principal amount of the 6.00% Debentures, the repayment of the operating credit facility of $30.0 million, early repayments of amortizing term loans on six aircraft totaling $71.7 million, repayment of deferrals of $33.9 million and the impact of foreign exchange which decreased long-term debt by approximately $44.2 million, offset by net proceeds of $81.2 million from the issuance of the Series C Debentures, net proceeds of $66.8 million from the issuance of the Series B Debentures and increased secured long-term borrowings of $25.1 million, net of financing fees for a new loan related to one aircraft acquisition.

Adjusted EBITDA decreased for the 12-months December 31, 2021 primarily due to lower lease revenue attributable to off-lease aircraft, negotiated lease amendments (including extensions) and decreased earnings due to a lower US dollar exchange rate in the RAL segment; offset by increased revenue due to new leases added in the second half of 2020 in the RAL segment, increased aircraft leasing revenue under the CPA and increased other revenue due to increased third-party MRO activity, part sales and contract flying.

Chorus' leverage ratio (Adjusted net debt to trailing 12-month Adjusted EBITDA) was 5.4 as at December 31, 2021 (December 31, 2020 - 5.8). Leverage decreased for December 31, 2021 compared to year ended December 31, 2020, primarily related to an overall reduction in long-term debt partially offset by lower Adjusted EBITDA.

Adjusted Cash Provided by Operating Activities

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

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
(expressed in thousands of Canadian dollars)	$	$	$	$	$	$
Cash provided by operating activities	48,938	56,786	(7,848)	184,968	156,638	28,330
Add (Deduct)						
Net changes in non-cash balances related to operations	17,377	16,466	911	3,318	104,670	(101,352)
Capital expenditures, excluding aircraft acquisitions	(3,340)	(1,840)	(1,500)	(7,019)	(11,727)	4,708
Capitalized major maintenance overhauls	(10,461)	(1,491)	(8,970)	(20,296)	(7,529)	(12,767)
Adjusted cash provided by operating activities	**52,514**	**69,921**	**(17,407)**	**160,971**	**242,052**	**(81,081)**

Adjusted cash provided by operating activities was negatively impacted on a year-to-date basis by:

- the one-time restructuring costs of $37.9 million related to the 2021 CPA Amendments, excluding the non-cash impairment and inventory provisions of $42.8 million related to the Dash 8-300s;
- lower lease revenue attributable to off-lease aircraft and negotiated lease amendments (including extensions); and
- lower aircraft leasing revenue under the CPA of $8.5 million related to a lower US dollar exchange rate; offset by
- an increase in revenue due to new leases added in the RAL segment;
- increased other revenue due to an increase in third-party MRO activity, part sales and contract flying; and
- increased aircraft leasing revenue under the CPA due to the incremental CRJ900s.

Return on Invested Capital

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

	Trailing 12-months ended		
(expressed in thousands of Canadian dollars)	**December 31, 2021 $**	**December 31, 2020 $**	**Change $**
(Loss) income before income taxes	(27,880)	46,983	(74,863)
Unrealized foreign exchange gain	(1,302)	(42,738)	41,436
	(29,182)	4,245	(33,427)
Add:			
Finance costs	97,213	91,782	5,431
	68,031	96,027	(27,996)
Invested capital:			
Average long-term debt[1]	2,043,142	2,002,868	40,274
Average lease liabilities[2]	11,061	14,151	(3,090)
Average Shareholders' equity	665,906	623,168	42,738
	2,720,109	2,640,187	79,922
Return on invested capital	2.5%	3.6%	(1.1)%

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

During the trailing 12-months ended December 31, 2021, the average return on invested capital decreased from 3.6% to 2.5% primarily due to one-time restructuring costs related to the 2021 CPA Amendments of $80.7 million.

19 SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Chorus								
Total revenue ($000)	346,516	274,399	199,873	202,487	218,166	196,618	184,006	349,931
Net income (loss) ($000)	10,159	(14,082)	21,517	(38,079)	9,157	20,458	29,165	(17,294)
Adjusted net income(1) ($000)	21,456	15,310	11,380	15,744	7,667	10,908	21,644	23,822
Adjusted EBITDA(1) ($000)	90,463	78,081	76,855	84,041	81,972	85,859	91,042	88,581
Net income (loss) per Share, basic ($)	0.06	(0.08)	0.12	(0.24)	0.06	0.13	0.18	(0.11)
Net income (loss) per Share, diluted ($)	0.06	(0.08)	0.12	(0.24)	0.06	0.12	0.18	(0.11)
Adjusted net income,(1) per Share - basic ($)	0.12	0.09	0.06	0.10	0.05	0.07	0.13	0.15
FTE employees (end of period)	4,426	4,175	3,114	2,567	2,875	2,810	2,164	4,973
Number of aircraft (end of period)	234	234	234	209	212	208	214	211
Average foreign exchange rates (USD-CAD)	1.2602	1.2596	1.2284	1.2668	1.3040	1.3321	1.3868	1.3423
Jazz								
Departures	39,014	30,820	11,806	8,924	13,145	13,788	4,894	50,817
Block Hours	64,403	49,890	18,025	12,681	19,222	20,447	6,776	77,454
Billable Block Hours	66,400	51,250	21,039	15,478	24,246	26,194	38,187	90,499

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

20 SELECTED ANNUAL INFORMATION

The following table provides selected annual information for Chorus for the years 2019 through to 2021.

	Year ended December 31,		
	2021	2020	2019
(expressed in thousands of Canadian dollars, except per Share amounts)	$	$	$
Revenue	1,023,275	948,721	1,366,447
Operating income	70,979	114,547	200,463
Net (loss) income	(20,485)	41,486	133,160
Cash	123,573	165,717	87,167
Total assets	3,180,517	3,337,686	2,945,694
Total long-term liabilities	2,038,373	2,315,988	1,969,637
Dividends declared	—	19,520	76,315
Cash provided by operating activities	184,968	156,638	261,707
Per Share			
Operating income, basic	0.41	0.71	1.28
Net (loss) income, basic	(0.12)	0.26	0.85
Net (loss) income, diluted	(0.12)	0.25	0.84
Dividends declared	—	0.12	0.48

2021 Compared to 2020

The 2021 results compared to the 2020 results are discussed throughout the MD&A.

Revenue increased in the RAS segment due to the increase in Controllable Cost Revenue and Pass-Through Revenue as a result of increased flying activity and increased other revenue due to increased third-party MRO activity, part sales and contract flying. The RAS segment's increased revenue was partially offset by decreased revenue in the RAL segment which was attributable to the loss of revenue due to off-lease aircraft, negotiated lease amendments (including extensions) and lower earnings due to a lower US dollar exchange rate, partially offset by an increase in aircraft earning lease revenue over the prior period.

Operating income decreased due to one-time restructuring costs related to the 2021 CPA Amendments, higher salaries, wages and benefits due to higher FTEs and a decrease in the CEWS government grant, increased engine overhaul maintenance events, increased Pass-Through Costs and increased lease repossession costs. These increases were offset by lower impairment and expected credit loss provisions and stock-based compensation.

Net income decreased due to the decreased operating income as discussed above, unrealized foreign exchange losses due to a change in the foreign exchange rate, additional interest expense primarily related to new debentures offset by lower income tax.

Cash decreased due to repayment of long-debt debt offset by new debentures issued and cash flows from operations.

Total assets decreased due to the decrease in cash as discussed above and a decrease in property and equipment resulting from normal amortization of assets as well as impairment provisions, offset by increased receivables related to rent relief arrangements in the RAL segment and increased Air Canada receivable in the RAS segment.

Total long-term liabilities decreased due to scheduled repayments on long-term borrowings, early repayment of amortizing term loans on six aircraft, redemption of the 6.00% Debentures and a change in the foreign exchange rate on long-term debt offset by the issuance of new debentures.

2020 Compared to 2019

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

Revenue decreased in the RAS segment due to the decline in Controllable Cost Revenue, Pass-Through Revenue and other revenue due to decreased third-party MRO activity, reduced part sales and reduced contract flying as a result of the economic impact of COVID-19, partially offset by increased revenue in the RAL segment attributable to an increase in aircraft earning lease revenue over the prior period; partially offset by the loss of revenue from 13 off-lease aircraft.

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

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

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

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

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

21 REGIONAL AVIATION SERVICES REVENUE

(expressed in thousands of Canadian dollars)	Three months ended December 31,				Year ended December 31,			
	2021	**2020**	**Change**	**Change**	**2021**	**2020**	**Change**	**Change**
	$	**$**	**$**	**%**	**$**	**$**	**$**	**%**
Controllable Cost Revenue	181,636	91,576	90,060	98.3	462,036	419,644	42,392	10.1
Pass-Through Revenue	55,297	18,235	37,062	203.2	133,912	97,685	36,227	37.1
Fixed Margin	16,430	18,810	(2,380)	(12.7)	65,720	75,240	(9,520)	(12.7)
Incentive Revenue	825	752	73	9.7	2,372	2,363	9	0.4
	254,188	129,373	124,815	96.5	664,040	594,932	69,108	11.6
Aircraft leasing under the CPA	36,121	35,592	529	1.5	143,385	139,817	3,568	2.6
Other[(1)]	23,186	19,159	4,027	21.0	85,724	66,587	19,137	28.7
	313,495	184,124	129,371	70.3	893,149	801,336	91,813	11.5

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

22 CONSOLIDATED STATEMENTS OF (LOSS) INCOME

(expressed in thousands of Canadian dollars)	Year ended December 31, 2021 $	2020 $
Operating revenue	1,023,275	948,721
Operating expenses		
Salaries, wages and benefits	366,095	312,978
Depreciation, amortization and impairment	201,126	224,354
Aircraft maintenance materials, supplies and services	136,314	102,362
Airport and navigation fees	106,460	69,438
Terminal handling services	7,648	9,470
Other	134,653	115,572
	952,296	834,174
Operating income	70,979	114,547
Non-operating (expenses) income		
Interest revenue	880	1,008
Interest expense	(97,213)	(91,782)
Gain (loss) on disposal of property and equipment	1,725	(1,946)
Foreign exchange (loss) gain	(4,595)	25,156
Other	344	—
	(98,859)	(67,564)
(Loss) income before income taxes	(27,880)	46,983
Income tax recovery (expense)		
Current income tax	(6,831)	6,817
Deferred income tax	14,226	(12,314)
	7,395	(5,497)
Net (loss) income	(20,485)	41,486

23 ADDITIONAL INFORMATION

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

24 GLOSSARY OF TERMS

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

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

"**2021 (April) Capital Raise**" means the issuance of Equity Units and Series B Debentures which closed on April 6, 2021;

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

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

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

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

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

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

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

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

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

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

"**Chorus Aviation Capital**" or "**CAC**" means CACC and its subsidiaries;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Extended Service Program**" or "**ESP**" refers to the life extension program for extending the service life of Dash 8-300s by 50% (or approximately 15 years);

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Shareholders**" mean holders of Shares;

"**Shares**" mean the Class B Voting Shares and Class A Variable Voting Shares in the capital of the Corporation;

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

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

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

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

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

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

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

25 CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

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