chorus
aviation inc.

First Quarter 2022

Unaudited Interim Condensed Consolidated Financial Statements

March 31, 2022

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at March 31, 2022 $	As at December 31, 2021 $
Assets		
Current assets		
Cash	110,029	123,573
Accounts receivable – trade and other	154,595	135,438
Inventories	78,098	76,235
Prepaid expenses and deposits	15,978	12,159
Current portion of finance lease receivables	2,505	2,485
Income tax receivable	154	157
	361,359	350,047
Restricted cash (note 13)	43,779	54,873
Finance lease receivables	2,937	3,641
Property and equipment	2,531,980	2,589,087
Intangibles	1,681	1,681
Goodwill	7,150	7,150
Deferred income tax asset	5,082	6,661
Other long-term assets	164,484	167,377
	3,118,452	3,180,517
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	231,549	217,804
Current portion of lease liabilities	3,707	3,801
Current portion of long-term incentive plan	2,489	911
Current portion of long-term debt	250,383	226,509
Income tax payable	3,804	2,650
	491,932	451,675
Lease liabilities	5,329	6,336
Long-term debt	1,579,746	1,677,168
Deferred income tax liability	194,321	195,996
Other long-term liabilities	138,501	158,873
	2,409,829	2,490,048
Equity	708,623	690,469
	3,118,452	3,180,517

Contingencies (note 11)
Economic dependence (note 12)
Subsequent events (note 14)

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Exchange differences on foreign operations $	Contributed surplus $	Warrants $	Equity component of convertible units/ debentures $	Total $
Balance - December 31, 2020	288,475	(684,375)	(5,570)	1,039,832	—	2,981	641,343
Net loss for the period	—	(38,079)	—	—	—	—	(38,079)
Other comprehensive loss for the period (net of tax)	—	(226)	(6,861)	—	—	—	(7,087)
Comprehensive loss for the period	—	(38,305)	(6,861)	—	—	—	(45,166)
Balance - March 31, 2021	288,475	(722,680)	(12,431)	1,039,832	—	2,981	596,177
Net income for the period	—	17,594	—	—	—	—	17,594
Other comprehensive (loss) income for the period (net of tax)	—	(2,822)	7,188	—	—	—	4,366
Comprehensive income for the period	—	14,772	7,188	—	—	—	21,960
Issuances of shares, net of transaction costs and related tax	68,135	—	—	—	—	—	68,135
Warrants exercised	1	—	—	—	(1)	—	—
Issuance of convertible debentures, net of transaction costs	—	—	—	—	—	2,683	2,683
Warrants issued, net of transaction costs	—	—	—	—	1,514	—	1,514
Balance - December 31, 2021	356,611	(707,908)	(5,243)	1,039,832	1,513	5,664	690,469
Net income for the period	—	22,907	—	—	—	—	22,907
Other comprehensive income (loss) for the period (net of tax)	—	3,918	(8,671)	—	—	—	(4,753)
Comprehensive income (loss) for the period	—	26,825	(8,671)	—	—	—	18,154
Balance - March 31, 2022	356,611	(681,083)	(13,914)	1,039,832	1,513	5,664	708,623

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

chorus aviation inc.

Unaudited Consolidated Statements of Income (Loss)

For the three-month periods ended March 31, 2022 and 2021

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

	Three months ended March 31, 2022 $	Three months ended March 31, 2021 $
Operating revenue (note 12)	342,380	202,487
Operating expenses (note 12)		
Salaries, wages and benefits	120,133	100,567
Depreciation, amortization and impairment (note 4)	36,649	71,459
Aircraft maintenance materials, supplies and services	63,998	29,885
Airport and navigation fees	33,649	9,494
Terminal handling services	3,712	923
Other	40,927	27,055
	299,068	239,383
Operating income (loss)	43,312	(36,896)
Non-operating (expenses) income		
Interest revenue	144	135
Interest expense	(20,198)	(24,991)
Foreign exchange gain	4,449	4,754
	(15,605)	(20,102)
Income (loss) before income taxes	27,707	(56,998)
Income tax (expense) recovery (note 7)		
Current income tax	(5,383)	(1,501)
Deferred income tax	583	20,420
	(4,800)	18,919
Net income (loss)	22,907	(38,079)
Income (loss) share, basic	0.13	(0.24)
Income (loss) per share, diluted	0.13	(0.24)

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

Unaudited Consolidated Statements of Comprehensive Income (Loss)
For the three-month periods ended March 31, 2022 and 2021

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2022 $	Three months ended March 31, 2021 $
Net income (loss)	22,907	(38,079)
Other comprehensive income (loss)		
Items that will not be subsequently reclassified to the statements of income		
Actuarial loss on employee benefit liabilities, net of tax recovery of $99 (2021 - $1,517)	(266)	(4,109)
Items that will be subsequently reclassified to the statements of income		
Change in fair value of financial assets and liabilities, net of tax expense of $597 (2021 - $257)	4,184	3,883
Exchange differences on translation of foreign operations (note 10)	(8,671)	(6,861)
Comprehensive income (loss)	18,154	(45,166)

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

Unaudited Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2022 and 2021

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2022 $	2021 $
Cash provided by (used in)		
Operating activities		
Net income (loss)	22,907	(38,079)
Charges (credits) to operations not involving cash		
Depreciation, amortization and impairment	36,649	71,459
Inventory provision	—	9,090
Amortization of accrued transaction and financing fees	1,095	981
Unrealized foreign exchange gain	(7,680)	(7,013)
Realized foreign exchange loss	1,676	1,673
Effect of foreign exchange rate changes on cash	857	1,663
Deferred income tax recovery	(583)	(20,420)
Other	706	410
	55,627	19,764
Net changes in non-cash balances related to operations (note 13)	(14,096)	18,468
	41,531	38,232
Financing activities		
Repayment of lease liabilities	(998)	(917)
Repayment of long-term borrowings	(44,647)	(56,002)
Long-term borrowings, net of financing fees	(156)	25,089
	(45,801)	(31,830)
Investing activities		
(Decrease) increase in security deposits and maintenance reserves	(7,169)	5,324
Additions to property and equipment	(11,635)	(36,628)
Payments received on finance lease receivables	605	553
Decrease (increase) in restricted cash	10,256	(2,982)
	(7,943)	(33,733)
Effect of foreign exchange rate changes on cash	(1,331)	(2,399)
Net change in cash during the periods	(13,544)	(29,730)
Cash – Beginning of periods	123,573	165,717
Cash – End of periods	110,029	135,987

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

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

1 General information

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

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

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

Contract flying is currently Chorus' primary business and these flying operations are conducted through both its Jazz Aviation LP ("Jazz") and Voyageur Aviation Corp. ("Voyageur") subsidiaries. Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and transborder network. Jazz and Air Canada are parties to an amended and restated capacity purchase agreement dated January 1, 2015, most recently amended effective January 1, 2021 and previously amended and restated on January 1, 2019 (the "CPA"), under which Air Canada purchases substantially all of Jazz's fleet capacity at pre-determined rates. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on Air Canada (refer to note 12 - Economic dependence for further details). Jazz also operates charter flights for a variety of customers. Voyageur provides specialized contract ACMI (aircraft, crew, maintenance and insurance) flying, such as medical, logistical and humanitarian flights, to international and domestic customers.

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

2 Basis of presentation

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

These financial statements have been authorized for issuance by Chorus' Board of Directors on May 5, 2022.

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

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

Critical accounting estimates and judgements

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

COVID-19

Although the novel strain of the coronavirus ("COVID-19") pandemic continues to adversely impact demand for passenger air travel, demand for passenger air travel continued to show improvements during the first quarter of 2022 aided by increasing vaccination rates and the relaxation of travel restrictions. However, the COVID-19 pandemic and its adverse effect on passenger air travel could be prolonged if new variants of concern were to emerge. Therefore, any estimate of the length and severity of the pandemic is subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect Chorus' operations, financial results and condition in future periods are also subject to significant uncertainty.

Operating revenue

In accordance with the CPA, Chorus and Air Canada are in the process of re-setting certain Controllable Cost Revenue rates for the year ending December 31, 2022. Pending the settlement of those rates, Chorus has used interim rates for certain Controllable Costs to estimate CPA operating revenues during the three-month period ended March 31, 2022. Once the new rates are established, Chorus and Air Canada will reconcile amounts already recorded to the new, agreed rates retroactive to January 1, 2022. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. Given the nature of the Controllable Cost Guardrail, Chorus' exposure to variances between the Controllable Cost Revenue Chorus receives from Air Canada to cover annually negotiated Controllable Costs and Chorus' actual Controllable Costs incurred in performing its services for Air Canada is limited to $2,000 annually.

4 Segmented information

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

Chorus has two reportable operating segments:

- The Regional Aviation Services segment includes contract flying, charter operations and maintenance, repair and overhaul services that are carried on by both Jazz and Voyageur. This segment also includes corporate expenses on various debt instruments, such as interest on the 6.00% Debentures, the Series A Debentures, the Series B Debentures, the Series C Debentures, unsecured revolving credit facility and operating credit facility, executive and stock-based compensation and professional fees. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment as it is an important part of the CPA. Aircraft leasing under the CPA currently includes 34 Dash 8-400s and 14 CRJ900s as well as five engines which are owned by Chorus.
- The Regional Aircraft Leasing segment leases aircraft to third parties through CAC. Its current portfolio of leased aircraft includes 58 aircraft comprising 19 ATR72-600s, 22 Dash 8-400s, four CRJ1000s, two CRJ900s, four E190s, two E195s and five A220-300s. CAC owns four aircraft that are currently off-lease. Chorus' intention with respect to aircraft currently off-lease is to remarket them for lease.

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

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

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

A significant customer is one that represents 10% or more of each segment revenue earned during the period. For the three months ended March 31, 2022 and March 31, 2021, the Regional Aviation Services segment reported revenue from one significant customer. See note 12 "Economic dependence" for a discussion of transactions between Chorus and Air Canada, and its subsidiary (Air Canada Capital Ltd.). For the three months ended March 31, 2022, there were six leasing customers (2021 - five) that represented 10% or more of the Regional Aircraft Leasing segment revenue.

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

4 Segmented information (continued)

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

	For the three months ended March 31, 2022			For the three months ended March 31, 2021		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Operating revenue	306,559	35,821	342,380	167,760	34,727	202,487
Operating expenses	278,082	20,986	299,068	215,191	24,192	239,383
Operating income (loss)	28,477	14,835	43,312	(47,431)	10,535	(36,896)
Net interest expense	(12,179)	(7,875)	(20,054)	(11,989)	(12,867)	(24,856)
Foreign exchange gain (loss)	7,682	(3,233)	4,449	9,078	(4,324)	4,754
Earnings (loss) before income tax	**23,980**	**3,727**	**27,707**	**(50,342)**	**(6,656)**	**(56,998)**
Income tax (expense) recovery	(3,792)	(1,008)	(4,800)	18,264	655	18,919
Net income (loss)	**20,188**	**2,719**	**22,907**	**(32,078)**	**(6,001)**	**(38,079)**

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

	For the three months ended March 31, 2022		For the three months ended March 31, 2021	
	Regional Aviation Services	Regional Aircraft Leasing	Regional Aviation Services	Regional Aircraft Leasing
	$	$	$	$
Operating income (loss) - as reported above	**28,477**	—	**(47,431)**	—
Depreciation and amortization excluding impairment(1)	20,392	—	20,405	—
Impairment provisions(1)	—	—	33,663	—
Inventory provision(1)	—	—	9,090	—
Employee separation program(1)(2)	—	—	26,716	—
Defined benefit pension curtailment(1)	—	—	9,975	—
Integration costs(1)	—	—	2,000	—
Signing bonuses(1)	—	—	707	—
Strategic advisory fees(1)	2,673	—	—	—
Adjusted EBITDA(3)	**51,542**	—	**55,125**	—
Income (loss) before income tax	—	**3,727**	—	**(6,656)**
Unrealized foreign exchange loss	—	2,973	—	4,111
Lease repossession costs(1)(4)	—	646	—	990
Adjusted EBT(3)	—	**7,346**	—	**(1,555)**

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

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

4 Segmented information (continued)

Selected assets and liability information by reportable operating segment:

	As at March 31, 2022			As at December 31, 2021		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Additions to property and equipment, net of deposits applied[1]	7,062	4,573	11,635	50,659	24,048	74,707
Property and equipment	1,175,736	1,356,244	2,531,980	1,189,323	1,399,764	2,589,087
Long-term debt (excluding lease liabilities)	1,032,636	797,493	1,830,129	1,065,515	838,162	1,903,677

(1) Excludes non-cash transactions of foreign currency adjustments of $31,836 (December 31, 2021 - $42,676).

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

	Three months ended March 31,			
	2022		2021	
	$	%	$	%
Canada	306,559	89.5%	167,760	82.8%
Other[1]	35,821	10.5%	34,727	17.2%
	342,380	100.0%	202,487	100.0%

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

	As at March 31, 2022		As at December 31, 2021	
	$	%	$	%
Canada	1,175,736	46.4%	1,189,323	45.9%
Other[1][2]	1,356,244	53.6%	1,399,764	54.1%
	2,531,980	100.0%	2,589,087	100.0%

(1) The other country classification for both revenue and property and equipment is 100% Regional Aircraft Leasing.
(2) India is the one country included in other that represents more than 10% of total assets.

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

5 Revenue from contracts with customers

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes other sources of revenue relating to lease income (including any rights to use specified aircraft that have been identified as lease revenues embedded in the CPA and contract flying service agreements) of $77,103 for the three months ended March 31, 2022 (for the three months ended March 31, 2021 - $73,018). Revenue is disaggregated primarily by nature and category in the underlying contract.

	Three months ended March 31,	
	2022	2021
	$	$
Controllable cost revenue	186,092	79,085
Fixed margin (1)	16,580	16,430
Incentive revenue	680	527
CPA pass-through revenue	43,233	12,390
Other	18,692	21,037
	265,277	129,469

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

6 Credit facilities

Operating credit

On October 14, 2021, Chorus entered into a three-year committed operating credit facility with a maturity date of October 14, 2024. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of up to $75,000, subject to a borrowing base calculation, plus a $25,000 uncommitted accordion. Chorus has also provided letters of credit totaling $10,272 that reduce the amount available under this facility. This facility replaced Chorus' three-year committed operating credit facility maturing on August 30, 2022.

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

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

The operating credit facility is secured by all present and after-acquired personal property of the Credit Parties, excluding certain specified assets which include aircraft and engines and the equity securities of CAC and its subsidiaries. It contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio. As at March 31, 2022, Chorus was in compliance with this covenant. Any outstanding balance under this facility is immediately repayable if Chorus undergoes a change in control without the lender's consent.

6 Credit facilities (continued)

Warehouse credit facility

In December 2020, Chorus amended the terms of this facility, to among other things, cancel the remaining available credit under the facility and eliminate the associated commitment fees. The balance outstanding under the facility at March 31, 2022 was $88,220 (US $70,598).

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

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

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

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

Unsecured revolving credit facility

On April 28, 2020, Chorus obtained a US $100,000 unsecured revolving credit facility for general corporate purposes. The facility bears interest at a rate of US dollar LIBOR rate plus 5.00%. On December 24, 2020, Chorus amended the terms of this facility such that amounts drawn on the facility will be repayable in eight quarterly instalments starting in July 2022 and ending in April 2024. The facility contains customary covenants and events of default, including restrictions on share repurchases and the payment of dividends exceeding $0.48 per share per year, a mandatory prepayment upon the occurrence of a change of control of Chorus, an event of default that would be triggered upon the acceleration of Chorus indebtedness in excess of US $10,000 and an event of default triggered upon an event of default under any other indebtedness owed by Chorus to the lender. In addition, this credit facility contains a covenant to not exceed a prescribed total leverage ratio of debt to EBITDA. Chorus' obligations to pay principal and interest under this facility rank at least pari passu in right of payment with all unsecured and unsubordinated indebtedness. Prior to April 28, 2022, in the event that Chorus entered into an agreement with an arm's length lender, pursuant to which additional unsecured indebtedness was incurred (other than to repay, refinance, amend or modify existing indebtedness), Chorus was required to repay this facility in an amount equal to 35% of such additional indebtedness.

The balance outstanding under this facility at March 31, 2022 was $124,960 (US $100,000). As at March 31, 2022, Chorus was in compliance with these financial covenants.

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

7 Income taxes

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

	Three months ended March 31, 2022 $	2021 $
Income (loss) before income tax	27,707	(56,998)
Income tax expense (recovery) at the statutory tax rates(1)	6,874	(14,510)
Recognition of previously unrecognized cumulative eligible capital	(1,346)	(1,446)
Net impact of capital items(2)	(1,951)	(2,438)
Non-deductible expenses and other	1,223	(525)
Income tax expense (recovery)	4,800	(18,919)
Effective tax rate	17.3%	33.2%

(1) Chorus uses weighted average statutory tax rates for each of the individual entities based on the jurisdiction in which the entity is taxable. The majority of Chorus' income is earned in Canada and Ireland which have average statutory tax rates of 27.0% and 12.5%, respectively.

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

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $279,980 as at March 31, 2022, related to capital cost allowance on eligible capital property. In accordance with the initial recognition exemption, as outlined in IAS 12 *Income taxes*, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three months ended March 31, 2022 and March 31, 2021, Chorus utilized a total of $4,987 ($1,346 tax effected) and $5,362 ($1,446 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

8 Dividends

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

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

9 Capital stock

a) Common shares

Authorized:

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

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

Issued and outstanding:

	Number of Shares	$
Shares issued and outstanding December 31, 2020	**161,867,388**	**288,475**
Shares issued through public offering	15,783,500	68,135
Shares issued through exercise of warrants	100	1
Shares issued and outstanding December 31, 2021	**177,650,988**	**356,611**
Shares issued and outstanding March 31, 2022	**177,650,988**	**356,611**

Public offering

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

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

b) Warrants

	Number of warrants	$
Outstanding, December 31, 2020	24,242,424	—
Warrants issued pursuant to public offering	7,891,750	1,578
Less: warrant transaction costs	—	(64)
Warrants exercised	(100)	(1)
Outstanding, December 31, 2021	32,134,074	1,513
Outstanding, March 31, 2022	32,134,074	1,513

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

9 Capital stock (continued)

As at March 31, 2022, Chorus had the following warrants outstanding:

Number of warrants	Exercise Price[(1)]	Expiry Date
24,242,424	8.25	December 31, 2024
7,891,650	6.20	April 6, 2022

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

c) Preferred shares

Authorized:

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

As at March 31, 2022, there were no issued and outstanding Preferred Shares.

d) Earnings per share

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

	Three months ended March 31,	
	2022 $	2021 $
Numerator		
Income (loss)	22,907	(38,079)
Denominator		
Weighted average number of shares	177,650,988	161,867,388
Weighted average dilutive shares	2,147,826	—
Weighted average number of diluted shares	179,798,814	161,867,388

The calculation of the diluted earnings per share excluded 1,517,570 shares related to stock-based compensation for the three months ended March 31, 2021 as they were anti-dilutive.

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

10 Financial instruments and fair values

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

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

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

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

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

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

10 Financial instruments and fair values (continued)

Financial risk factors

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

Interest rate risk

The majority of Chorus' debt is not subject to interest rate volatility as it bears interest at fixed rates or at floating rates that are fixed via interest rate swaps. Excluding revolving debt facilities, as at March 31, 2022, 98.7% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 1.3% floating rate debt.

Chorus has entered into interest rate swaps on certain of its amortizing term loans and its aircraft warehouse credit facility, converting a portion of its floating interest rate debt to fixed rates for the average duration of each loan and facility. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. Certain of the interest rate swaps are designated and effective as cash flow hedges. Changes in the fair value of effective interest rate swaps are recorded in other comprehensive income (loss) and ineffective interest rate swaps are recorded in income. Should Chorus be required to repay loans associated with these swaps, it would also be required, in most cases to close out the related swap agreements and settle any amounts owing.

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

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

In July 2017 the U.K. Financial Conduct Authority announced that the LIBOR will be phased out by the end of 2021. At present, USD LIBOR rates will continue to be published until June 2023. Chorus' exposure to changes in LIBOR rates is confined to those loans, credit facilities, and derivative agreements that have floating rates that reference USD LIBOR and that did not mature before December 31, 2021. As at March 31, 2022, Chorus had 16 loans which totaled $292,342 and nine derivative agreements which referenced notional amounts totaling $145,987 that will be impacted by the transition from USD LIBOR to alternative reference rates as they mature after December 31, 2021 but not prior to June 30, 2023. Chorus continues to monitor, and plan for, the transition to alternative reference rates and does not anticipate any material impacts on its financial results.

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

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

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

10 Financial instruments and fair values (continued)

Credit risk

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

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

CAC has entered into lease deferral arrangements with substantially all its lessees which will reduce Chorus' cash flow over the period of deferrals. In connection with the rent relief arrangements, certain of which include lease term extensions, the repayment of the deferred amounts typically coincide with the lease term extensions. These deferral arrangements could also increase Chorus' receivable risk due to the weakened financial state of its lessees. In addition, Chorus' liquidity could be put under stress where CAC is required to service principal and interest payments under its loans during the term of the deferral arrangements. Uncollectible receivables could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. At March 31, 2022, CAC had total receivables of $84,457 (December 31, 2021 - $84,006), inclusive of the accrued straight-line rent receivable of $35,488 (December 31, 2021 - $34,428).

	As at March 31, 2022			As at December 31, 2021		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Trade receivables	23,354	12,382	35,736	20,201	10,865	31,066
Deferred rent receivable	—	4,641	4,641	—	5,375	5,375
Air Canada trade receivable	116,879	—	116,879	103,968	—	103,968
Subtotal	140,233	17,023	157,256	124,169	16,240	140,409
Allowance for ECL	(206)	(7,108)	(7,314)	(218)	(7,212)	(7,430)
Total trade receivables	140,027	9,915	149,942	123,951	9,028	132,979
Accrued straight-line rent[(1)(2)]	—	1,717	1,717	—	756	756
Long-term accrued straight-line rent[(1)(3)]	—	33,771	33,771	—	33,672	33,672
Long-term receivables[(3)(4)]	12,664	31,946	44,610	13,522	33,338	46,860
Total net receivables	152,691	77,349	230,040	137,473	76,794	214,267
Total gross receivables	152,897	84,457	237,354	137,691	84,006	221,697

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

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

10 Financial instruments and fair values (continued)

Chorus has no financial assets past due, except for trade receivables. At March 31, 2022, the total amount of trade receivables was $149,942 (December 31, 2021 - $132,979), net of allowance for ECL of $(7,314) (December 31, 2021 - $7,430) which has been estimated by management based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Significant judgements were made in determining these factors.

At March 31, 2022, the breakdown of past-due trade receivables were as follows:

	March 31, 2022 $	December 31, 2021 $
Past due		
60 - 90 days	2,276	722
Over 90 days	12,438	10,072
	14,714	10,794

Equity Price Risk

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

Chorus recorded gains on the total return swap as follows:

	Three months ended March 31,	
	2022 $	2021 $
Income statement		
Gain on total return swap	2,887	2,290

Liquidity risk

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

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

As of March 31, 2022, Chorus had $110,029 in cash and a committed facility of up to $100,000, subject to a borrowing base calculation. Chorus has also provided letters of credit totaling $10,272 that reduce the amount available under this facility.

11 Contingencies

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

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

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

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

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

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

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

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

12 Economic dependence

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

	Three months ended March 31, 2022 $	Three months ended March 31, 2021 $
Operating revenue		
Air Canada	283,750	145,149
Operating expenses		
Air Canada	680	441

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

	As at March 31, 2022 $	As at December 31, 2021 $
Accounts receivable		
Air Canada	116,879	103,968
Finance lease receivables		
Air Canada	5,442	6,126
Contract asset		
Air Canada	20,126	20,862
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees		
Air Canada	849	804
Other long-term receivables		
Air Canada	12,664	13,521
Accounts payable and accrued liabilities		
Air Canada	3,610	7,309
Air Canada Capital Ltd.	6,410	5,124

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

13 Statement of cash flows - supplementary information

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

	Three months ended March 31, 2022 $	2021 $
(Increase) decrease in accounts receivable – trade and other	(19,583)	17,660
Increase in inventories	(1,264)	(5,285)
Increase in prepaid expenses	(3,872)	(2,999)
Decrease in income tax receivable	3	1,033
Decrease (increase) in other long-term assets	80	(11,848)
Increase in accounts payable and accrued liabilities	14,563	21,165
Increase (decrease) in current portion long-term incentive plan	1,578	(994)
Increase (decrease) in income tax payable	1,159	(35)
Decrease in other long-term liabilities	(6,760)	(229)
	(14,096)	18,468

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

b) Other

	Three months ended March 31, 2022 $	2021 $
Cash payments of interest	14,981	15,887
Cash receipts of interest	310	319
Cash payments of tax	4,244	505

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

13 Statement of cash flows - supplementary information (continued)

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

	Amortizing term loans	6.00% Debentures	Series A Debentures	Series B Debentures	Series C Debentures	Credit facilities[1]	Total long-term debt	Lease liabilities
	$	$	$	$	$	$	$	$
Balance - December 31, 2021	1,431,009	113,208	83,796	67,489	81,395	126,780	1,903,677	10,137
Long-term borrowings, net of financing costs	(156)	—	—	—	—	—	(156)	—
Repayment of long-term borrowings	(44,647)	—	—	—	—	—	(44,647)	—
Repayment of lease liabilities	—	—	—	—	—	—	—	(998)
Total financing cash flow activities	(44,803)	—	—	—	—	—	(44,803)	(998)
Interest expense	—	137	186	235	138	—	696	—
Deferred financing fee amortization	429	—	—	—	—	—	429	—
Unrealized foreign exchange gain	(9,813)	—	—	—	—	(1,820)	(11,633)	(103)
Realized foreign exchange loss	1,676	—	—	—	—	—	1,676	—
Foreign currency adjustments	(19,913)	—	—	—	—	—	(19,913)	—
Total financing non-cash activities	(27,621)	137	186	235	138	(1,820)	(28,745)	(103)
Balance - March 31, 2022	1,358,585	113,345	83,982	67,724	81,533	124,960	1,830,129	9,036

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

d) Restricted cash

Cash encumbered in support of issued letters of credit and leasing arrangements have been classified as restricted cash and shown separately in the consolidated statement of financial position (March 31, 2022 - $43,779; December 31, 2021 - $54,873).

14 Subsequent events

On February 27, 2022, Chorus announced that it had entered into a sale and purchase agreement (the "Purchase agreement") pursuant to which one or more of its wholly-owned subsidiaries would acquire Falko Regional Aircraft Limited ("Falko"), a leading regional aircraft lessor and the equity interests in certain entities ("Falko Business") and aircraft which are managed by Falko. On May 3, 2022, Chorus completed the acquisition of the Falko Business through indirect subsidiaries of Chorus ("Falko Acquisition"). The total consideration paid for the Falko Acquisition on May 3, 2022 was approximately US $810,000 comprised of US $405,000 of cash consideration and approximately US $405,000 of existing indebtedness that will remain with the relevant target entities. As described in the Corporation's Material Change Report dated May 3, 2022, Chorus expects to acquire the beneficial interest in certain trusts holding an additional five aircraft (the "Trust Interests") prior to the end of the second quarter of 2022 for aggregate consideration of approximately US $35,000 (bringing the total consideration for the Falko Business to US $845,000).

On May 3, 2022 and in connection with the Falko Acquisition, Chorus entered into a subscription agreement with Brookfield Special Investments Fund L.P. ("Brookfield") (i) subscribed for US $300,000 of preferred equity in exchange for US $291,000 in cash, and (ii) subscribed for 25,400,000 common shares and was issued 18,642,772 share purchase warrants with an exercise price of CAD $4.60 per common share in exchange for US $74,000 in cash. The preferred equity is non-convertible and will initially pay a dividend of 8.75% in cash or 9.50% in kind at Chorus' option with step ups after the sixth anniversary.

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

Unsecured revolving operating credit facility

On May 2, 2022, Chorus entered into a new US $30,000 unsecured revolving operating credit facility with a nine-month term, maturing February 2023. It contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio.