chorus
aviation inc.

Fourth Quarter and Year-End 2019

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

February 12, 2020

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 24 - Glossary of Terms for definition of capitalized terms and acronyms used in this MD&A.

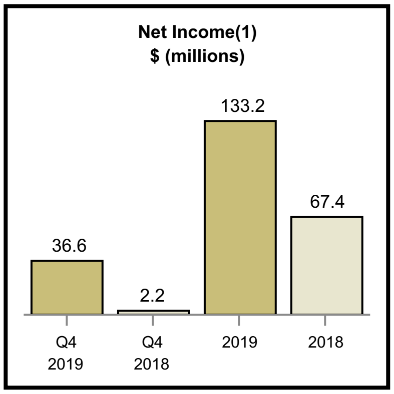
This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2019 and 2018 and Chorus' 2019 Annual Information Form dated February 12, 2020. 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 12, 2020.

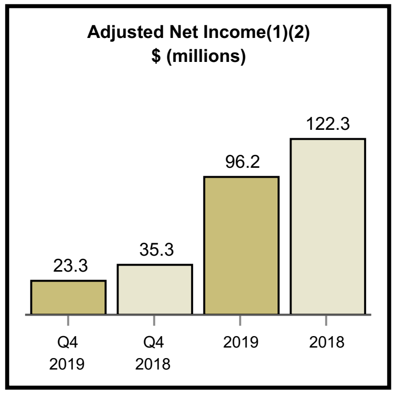
The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 10 – Risk Factors.

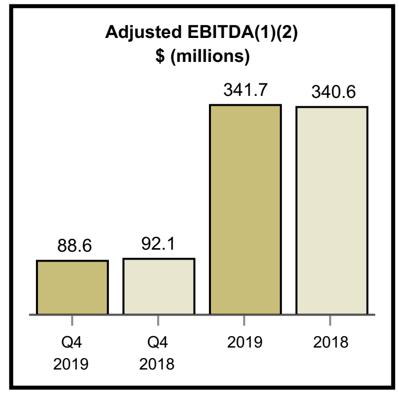
Except where the context otherwise requires, all amounts are stated in Canadian dollars.

On January 1, 2019, Chorus adopted IFRS 16 *Leases* ("IFRS 16") using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

1 OVERVIEW







(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.
(2) These are non-GAAP financial measures. Refer to Section 18 – Non-GAAP Financial Measures.

Q4 2019 Financial Highlights

- Net income of $36.6 million, or $0.23 per basic Share, a period-over-period increase of $34.4 million.
- Adjusted net income of $23.3 million, or $0.15 per basic Share, a decrease of $12.0 million due to expected reductions resulting from the 2019 CPA Amendments offset by growth in the Regional Aircraft Leasing segment.
- Adjusted EBITDA of $88.6 million, a decrease of $3.4 million.

2019 Annual Financial Highlights

- Net income of $133.2 million, or $0.85 per basic Share, a period-over-period increase of $65.7 million.
- Adjusted net income of $96.2 million, or $0.61 per basic Share, a decrease of $26.1 million due to expected reductions resulting from the 2019 CPA Amendments offset by growth in the Regional Aircraft Leasing segment.
- Adjusted EBITDA of $341.7 million, an increase of $1.2 million.

The 2019 year was pivotal for Chorus with significant progress achieved in strengthening the CPA, executing on the growth and diversification strategy, and advancing Chorus' transformation to a global provider of regional aviation solutions.

Chorus strengthened its strategic partnership with Air Canada by amending and extending the CPA and securing an investment from Air Canada of approximately $97.3 million in Chorus' equity. The extended CPA provides predictable cash flows until 2035, and Air Canada agreed to hold their investment in Chorus for five years, further aligning the interests of both organizations.

The Regional Aircraft Leasing segment grew from 29 aircraft at the end of 2018 to a committed fleet of 64 aircraft at December 31, 2019. The growth in this segment reflects the diversification of Chorus' business and in the fourth quarter of 2019, 25.7% of Chorus' adjusted EBT was derived from the leasing segment.

Throughout the year, Chorus' maturity as an aircraft lessor continued to evolve and progress. The growth in the Regional Aircraft Leasing segment was supported by approximately $183.5 million in capital raised during the year and the establishment of a US $300.0 million revolving credit facility. Chorus also added the A220-300 aircraft to its portfolio, completed its first lease extension and realized net proceeds of approximately US $25.0 million from its first divestiture of aircraft in the Regional Aircraft Leasing segment.

When the aircraft which earn leasing revenue under the CPA are added to the Regional Aircraft Leasing segment's portfolio, Chorus' total committed portfolio grows to 135[1,2] (please refer to Section 4 - Outlook) with a value of US $2.2[3] billion and total future contracted lease revenue approximates US $2.1 billion.[1,2,4] Chorus' total future contracted revenue inclusive of the CPA Fixed Margin revenues of US $0.6 billion approximates US $2.7 billion.[4] (Refer to Section 25 - Caution regarding forward-looking information).

With the combined committed fleet values of the Regional Aircraft Leasing segment and the aircraft leased under the CPA, Chorus is one of the world's largest regional aircraft lessors.

2019 Summary

Chorus had a transformational year with the following noteworthy milestones:

Regional Aviation Services

- Amended and extended the CPA with Air Canada to December 31, 2035.
- Completed the Air Canada Investment for gross proceeds of $97.3 million and raised gross proceeds of $86.3 million through a public offering of the 5.75% Unsecured Debentures to support the growth of Chorus.
- Jazz pilots ratified their collective agreement with no strike or lockout provisions for the term of the extended CPA.
- Entered into an agreement to acquire nine new CRJ900s that will earn leasing revenue under the CPA starting in 2020.
- Completed the Extended Service Program on five aircraft, bringing the total number of Dash 8-300 aircraft generating leasing revenue under the CPA to 13.
- Established a regional aircraft parts depot in Dubai, UAE, enhancing Chorus' ability to market its parts provisioning and sales offering internationally.
- Received numerous awards as a top employer in Canada, and was named among Canada's Safest Employers 2019, taking gold in the Transportation category.

Regional Aircraft Leasing

- Increased the committed fleet to 64 aircraft representing growth of 60% year-over-year partially supported by a new revolving secured credit facility of US $300.0 million.
- Increased Adjusted EBT to 22.0% of overall annual Adjusted EBT.
- Added five new A220-300s to the committed fleet for lease to airBaltic (two of which were delivered in 2019), marking the addition of this new aircraft type to Chorus' aircraft portfolio.
- Extended lease agreement with Aeromexico for three aircraft previously acquired in 2017.
- Completed the first sale of three leased Dash 8-400s, generating net proceeds, after debt repayment, of US $25.0 million for reinvestment in the segment.
- Added five new customers consisting of airBaltic, Croatia Airlines, Indigo, Malindo Air, and SpiceJet for a total of 16 customers.

[1] As of February 12, 2020, there were 64 committed aircraft, four of which are pending transactions, in the Regional Aircraft Leasing segment. All pending transactions and lease commitments are subject to satisfaction of customary conditions precedent to closing.

[2] The Regional Aviation Services segment's commitments include: nine CRJ900s to be received in 2020, five Dash 8-300s that will undergo the ESP planned for between 2020 and 2022, and five 75-78 seat aircraft to be delivered in 2025, all of which will earn leasing revenue under the CPA. All pending acquisitions and lease commitments are subject to satisfaction of customary conditions precedent to closing.

[3] The value of the fleet portfolio is comprised of the net book value of owned aircraft earning leasing revenue and the estimated future acquisition value of committed transactions.

[4] The estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA as at January 1, 2019. A foreign exchange rate of $1.3000 (based on the long-term average historical rate which is reviewed and adjusted annually) was used in the calculation of the estimates. The Regional Aircraft Leasing segment's estimates are based on agreed lease rates and assumes no default by lessees.

Fourth Quarter Summary

In the fourth quarter of 2019, Chorus reported Adjusted EBITDA of $88.6 million, a decrease of $3.4 million or 3.7% relative to the fourth quarter of 2018.

The Regional Aircraft Leasing segment's Adjusted EBITDA increased by $12.3 million primarily related to the growth in aircraft earning leasing revenue. The sale of three Dash 8-400s resulted in net cash proceeds of US $25.0 million and produced a strong internal rate of return since the acquisition of these aircraft. This disposal also produced an accounting loss related to the wind-up of the special purpose entities that lowered Adjusted EBITDA and Adjusted Net Income by $3.4 million and $1.3 million, respectively.

In line with expectations, the Regional Aviation Services segment's Adjusted EBITDA decreased $15.8 million. The decrease reflects the 2019 CPA Amendments which reduced the Fixed Margin and Performance Incentive revenue when Chorus moved to market-based compensation rates. Beyond the changes related to the 2019 CPA Amendments, fourth quarter results were impacted by:

- increased stock-based compensation of $6.0 million due to the change in the Share price inclusive of the reduction related to the change in fair value of the Total Return Swap which was implemented in the fourth quarter of 2019 (refer to Section 8 - Capital Structure); and
- decreased capitalization of major maintenance overhauls on owned CPA aircraft over the previous period of $1.2 million.

Adjusted net income was $23.3 million for the quarter, a decrease of $12.0 million due to:

- the $3.4 million decrease in Adjusted EBITDA previously described;
- an increase in depreciation of $6.6 million primarily related to additional aircraft in the Regional Aircraft Leasing segment;
- an increase in net interest costs of $5.3 million primarily related to additional aircraft debt in the Regional Aircraft Leasing segment; and
- an increase in non-operating costs of $2.5 million primarily related to the loss on disposal of an engine of $1.2 million and a change in foreign exchange losses of $0.8 million; offset by
- a $5.7 million decrease in income tax expense resulting from lower Adjusted EBT.

Net income increased $34.3 million primarily due to the change in net unrealized foreign exchange gains on long-term debt of $46.2 million offset by the previously noted $12.0 million decrease in Adjusted net income.

Annual Summary

Chorus reported Adjusted EBITDA of $341.7 million for 2019, an increase of $1.2 million over 2018.

The Regional Aircraft Leasing segment's Adjusted EBITDA increased by $42.4 million was primarily due to the growth in aircraft earning leasing revenue.

In line with expectations, the Regional Aviation Services segment's Adjusted EBITDA decreased by $41.3 million, which reflect the 2019 CPA Amendments which reduced the Fixed Margin and Performance Incentive revenue when Chorus moved to market-based compensation rates. These reductions were partially offset by the implementation of the Controllable Cost Guardrail that mitigated the expected CPA margin shortfall resulting from reduced fees. Beyond the changes related to the 2019 CPA Amendments, 2019 results were impacted by:

- increased stock-based compensation of $15.0 million due to the change in the Share price inclusive of the reduction related to the change in fair value of the Total Return Swap which was implemented in the fourth quarter of 2019;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft of $1.9 million over the previous period; offset by
- increased aircraft leasing under the CPA.

Adjusted net income was $96.2 million year-to-date, a decrease over 2018 of $26.1 million due to:

- an increase in depreciation of $18.5 million primarily related to additional aircraft in the Regional Aircraft Leasing segment;
- an increase in net interest costs of $15.5 million primarily related to additional aircraft debt in the Regional Aircraft Leasing segment; and
- an increase in non-operating costs of $5.6 million primarily related to foreign exchange losses of $4.2 million in addition to a loss on disposal of property and equipment of $0.5 million; partially offset by
- the $1.2 million increase in Adjusted EBITDA previously described; and
- a decrease in income tax expense of $12.2 million resulting from lower Adjusted EBT.

Net income increased $65.7 million over 2018 due to the change in net unrealized foreign exchange gains on long-term debt of $90.8 million and decreased employee separation program costs of $3.1 million; offset by the previously noted decrease of $26.1 million in Adjusted net income and increased signing bonuses of $2.0 million related to the Jazz pilot collective agreement.

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 encompasses 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 the 6.00% Debentures and the 5.75% Unsecured Debentures, executive and share-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. Pursuant to 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 specialized contract flying, such as medical, logistical and humanitarian flights, to international and Canadian customers.

b) Aircraft leasing under the CPA: Jazz currently earns leasing revenue under the CPA from 52 aircraft and five spare engines. As a result of the 2019 CPA Amendments, Jazz also expects to begin earning leasing revenue from a further nine CRJ900s in 2020. The 2019 CPA Amendments also contemplate that Chorus will acquire five additional 75-78 seat aircraft for operation by Jazz under the CPA in 2025. 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 and CRJ aircraft products as well as Embraer 135 and 145 aircraft. Voyageur provides specialty, customized MRO 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 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 February 12, 2020, CAC's committed portfolio of leased aircraft consists of 64[1] aircraft comprising 24 Dash 8-400s, 23 ATR72-600s, four CRJ1000s, two CRJ900s, four E190s, and two E195s and five A220-300s.

Jazz earns revenue under the CPA in five ways[2]:

1. Fixed Margin

Jazz earns a Fixed Margin which has been set for 2019 and 2020 as an aggregate amount irrespective of the number of Covered Aircraft and thereafter is based on the number of Covered Aircraft operated by Jazz under the CPA.

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 Revenue

Jazz is paid Controllable Revenue rates based on Controllable Costs that are estimated using certain variables. Jazz's exposure to variances between the Controllable 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"). Controllable Revenue rates are set annually, and Jazz and Air Canada complete an annual reconciliation and payment once the variance, if any, between the Controllable Revenue paid by Air Canada and Jazz's actual Controllable Costs is determined. 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 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 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. As a result of the 2019 CPA Amendments, costs relating to capital expenditures incurred by Jazz at certain airports and hangar facilities are now treated as Pass-Through Costs.

Pass-Through Costs include airport and navigation fees, third-party ground handling, certain aircraft maintenance, materials and supplies, aircraft parking, interrupted trips and baggage delivery, station supplies for processing passengers, certain third-party facilities 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, five CRJ900s, 13 Dash 8-300s and five spare engines. Jazz is investing in the Extended Service Program for the Dash 8-300s it owns, and as the life extensions are completed the aircraft start to earn aircraft leasing revenue under the CPA. Jazz plans to complete the ESP on an additional three Dash 8-300s in 2020, with an additional two anticipated for completion by the end of 2022. Once Jazz has completed the ESP on all of its Dash 8-300s, Jazz will have a total of 18 Dash 8-300s earning leasing revenue under the CPA (refer to Section 4 - Outlook).

Over the 17 year term of the CPA effective January 1, 2019, a minimum of $1.6 billion in aircraft leasing revenue is expected to be generated, accounting for approximately 65% of the total minimum revenues (leasing revenue plus fixed fees), anticipated over the remaining term. The revenue estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA. A foreign exchange rate of $1.3000 was used in the calculation of the estimates. Refer to Section 25 - Caution regarding forward-looking information.

Jazz incurs two types of costs under the CPA:

1) Controllable Costs - which are offset by Controllable 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, 2019 through December 31, 2025, Jazz will gradually reduce the minimum number of Covered Aircraft to 105. The composition of the fleet of Covered Aircraft during that period, specifically years 2019 and 2020, may vary to accommodate an agreed upon transition plan. From January 1, 2026 through December 31, 2035, Air Canada will determine the composition of the fleet of Covered Aircraft on the condition that the fleet must have a minimum of 80 aircraft with 75-78 seats.

[1] As of February 12, 2020, there were 64 committed aircraft, four of which are pending transactions, in the Regional Aircraft Leasing segment. All pending transactions and lease commitments are subject to satisfaction of customary conditions precedent to closing.
[2] Refer to Section 25 - Caution regarding forward-looking information.

3 STRATEGY

Chorus' growth 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 our expertise in all areas of regional aviation operations.

Over 90% of Chorus' revenues are currently earned from long-term contracts which provide a predictable revenue stream.

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 most recently amended and extended effective January 1, 2019 and has a term expiring on December 31, 2035. Chorus currently provides approximately 80% of the Air Canada Express network capacity.

Chorus intends to grow its Regional Aviation Services segment by leveraging the synergies and expertise across its lines of business to drive further diversification and growth. The Chorus team is highly experienced in managing every stage of a regional aircraft's life-cycle, and in every technical facet of regional aviation operations. Chorus offers 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.

The growth in the Regional Aircraft Leasing segment will be achieved through a combination of purchase and leaseback transactions, trades and portfolio acquisitions from other lessors, and skyline transactions. As the leasing business grows, it is anticipated that the synergies between the Regional Aircraft Leasing and the Regional Aviation Services segments will grow as each of those businesses leverages the other's relationships with customers to provide Chorus' full suite of services.

Chorus is focused on growing the Regional Aircraft Leasing segment because:

- there is currently strong demand for regional aircraft due to continuing global passenger growth;
- the regional aircraft sector currently enjoys strong yields and sector margins with adequate access to capital; and
- the regional aircraft sector is characterized by historically stable aircraft deliveries with limited technical obsolescence risk.

Chorus continues to see significant opportunity to grow its leasing business and intends to continue investing in its future growth. (Refer to Section 25 - Caution regarding forward-looking information.)

The regional aviation sector is typically more stable through economic cycles and as such Chorus is well positioned in the event of an economic downturn. Historically, mainline carriers contract more flying to their regional partners in a downturn because of their lower costs and the smaller aircraft they operate, which are better suited to serve reduced market demand, which supports Chorus' two business segments. Further, in such times, airlines will look to the benefits of leasing aircraft versus ownership to allow for better operational flexibility, and reduced financing requirements.

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, combined with the minimum fleet and aircraft leasing commitments to 2035 with opportunities for growth.

Chorus takes a process-driven approach to building its leasing business and utilizes several risk mitigation strategies that analyze the risks associated with a potential aircraft transaction. Risk mitigation is employed throughout an aircraft leasing transaction by ensuring, wherever possible, the following:

- on a portfolio basis, Chorus' strategy is to ensure the majority of the aircraft debt is paid within the term of the first lease;
- the economics of the transaction are preserved by swapping variable rate debt to fixed interest rates or by aligning lease rates with changes in variable interest rates;
- aircraft leases and the associated debt are denominated in the same currency thus reducing foreign exchange risk to a minimum; and
- aircraft residual value risk is mitigated through careful consideration as to the aircraft types acquired, limiting aircraft type concentration and maintaining a diversified customer base operating in various geographic locations.

The following table reflects Chorus' committed transactions which have been announced to-date by customer and aircraft type:

		Turboprops			Regional Jets			
Customer	Aircraft committed	Dash 8-300	Dash 8-400	ATR	A220-300	CRJ	Embraer	75-78 seat aircraft(1)
Aeromexico	3						✓	
Air Nostrum	4					✓		
airBaltic	5				✓			
Azul Airlines(2)	5			✓			✓	
CityJet	2					✓		
Croatia Airlines	2		✓					
Ethiopian Airlines	5		✓					
Flybe(3)	8		✓	✓				
Indigo	8			✓				
Jambojet	4		✓					
KLM Cityhopper	1						✓	
Malindo Air(4)	4			✓				
Philippine Airlines	3		✓					
SpiceJet	5		✓					
Virgin Australia	3			✓				
Wings Air(4)	2			✓				
Regional Aircraft Leasing	64	—	24	23	5	6	6	—
Regional Aviation Services (5)	71	18	34	—	—	14	—	5
Total	135	18	58	23	5	20	6	5

(1) Aircraft Leasing under the CPA includes five 75-78 seat aircraft type anticipated to be added in 2025.
(2) Azul Airlines aircraft breakdown: three ATRs and two Embraers.
(3) Flybe aircraft breakdown: five Dash 8-400s and three ATRs.
(4) A member of the Lion Air Group.
(5) The Regional Aviation Services segment includes only the Covered Aircraft leased under the CPA fleet.

4 OUTLOOK

The discussion that follows includes forward-looking information. This outlook is provided for the purpose of providing information about current expectations for 2020 and beyond. This information may not be appropriate for other purposes. (Refer to Section 25 - Caution regarding forward-looking information).

The 2019 CPA Amendments became effective on a retroactive basis to January 1, 2019. Further information concerning the 2019 CPA Amendments and the Air Canada Investment is contained in the Corporation's Material Change Reports dated January 24, 2019 and February 13, 2019, which are available on SEDAR at www.sedar.com. The 2019 CPA Amendments resulted in a reduction in fixed fees starting on January 1, 2019, as Chorus moved to market-based rates under the CPA. The reduction was implemented by eliminating the Infrastructure Fee per Covered Aircraft and the Fixed Margin per Covered Aircraft which were replaced with a single Fixed Margin (see Section 2 - About Chorus). As a result, fixed fee revenue in each of 2019 and 2020 is anticipated to be $75.2 million per year as compared to $111.3 million in 2018. In addition, the maximum future available Performance Incentives reduce from $23.4 million in 2019 and 2020 to an annual average maximum available amount of $3.4 million for the full term of the CPA. The near-term reductions are more than offset over the term of the CPA by incremental contracted revenue secured with the extension of the agreement including fixed fees and aircraft leasing.

Aircraft leasing revenue under the CPA, which is included in the Regional Aviation Services segment, is expected to grow with the delivery of nine committed CRJ900s in 2020, three ESPs to be completed in 2020 and two remaining ESPs by 2022. The Regional Aircraft Leasing segment's future revenue is expected to grow in 2020 and Chorus will have at least 60 aircraft earning revenue during the year (versus 43 aircraft equivalent in 2019).

With the addition of the aircraft under both the Regional Aircraft Leasing segment and the aircraft leasing revenue under the CPA, Chorus' estimated future contracted lease revenue is approximately US $2.1 billion.[4] When the CPA Fixed Margin revenue of US $0.6 billion is included with the total future contracted revenue, Chorus' future revenue approximates US $2.7 billion.[4]

The following table provides the number of closed and pending transactions announced to-date:

(expressed in millions of US dollars, except number of aircraft)	Completed Transactions			Pending Transactions[1]		Committed Transactions		
Customer	**2016 - Q3 2019**	**Q4 2019**	**Total**	**Q1 2020**	**Q2 2020 and thereafter**	**2016 - Q3 2019**	**Increase**	**Total 2016 - 2019[2]**
Aeromexico	3		3			3		3
Air Nostrum	4		4			4		4
airBaltic	—	2	2		3	—	5	5
Azul Airlines	5		5			5		5
CityJet	2		2			2		2
Croatia Airlines	—	2	2			—	2	2
Ethiopian Airlines	5		5			5		5
Falcon	3	(3)	—			—		—
Flybe	8	—	8			8		8
Indigo	4	4	8			6	2	8
Jambojet	3	1	4			4		4
KLM Cityhopper	1		1			1		1
Malindo Air[3]	2	2	4			4		4
Philippine Airlines	3		3			3		3
SpiceJet	5	—	5			5		5
Virgin Australia	3		3			3		3
Wings Air[3]	1		1		1	2		2
Total Regional Aircraft Leasing	**52**	**8**	**60**	**—**	**4**	**55**	**9**	**64**
Deal value *US*		**$1,200.0**		**$135.0**			**$1,335.0**	
Future Lease Revenues *US*[4]		**$825.0**		**$135.0**			**$960.0**	
Total Regional Aviation Services	**49**	**3**	**52**	**—**	**19**	**71**	**—**	**71**
Future Lease Revenues *US*[4][5]		**$725.0**		**$455.0**			**$1,180.0**	
Chorus Total Aircraft	**101**	**11**	**112**	**—**	**23**	**126**	**9**	**135**
Future Lease Revenues *US*[4]		**$1,550.0**		**$590.0**			**$2,140.0**	

(1) As of February 12, 2020, there were 64 committed aircraft, four of which are pending transactions, in the Regional Aircraft Leasing segment. All pending transactions and lease commitments are subject to satisfaction of customary conditions precedent to closing.
(2) Total announced transactions as of February 12, 2020.
(3) A member of the Lion Air Group.
(4) The estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA as at January 1, 2019. A foreign exchange rate of $1.3000 (based on the long-term average historical rate which is reviewed and adjusted annually) was used in the calculation of the estimates. The Regional Aircraft Leasing segment's estimates are based on agreed lease rates and assumes no default by lessees.
(5) The Regional Aviation Services segment's commitments include: nine CRJ900s to be received in 2020, five Dash 8-300s that will undergo the ESP planned for between 2020 and 2022, and five 75-78 seat aircraft to be delivered in 2025, all of which will earn leasing revenue under the CPA. All pending acquisitions and lease commitments are subject to satisfaction of customary conditions precedent to closing.

Capital expenditures in 2020 including capitalized major maintenance overhauls but excluding expenditures for the acquisition of aircraft and the ESP are expected to be between $38.0 million and $44.0 million. Aircraft related acquisitions and ESP capital expenditures in 2020 are expected to be between $442.00 million and $452.0 million.[1]

(expressed in thousands of Canadian dollars)	**Planned 2020(1)** **$**	**Actual** **Year ended December 31, 2019** **$**	**Year ended December 31, 2018** **$**
Capital expenditures, excluding aircraft acquisitions and ESP	26,000 to 29,000	31,547	19,624
Capitalized major maintenance overhauls	12,000 to 15,000	14,444	22,542
Aircraft related acquisitions and ESP	442,000 to 452,000	829,710	284,546
	480,000 to 496,000	875,701	326,712

(1) The 2020 plan includes three ESPs and nine CRJ900s as well as previously announced commitments related to the investment in one ATR72-600 and three A220-300s for the Regional Aircraft Leasing segment all of which have been converted using a foreign exchange rate of $1.2988, the December 31, 2019 closing day rate from the Bank of Canada. It excludes any potential additional investments in third-party aircraft, beyond these already committed. All pending acquisitions and lease commitments are subject to satisfaction of customary conditions precedent to closing.

5 FLEET

The following table provides the total number of aircraft in Chorus' fleet as at December 31, 2019 and December 31, 2018.

	December 31, 2018	2019 Fleet Changes			December 31, 2019	Owned
		Additions	Removals	Transfers		
Regional Aircraft Leasing						
Third-Party Leased Aircraft						
CRJ900s	2	—	—	—	2	2
CRJ1000s	4	—	—	—	4	4
Dash 8-400s	9	18	(3)	—	24	24
E190s	4	—	—	—	4	4
E195s	2	—	—	—	2	2
ATR72-600s	8	14	—	—	22	22
A220-300s	—	2	—	—	2	2
Total Regional Aircraft Leasing	29	34	(3)	—	60	60
Regional Aviation Services						
Covered Aircraft Leased Under the CPA						
Dash 8-400s	34	—	—	—	34	34
CRJ900s	5	—	—	—	5	5
Dash 8-300s	8	—	—	5	13	13
	47	—	—	5	52	52
Other Covered Aircraft						
CRJ200s	10	7	—	—	17	—
CRJ900s	16	5	—	—	21	—
Dash 8-100s	15	—	—	(9)	6	6
Dash 8-300s[1]	17	—	—	(7)	10	6
Dash 8-400s	10	—	—	—	10	—
Total Other Covered Aircraft	68	12	—	(16)	64	12
Jazz Charter Aircraft						
Dash 8-300s	—	—	—	1	1	1
Total Jazz Charter Aircraft	—	—	—	1	1	1
Voyageur Aircraft						
CRJ200s	7	—	—	—	7	7
King Air 200s	2	—	—	—	2	2
Dash 8-100s[2]	5	—	(2)	2	5	5
Dash 8-300s[3]	6	—	—	—	6	6
Total Voyageur Aircraft	20	—	(2)	2	20	20
Non-Operational Aircraft						
CRJ200s	1	—	(1)	—	—	—
Dash 8-100s	9	—	—	7	16	16
Dash 8-300s[1]	—	—	(1)	1	—	—
Total Non-Operational Aircraft	10	—	(2)	8	16	16
Total Regional Aviation Services	145	12	(4)	—	153	101
Total Aircraft	174	46	(7)	—	213	161

(1) Five aircraft underwent ESPs and moved to Covered Aircraft leased under the CPA; one aircraft was damaged beyond repair and removed from the fleet; and one aircraft was removed from the Covered Aircraft and moved to Jazz Charter Aircraft.
(2) Includes three aircraft leased to a third-party.
(3) Includes one 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, 2019 compared to the three months and year ended December 31, 2018. 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)	**2019** $	**2018[1]** $	**Change** $	**Change** %	**2019** $	**2018[1]** $	**Change** $	**Change** %
Operating revenue	338,606	333,724	4,882	1.5	1,366,447	1,353,287	13,160	1.0
Operating expenses	287,173	272,463	14,710	5.4	1,165,984	1,136,578	29,406	2.6
Operating income	51,433	61,261	(9,828)	(16.0)	200,463	216,709	(16,246)	(7.5)
Net interest expense	(19,730)	(14,447)	(5,283)	(36.6)	(71,768)	(56,285)	(15,483)	(27.5)
Foreign exchange gain (loss)	11,901	(33,504)	45,405	135.5	30,613	(55,986)	86,599	154.7
Other (loss) gain[2]	(1,665)	22	(1,687)	(7,668.2)	(1,048)	336	(1,384)	(411.9)
Earnings before income tax	41,939	13,332	28,607	214.6	158,260	104,774	53,486	51.0
Income tax expense	(5,362)	(11,095)	5,733	51.7	(25,100)	(37,344)	12,244	32.8
Net income	36,577	2,237	34,340	1,535.1	133,160	67,430	65,730	97.5
Adjusted EBITDA[3]	88,636	92,056	(3,420)	(3.7)	341,719	340,560	1,159	0.3
Adjusted EBT[3]	28,646	46,418	(17,772)	(38.3)	121,263	159,620	(38,357)	(24.0)
Adjusted net income[3]	23,284	35,323	(12,039)	(34.1)	96,163	122,276	(26,113)	(21.4)

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.
(2) Other includes gain/loss on disposal of property and equipment.
(3) 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, 2019, consolidated operating revenue increased 1.5% and 1.0% respectively, compared to the same periods last year.

The increase in revenue for the three months and year ended 2019 over the comparative periods was attributable to the significant increase in aircraft under lease partially offset by the fourth quarter loss on the sale of three Dash 8-400s. This increase was offset by the Regional Aviation Services segment's expected decrease in the both periods due to decreased CPA revenue.

Operating expenses increased 5.4% and 2.6% for the three months and year ended December 31, 2019 compared to the same periods last year. These increases were primarily attributable to higher depreciation due to the growth in the Regional Aircraft Leasing segment and higher stock-based compensation in the Regional Aviation Services segment.

Net interest expense increased 36.6% and 27.5% for the three months and year ended December 31, 2019 compared to the same periods last year due to additional long-term borrowings related to aircraft purchases throughout 2018 and 2019 in the Regional Aircraft Leasing segment, partially offset by a decrease in the Regional Aviation Services segment's interest expense due to amortizing debt balances.

Foreign exchange decreased for the three months and year ended December 31, 2019 compared to the same periods last year. The decrease was primarily related to the change in unrealized foreign exchange on long-term debt of $46.2 million and $90.8 million, respectively, in the Regional Aviation Services segment. The Regional Aviation Services 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 Regional Aircraft Leasing segment's functional currency is the US dollar.

Other (loss) gain increased for the three months and year ended December 31, 2019 compared to the same periods last year primarily related to a loss on the disposal of property and equipment.

Income taxes decreased for the three months and year ended December 31, 2019 compared to the same periods last year. The decrease was primarily due to lower Adjusted EBT over the prior periods.

7 SEGMENTED ANALYSIS

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

	For the three months ended December 31, 2019			For the three months ended December 31, 2018[1]		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
(in thousands of Canadian dollars)	$	$	$	$	$	$
Operating revenue	301,949	36,657	338,606	310,701	23,023	333,724
Operating expenses	268,522	18,651	287,173	262,085	10,378	272,463
Operating income	33,427	18,006	51,433	48,616	12,645	61,261
Net interest expense	(8,330)	(11,400)	(19,730)	(8,710)	(5,737)	(14,447)
Foreign exchange gain (loss)	10,757	1,144	11,901	(33,955)	451	(33,504)
Other (loss) gain[2]	(1,270)	(395)	(1,665)	22	—	22
Earnings before income tax	34,584	7,355	41,939	5,973	7,359	13,332
Income tax (expense) recovery	(5,802)	440	(5,362)	(10,590)	(505)	(11,095)
Net income (loss)	**28,782**	**7,795**	**36,577**	**(4,617)**	**6,854**	**2,237**
Operating income	33,427	18,006	51,433	48,616	12,645	61,261
Depreciation and amortization[3]	22,090	15,052	37,142	22,496	8,082	30,578
Employee separation[3]	61	—	61	217	—	217
Adjusted EBITDA[4]	**55,578**	**33,058**	**88,636**	**71,329**	**20,727**	**92,056**
Earnings before income tax	34,584	7,355	41,939	5,973	7,359	13,332
Unrealized foreign exchange (gain) loss	(13,354)	—	(13,354)	32,869	—	32,869
Employee separation program[3]	61	—	61	217	—	217
Adjusted EBT[4]	**21,291**	**7,355**	**28,646**	**39,059**	**7,359**	**46,418**

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.
(2) Other includes gain/loss on disposal of property and equipment and other income.
(3) Included in operating expenses.
(4) 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, 2019			For the year ended December 31, 2018[1]		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Operating revenue	1,239,404	127,043	1,366,447	1,273,447	79,840	1,353,287
Operating expenses	1,102,722	63,262	1,165,984	1,096,824	39,754	1,136,578
Operating income	136,682	63,781	200,463	176,623	40,086	216,709
Net interest expense	(34,108)	(37,660)	(71,768)	(36,569)	(19,716)	(56,285)
Foreign exchange gain (loss)	29,703	910	30,613	(56,579)	593	(55,986)
Other (loss) gain[2]	(653)	(395)	(1,048)	336	—	336
Earnings before income tax	131,624	26,636	158,260	83,811	20,963	104,774
Income tax expense	(22,881)	(2,219)	(25,100)	(34,481)	(2,863)	(37,344)
Net income	**108,743**	**24,417**	**133,160**	**49,330**	**18,100**	**67,430**
Operating income	136,682	63,781	200,463	176,623	40,086	216,709
Depreciation and amortization[3]	89,344	47,604	136,948	89,627	28,860	118,487
Employee separation[3]	2,308	—	2,308	5,364	—	5,364
Signing bonus[3]	2,000	—	2,000	—	—	—
Adjusted EBITDA[4]	**230,334**	**111,385**	**341,719**	**271,614**	**68,946**	**340,560**
Earnings before income tax	131,624	26,636	158,260	83,811	20,963	104,774
Unrealized foreign exchange (gain) loss	(41,305)	—	(41,305)	49,482	—	49,482
Employee separation program[3]	2,308	—	2,308	5,364	—	5,364
Signing bonus[3]	2,000	—	2,000	—	—	—
Adjusted EBT[4]	**94,627**	**26,636**	**121,263**	**138,657**	**20,963**	**159,620**

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.
(2) Other includes gain/loss on disposal of property and equipment and other income.
(3) Included in operating expenses.
(4) These are non-GAAP financial measures – refer to Section 18 for disclosures on non-GAAP financial measures.

Regional Aviation Services Analysis

The Regional Aviation Services segment reported fourth quarter and annual operating income of $33.4 million and $136.7 million, a decrease of $15.2 million and $39.9 million, respectively. The results for the fourth quarter and the year reflect the 2019 CPA Amendments which reduced the Fixed Margin and Performance Incentive revenue when Chorus moved to market-based compensation rates. These reductions were partially offset by the implementation of the Controllable Cost Guardrail that mitigated the expected CPA margin shortfall related to reduced fees for both periods. In addition to the changes related to the amended CPA, the fourth quarter results were impacted by:

- increased stock-based compensation of $6.0 million due to a change in the price of the Corporation's Shares inclusive of the reduction related to the change in fair value of the Total Return Swap which was implemented in the fourth quarter of 2019 (refer to Section 8 - Capital Structure); and
- increased salaries, wages and benefits and maintenance expense of $1.2 million over the previous year due to decreased capitalization of labor and materials on owned CPA aircraft; offset by
- increased aircraft leasing under the CPA attributable to additional revenue earned from 13 Dash 8-300s in 2019 versus revenue earned on eight Dash 8-300s in 2018.

In addition to the changes related to the amended CPA, the year-to-date results were impacted by:

- increased stock-based compensation of $15.0 million due to a change in the price of the Corporation's Shares inclusive of the reduction related to the change in fair value of the Total Return Swap which was implemented in the fourth quarter of 2019 (refer to Section 8 - Capital Structure);
- increased signing bonuses as a result of collective agreement changes resulting from the 2019 CPA Amendments; and
- increased salaries, wages and benefits and maintenance expense of $1.9 million over the previous year due to decreased capitalization of labor and materials on owned CPA aircraft; offset by
- increased aircraft leasing under the CPA attributable to additional revenue earned from 13 Dash 8-300s in 2019 versus revenue earned on eight Dash 8-300s in 2018, inclusive of the positive impact of foreign exchange translation of $3.0 million on this USD denominated revenue stream; and
- a decrease in employee separation program costs.

Non-Operating Expenses

The strengthening of the Canadian dollar versus the US dollar resulted in foreign exchange gains versus foreign exchange losses quarter-over-quarter and year-over-year. These gains/losses 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 gains/losses on long-term debt and lease liabilities do not materially affect current or future cash flows.

Adjusted EBITDA

Adjusted EBITDA decreased for the three months ended December 31, 2019 compared to the same period last year due to decreased operating income described above excluding depreciation expense.

Adjusted EBITDA decreased for the year ended December 31, 2019 compared to the same period last year due to:

- decreased operating income described above excluding depreciation expense; and
- decreased employee separation program costs; offset by
- increased signing bonuses.

Portfolio of Aircraft Leasing under the CPA

- Current fleet of 52 aircraft and five spare engines
- Future committed aircraft of nine CRJ900s in 2020, five ESPs between 2020 and 2022 and five 75-78 seat aircraft anticipated to be delivered in 2025
- Current net book value of $837.0 million[1]
- Approximately $1,531.0 million in future contracted lease revenue[2,3]
- Current weighted average fleet age of 7.2 years[1,4]
- Current weighted average remaining lease term of 8.4 years[1,4]
- 100% debt is fixed rate or hedged with swap
- Current weighted average cost of borrowing of 3.6%

1 This includes only the 52 aircraft and five spare engines.
2 The estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA as at January 1, 2019. A foreign exchange rate of $1.3000 (based on the long-term average historical rate which is reviewed and adjusted annually) was used in the calculation of the estimates.
3 Refer to Section 25 - Caution regarding forward-looking information.
4 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

Operating income increased by $5.4 million and $23.7 million for the three months and year ended December 31, 2019 compared to prior periods primarily due to:

- increased revenue due to the growth in additional aircraft on lease, earned from the equivalent of 54 and 43 aircraft for the three months and year ended December 31, 2019, respectively (2018 - 27 and 24, respectively). The sale of three Dash 8-400s and the wind-up of the related special purpose entities lowered revenue by $3.4 million. Overall, this transaction resulted in net cash proceeds of US $25.0 million and produced a strong internal rate of return since the acquisition of these aircraft. The revenue increase was partially offset by:
- increased depreciation expense as a result of additional aircraft;
- increased salaries, wages and benefits as staffing complement increased to support the segment's growth; and
- increased other expenses also to support the segment's growth.

Non-Operating Expenses

Net interest expense increased period-over-period due to the increase in the number of aircraft being financed.

Foreign exchange gain increased over the prior period due to a foreign exchange recovery of $1.3 million which resulted from the windup of special purpose entities in relation to the sale of three Dash 8-400s.

Adjusted EBT

Fourth quarter 2019 Adjusted EBT remained unchanged from the prior quarter due to the impact of the sale of three Dash 8-400s and the wind-up of the related special purpose entities which resulted in an accounting loss of $2.1 million. Adjusted EBT increased 27.1% for the year ended December 31, 2019 primarily due to the growth in additional aircraft on lease.

Portfolio

Committed Fleet[1]

- Committed fleet of 64 aircraft[1]
- Approximately US $1.3 billion aircraft portfolio[1,3]
- Approximately US $960.0 million in future contracted lease revenue[1,3]

Current Fleet *(as at December 31, 2019)*

- Current weighted average fleet age of 3.2 years[2]
- Current weighted average remaining lease term of 6.7 years[2]
- Chorus has limited net exposure to changes in the interest rates due to its debt and contract terms of 97.3% fixed rate debt (inclusive of floating rate debt that is fixed through the use of swaps) and the remaining 2.7% 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 4.11%[4]

1 Includes all aircraft which have been delivered as well as pending acquisitions and future deliveries for which CAC has received lease commitments.
2 Fleet age and remaining lease term is calculated based on the weighted-average of aircraft net book value.
3 Refer to Section 25 - Caution regarding forward-looking information.
4 Reflects actual borrowings as at December 31, 2019 only.

8 CAPITAL STRUCTURE

Chorus' capital structure currently consists primarily of a combination of equity consisting of Shares and debt consisting of the 6.00% Debentures, the 5.75% Unsecured 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 facilities 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 surplus cash or proceeds from the sale of surplus assets.

Chorus' capital structure was as follows as at December 31, 2019 and December 31, 2018.

(expressed in thousands of Canadian dollars)	**December 31, 2019 $**	**December 31 2018(1) $**	**Change $**
Equity			
Capital	281,849	153,669	128,180
Contributed surplus	1,039,832	1,041,100	(1,268)
Deficit	(716,036)	(783,793)	67,757
Exchange differences on foreign operations	(3,633)	15,850	(19,483)
Equity component of Convertible Units	2,981	2,981	—
	604,993	429,807	175,186
Long-term debt	1,823,130	1,439,729	383,401
Lease liabilities	16,316	22,630	(6,314)
Total capital	2,444,439	1,892,166	552,273

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

As at February 6, 2020 and December 31, 2019, the issued and outstanding Shares of Chorus were as follows:

	February 6, 2020	December 31, 2019
Total issued and outstanding Shares	160,678,919	160,450,995
Shares potentially issuable Stock-based compensation plans and warrants	3,081,590	3,081,590
Total outstanding and potentially dilutive Shares	163,760,509	163,532,585

In addition, up to 24,242,424 Shares are issuable at an exercise price of $8.25 upon the exercise of the Warrants. Furthermore, Shares are issuable to participants in the Corporation's DRIP (as defined below) each time a dividend is declared and paid on the Shares.

On February 4, 2019, the Corporation issued 15,561,600 Class B Voting Shares to Air Canada at a price of $6.25 per Share by way of a private placement for total gross proceeds of $97.3 million. Upon closing this transaction, Chorus and Air Canada entered into an Investor Rights Agreement pursuant to which Air Canada acquired the right to nominate a member to the Corporation's Board of Directors and agreed, for a period of 60 months and subject to limited exceptions, to hold its Shares in the Corporation, participate in the Corporation's dividend reinvestment plan and abide by customary standstill provisions. In addition, the Investor Rights Agreement grants Air Canada certain pro-rata pre-emptive rights in respect of the issuance of further Shares by the Corporation. A copy of the Investor Rights Agreement is available on SEDAR at www.sedar.com.

In December 2019, Chorus raised gross proceeds of $86.3 million from the issuance of the 5.75% Unsecured Debentures. Subject to any required regulatory approval and provided no event of default has occurred and is continuing under the terms of the indenture governing the 5.75% Unsecured Debentures, Chorus has the option to satisfy its obligation to pay the principal amount of the 5.75% Unsecured Debentures due at redemption or maturity (together with any applicable premium) by delivering freely tradable Shares. The 5.75% Unsecured Debentures are not convertible by the holders thereof into Shares at any time.

Dividend Reinvestment Plan ("DRIP")

Chorus implemented a DRIP effective February 1, 2018, which provides Shareholders who are resident in Canada the opportunity to purchase additional Shares using cash dividends paid on Shares enrolled in the DRIP. All Shares purchased under the DRIP are newly issued by the Corporation from treasury, and the proceeds received by the Corporation are used for general corporate purposes.

The price for Shares purchased under the DRIP is equal to 100% of the average market price; however, the Corporation may, from time to time, offer a discount of up to 5% from the average market price for Shares purchased under the DRIP. As of the date of this MD&A, Chorus offers a 4% discount and reserves the right to change or eliminate the discount at any time.

During the year ended December 31, 2019, 2,679,810 Shares were issued under the DRIP at a weighted average price of $7.25 per Share. As at December 31, 2019, the Corporation has issued 4,375,483 Shares under the DRIP since inception. The Corporation may issue a maximum of 6,270,500 Shares under the DRIP before it must seek further approval from the TSX.

Long-term debt

Long-term debt consists of the following:

(expressed in thousands of Canadian dollars)	**December 31, 2019** **$**	**December 31, 2018** **$**
Secured long-term debt and revolving credit facility		
Amortizing term loans		
Secured by aircraft	1,389,286	1,227,716
Secured by engines	8,900	10,937
Revolving credit facility	150,944	—
Secured by office building	8,000	9,000
6.0% Debentures	200,000	200,000
	1,757,130	1,447,653
Unsecured long-term debt		
5.75% Unsecured Debentures	86,250	—
	1,843,380	1,447,653
Less:		
Deferred Financing Fees	(18,131)	(5,452)
Accretion discount on convertible units	(2,119)	(2,472)
	1,823,130	1,439,729
Current portion(1)	164,554	142,652
	1,658,576	1,297,077

(1) The current portion of long-term debt in the above table includes deferred financing fees of $2.9 million, for the year ended December 31, 2019 (December 31, 2018 - $0.3 million).

The principal attributes of Chorus' long-term debt facilities are summarized below. For full details, of the terms of the 6.0% Debentures, the Warrants, the 5.75% Unsecured Debentures 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 3.86%, maturing between June 2021 and December 2031, 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 4.40%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine.

Chorus' revolving credit facility for aircraft acquisitions includes a series of term loans repayable in instalments, bearing floating interest fixed via swap agreements at a weighted average rate of 4.54%, amortizing to January 2025, each secured primarily by the aircraft financed by the loans and a security assignment of the leases in respect thereof. To the extent these loans are repaid during the revolving period, Chorus may re-draw on this facility.

Floating interest rates have been fixed via swap agreements on a portfolio basis related to these loans at a weighted average rate of 4.63%.

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. Furthermore, the loans may become immediately repayable if Jazz undergoes a change of control without the lender’s consent (however, a change of control of the Corporation is deemed not to be a change of control of Jazz for purposes of these financing agreements so long as the Corporation’s Shares are publicly traded).

- 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, 2019, Chorus was in compliance with all of these financial covenants.

Convertible Units

In December 2016, Chorus 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.

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

Each Warrant is exercisable by the holder thereof by paying the exercise price 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 the 6.00% Debentures by Chorus and the business day immediately preceding the maturity date of the 6.00% Debentures. The Warrants also include customary anti-dilution provisions.

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

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

5.75% Unsecured Debentures

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

Subject to any required regulatory approval and provided no event of default has occurred and is continuing under the terms of the indenture governing the 5.75% Unsecured Debentures, Chorus has the option to satisfy its obligation to pay the principal amount of the 5.75% Unsecured Debentures due at redemption or maturity (together with any applicable premium) by delivering freely tradable Shares. The 5.75% Unsecured Debentures are not convertible by the holders thereof into Shares at any time.

Chorus received proceeds of $82.0 million, net of $4.3 million in transaction costs associated with the offering. Transaction costs are capitalized and offset against the 5.75% Unsecured Debentures and amortized over the life of the 5.75% Unsecured Debentures using the effective interest rate.

The 5.75% Unsecured Debentures trade on the Toronto Stock Exchange under the symbol CHR.DB.A.

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

(expressed in thousands of Canadian dollars)	$
No later than one year	167,470
Later than one year and no later than five years	1,057,394
Later than five years	618,516
	1,843,380

Revolving loan facilities

Operating Credit - CAD $75.0 million

Chorus has a three-year committed operating credit facility with a maturity date of August 30, 2022. The facility provides Chorus and certain designated subsidiaries (collectively, the "Credit Parties") with a committed facility of $75.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis.

The facility bears interest for Canadian dollar advances at US dollar LIBOR plus 1.75% - 2.25% and for US dollar advances at LIBOR plus 2.75% - 3.00%. As at December 31, 2019, no amounts were drawn under the facility, however, Chorus has provided letters of credit totaling $9.7 million that reduce the amount available under this facility.

The indebtedness under this facility is secured by all present and after-acquired personal property of the Credit Parties, excluding aircraft, engines and certain real estate property.

Under the terms of this credit facility, Chorus is required to maintain a maximum ratio of total debt to EBITDA, as well as a minimum ratio of EBITDA to fixed charges. As at December 31, 2019, Chorus was in compliance with these covenants.

Any outstanding balance under this facility may become immediately repayable if the Corporation undergoes a change of control without the lender's consent.

Revolving credit facility for aircraft acquisitions - US $300.0 million

On January 21, 2019, Chorus secured a US $300.0 million committed, revolving credit facility to finance future aircraft acquisitions for its regional aircraft leasing business. The facility provides a revolving period of between 24 and 36 months (depending on the level of utilization in the first 24 months) and a 48-month term out period. The facility also provides an uncommitted option to expand by US $100.0 million to US $400.0 million.

The revolving portion of the facility ends in January 2021 with an option to convert to an amortizing term loan for a further four years maturing in January 2025. During the revolving period, amortization will be 5% annually. During the term-out period, the loans will amortize based on a 12-year straight-line full pay-out schedule, adjusted for the age of the aircraft at the time of addition to the facility. The facility may be prepaid in part or in full subject to a US $5.0 million minimum prepayment.

The facility bears interest at US dollar LIBOR plus 2.75% during the revolving period and ranging from LIBOR plus 3.00% - 4.75% during the term-out period. As of December 31, 2019, $150.9 million (US $116.2 million) was drawn on the facility.

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, 2019, Chorus was in compliance with these covenants.

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

Interest Rate Risk

Investments included in Chorus' cash earn interest at prevailing and fluctuating market rates, as Chorus' objective is to maintain these balances in highly liquid investments.

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. At December 31, 2019, 97.3% of Chorus' debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 2.7% was floating rate debt. Approximately 38.8% of the floating rate debt 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 warehouse revolving 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. All interest rate swaps are designated and effective as cash flow hedges. The fair value liability of interest rate swaps was $2.4 million at December 31, 2019 and is recorded in other long-term liabilities. Changes in the fair value of interest rate swaps are recorded in other comprehensive income. During the three months and year ended December 31, 2019, Chorus recognized other comprehensive income (loss) of $1.3 million and ($3.3 million) respectively, net of tax (December 31, 2018 - $0.3 million and $2.1 million respectively).

Chorus manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account 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 period ended December 31, 2019.

Foreign Exchange Rate Risk

Chorus receives revenue and incurs expenses in U.S. dollars, Canadian dollars and Euros. Chorus manages its exposure to currency risk in its Regional Aviation Services 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 U.S. 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 Regional Aviation Leasing division by borrowing in the same currencies as the related lease revenues.

The amount of US dollar denominated assets was $43.2 million and US denominated liabilities was $683.3 million at December 31, 2019. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $6.4 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 implemented a Total Return Swap in the fourth quarter of 2019. The Total Return Swap is intended to economically hedge the variability of Chorus' share price affecting settlement under its various stock-based compensation programs. 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 Total Return Swap was $0.7 million at December 31, 2019 and is recorded in other long-term assets. A corresponding gain of $0.7 million has been recorded in operating income during the year ended December 31, 2019 (December 31, 2018 - $nil). For additional information, please refer to note 3(h) and 3(i), Significant Accounting Polices, of the audited consolidated financial statements of Chorus for the year ended December 31, 2019

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, 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 December 31, 2019, Chorus had $87.2 million in cash and a committed facility of up to $75.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis. No amounts were drawn as of December 31, 2019, however, Chorus has provided letters of credit totaling $9.7 million that reduce the amount available under this facility.

In December 2019, Chorus invested cash of approximately US $65.0 million to purchase four aircraft. Chorus plans to refinance these aircraft in the first half of 2020, at which time it expects to receive proceeds of approximately US $46.0 million. Refer to Section 25 - Caution regarding forward-looking information.

Chorus' cash balance will be used to fund the growth of its business, as well as for working capital requirements and general corporate purposes. Chorus is satisfied that it has ample liquidity to satisfy its requirements. (Refer to Section 25 - Caution regarding forward-looking information.)

Working Capital

Chorus' working capital is not a good measure of its liquidity due to the fact that current liabilities include the current portion of long-term debt, whereas the current assets do not include the current portion of the long-term aircraft 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, 2019 balance sheet was $136.4 million (2018 - $106.3 million). The current portion of contracted aircraft lease receivables as at December 31, 2019 is estimated to be approximately $290.4 million converted to CAD at the December 31, 2019 month end rate of 1.2988. Working capital adjusted for the current portion of estimated long-term aircraft lease receivables reflects a surplus of approximately $154.0 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.

Chorus’ leverage ratio (measured as Adjusted net debt to trailing 12-month Adjusted EBITDA) was 5.1 as at December 31, 2019 (December 31, 2018 - 4.0). Leverage increased in 2019 compared to 2018 due to growth in the regional aircraft leasing business, which is largely financed with debt. Over time Chorus' overall leverage is expected to continue to shift to be more in line with market acceptable levels for regional aircraft leasing businesses. (Refer to Section 18 - Non-GAAP Financial Measures. Refer to Section 25 - Caution regarding forward-looking information.)

Cash Flows

The following table provides information on Chorus' cash flows for the three months and years ended December 31, 2019 and December 31, 2018.

	Three months ended December 31,		Year ended December 31,	
	2019	2018(1)	2019	2018(1)
(expressed in thousands of Canadian dollars)	$	$	$	$
Cash provided by operating activities	88,734	60,168	261,707	239,233
Cash provided by financing activities	140,684	16,960	492,591	83,973
Cash used in investing activities	(222,445)	(168,419)	(755,029)	(315,753)
Cash flow from operating, financing and investing activities	6,973	(91,291)	(731)	7,453
Effect of foreign exchange rate changes on cash	(1,646)	5,282	(4,694)	7,132
Net change in cash during the periods	5,327	(86,009)	(5,425)	14,585
Cash – Beginning of periods	81,840	178,601	92,592	78,007
Cash – End of periods	87,167	92,592	87,167	92,592

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

Cash provided by operating activities

Chorus continues to generate positive operating income and cash flows from operations producing $88.7 million for the three months ended December 31, 2019, compared to $60.2 million for the three months ended December 31, 2018. The increase was primarily due to changes in working capital, partially offset by decreased operating income.

Chorus continues to generate positive operating income and cash flows from operations producing $261.7 million for the year ended December 31, 2019, compared to $239.2 million for the year ended December 31, 2018. The increase was due to changes in working capital, partially offset by decreased operating income.

Cash provided by financing activities

Cash provided by financing activities for the three months ended December 31, 2019 was $140.7 million, composed primarily of $163.3 million of borrowings, net of financing fees on new loans related to aircraft acquisitions and net proceeds of $82.0 million received from the 5.75% Unsecured Debentures, net of transaction costs, offset by scheduled payments on long-term borrowings of $89.6 million and cash dividends paid of $13.6 million (net of $5.8 million related to the DRIP).

Cash provided by financing activities for the three months ended December 31, 2018 was $17.0 million, composed primarily of $66.1 million of borrowings, net of financing fees on new loans related to aircraft acquisitions, offset by scheduled payments on long-term borrowings of $35.4 million and cash dividends paid of $12.8 million (net of $4.1 million related to the DRIP).

Cash provided by financing activities for the year ended December 31, 2019 was $492.6 million composed primarily of $562.7 million of borrowings, net of financing fees on new loans related to aircraft acquisitions, net proceeds received from the issuance of Shares in the amount of $97.3 million, net proceeds of $82.0 million received from the 5.75% Unsecured Debentures, net of transaction costs and $9.0 million from proceeds on stock options exercised;

partially offset by scheduled payments on long-term borrowings of $196.6 million and cash dividends of $55.3 million (net of $20.2 million related to the DRIP).

Cash provided by financing activities for the year ended December 31, 2018 was $84.0 million, composed primarily of $167.0 million of borrowings, net of financing fees on new loans related to aircraft acquisitions, net proceeds received from the issuance of Shares in the amount of $107.1 million; partially offset by scheduled payments on long-term borrowings of $127.3 million, cash dividends of $53.6 million (net of $11.9 million related to the DRIP) and payment of consideration payable of $4.5 million.

Cash used in investing activities

Cash used in investing activities for the three months ended December 31, 2019 was $222.4 million, which includes capital expenditures of $318.0 million for the acquisition of 11 aircraft, the completion of three ESP aircraft as well as major maintenance overhauls and other capital expenditures. This was offset by proceeds received on the disposal of property and equipment of $85.3 million, decreased restricted cash of $6.2 million and increased security deposits and maintenance reserves of $2.7 million related to leased aircraft.

Cash used in investing activities for the three months ended December 31, 2018 was $168.4 million which includes capital expenditures of $172.2 million for the acquisition of four aircraft as well as major maintenance overhauls and other capital expenditures and an increase in restricted cash of $2.2 million. This was offset by increased security deposits and maintenance reserves of $4.8 million related to leased aircraft.

Cash used in investing activities for the year ended December 31, 2019, was $755.0 million which includes capital expenditures of $875.7 million for the acquisition of 34 aircraft, the completion of five ESP aircraft, as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $7.7 million. This was offset by proceeds received on the disposal of property and equipment of $85.5 million and increased security deposits and maintenance reserves of $37.8 million related to leased aircraft.

Cash used in investing activities for the year ended December 31, 2018 was $315.8 million which includes capital expenditures of $326.7 million for the acquisition of eight aircraft, the completion of four ESP aircraft as well as major maintenance overhauls and other capital expenditures and increased restricted cash of $5.3 million. This was offset by increased security deposits and maintenance reserves of $11.9 million related to leased aircraft.

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,		
	2019 $	2018 $	Change $	2019 $	2018 $	Change $
Capital expenditures, excluding aircraft acquisitions and ESP	9,990	6,106	3,884	31,547	19,624	11,923
Capitalized major maintenance overhauls	2,805	7,457	(4,652)	14,444	22,542	(8,098)
Aircraft acquisitions and ESP(1)(2)	305,165	158,610	146,555	829,710	284,546	545,164
Total capital expenditures	317,960	172,173	145,787	875,701	326,712	548,989

(1) 2019 includes the acquisition of 18 Dash 8-400s, 14 ATR72-600s, five ESPs, two A220-300s and aircraft deposits.
(2) 2018 includes the acquisition of two CRJ900s, four Q400s, two ATR 72-600s, four ESPs and aircraft deposits.

Commitments for capital expenditures

Chorus entered into an agreement to be the launch customer for the ESP, which is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). The program began in April 2017 and 13 aircraft were completed as of December 31, 2019. The cost for each aircraft that undergoes the program includes the parts and anticipated labour costs to complete the service bulletin. The anticipated cost (a portion of which will be incurred in US dollars) for the years 2020, 2021 and 2022 is expected to be approximately $4.0 million, per annum (US dollar amounts were converted to Canadian dollars at $1.2988, the December 31, 2019 closing day rate from the Bank of Canada). In connection with the issuance of the Convertible Units and the granting of certain aircraft security to the holders thereof, Chorus is required to complete the ESP for 11 Dash 8-300s by no later than December 31, 2019, three by December 31, 2020 and a further two Dash 8-300s by no later than December 31, 2022, for a total investment commitment of at least $56.9 million, which includes amounts previously spent in 2015 to 2018.[1] (Refer to Section 25 - Caution regarding forward-looking information.)

1 Terms of ESP completions were amended and approved in Q1 2019 by the aircraft security holders to accommodate fleet changes as a result of the 2019 CPA Amendments. During the second quarter of 2019, a Dash 8-300 was damaged beyond repair. As a result, the total number of ESPs have been reduced to 18 Dash 8-300s.

Chorus' announced aircraft transactions include the following pending deliveries as at December 31, 2019:

- An agreement to purchase and lease nine CRJ900s to Air Canada with deliveries expected in the second, third and fourth quarters of 2020.
- An agreement to purchase and lease three A220-300s to airBaltic with deliveries expected in the second and third quarters of 2020.
- An agreement to purchase and lease one new ATR72-600 to the Lion Air Group with deliveries expected by the end of 2020.

The aggregate amount to be paid on account of the foregoing capital commitments beyond December 31, 2019 through 2022 is expected to be between $442.0 million and $452.0 million funded from existing and new debt facilities as well as available cash resources. (US dollar amounts were converted to Canadian dollars at $1.2988, the December 31, 2019 closing day rate from the Bank of Canada.) All pending acquisitions and lease commitments are subject to the satisfaction of customary conditions precedent to closing. (Refer to Section 25 - Caution regarding forward-looking information.)

Five 75-78 seat aircraft anticipated in or about 2025 pursuant to the CPA are not included in the preceding capital commitments.

Dividends

Chorus pays a monthly dividend of $0.04 per Share.

Chorus declared dividends of $19.4 million and $76.3 million, respectively, for the three months and year ended December 31, 2019 (2018 - $16.9 million and $66.2 million respectively).

For the three months and year ended December 31, 2019, Chorus paid dividends net of the Shares issued under the DRIP of $13.6 million and $55.3 million respectively (2018 - $12.8 million and $53.6 million respectively). The DRIP was initiated in February 2018. (See Section 8 - Capital Structure for details of Chorus' dividend reinvestment plan.) Dividends are subject to the discretion of Chorus' Board of Directors.

Contractual obligations and other commitments

In addition to the commitments for capital expenditures previously noted, as at December 31, 2019, Chorus has commitments related to scheduled payments of principal and interest on long-term debt and lease liabilities for the years 2020 through to 2024 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	2,199,964	243,722	514,293	772,917	669,032
Lease liabilities	19,026	6,797	7,122	4,162	945
	2,218,990	250,519	521,415	777,079	669,977

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 $1.2988.

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 income

As at December 31, 2019, Chorus has commitments from aircraft lessees related to scheduled payments of lease revenues under operating leases for aircraft for the years 2020 through to 2024 and thereafter, all of which are summarized in the following table:

		Payments Due by Period			
	Total	**Within 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**	**$**	**$**
Operating leases	2,186,084	300,803	593,010	508,043	784,228

A significant portion of lease payments are receivable in US dollars and have been converted using a foreign exchange rate of $1.2988.

The foregoing contains forward-looking information and actual future lease income 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 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

Due to Chorus' economic exposure to Air Canada (refer to Section 11 - Economic Dependence), Chorus is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity. For a more detailed description of the possible risk factors associated with Chorus' business, including its dependence on the CPA and risks relating to the aircraft leasing business carried on by CAC, please refer to the section entitled "Risk Factors" in Chorus' Annual Information Form dated February 12, 2020.

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, 2019 and 2018.)

12 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates and judgments may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates.[1]

[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, 2019 and 2018.

Other Future Employee 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 5.5% per annum for 2019 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, 2019	2018
Weighted average assumptions used to determine accrued benefit obligation		
- Discount rate	2.9% - 3.1%	3.6% - 3.8%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation - Select	5.5%	5.5%
- 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	3.6% - 3.8%	3.2% - 3.5%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation - Select	5.5%	5.8%
- Health care inflation - Ultimate	4.0%	4.5%
- Year ultimate trend reached	2040	2029

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 and amortization expense.

A 10% reduction to the residual values of aircraft would result in an increase of $6.3 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 annually for impairment or 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 sales and value in use. An impairment charge would be recorded if the recoverable amount is less than the carrying amount of the assets being tested.

In assessing recoverable amounts, Chorus makes estimates about the expected useful lives and the residual value of aircraft, supported by estimates received from independent appraisers, for the same or similar aircraft types and considers Chorus' anticipated utilization of the aircraft. In determining the residual value of the aircraft, Chorus also applies a future inflation rate assumption. The value in use is estimated by taking the present value of future cash flows obtainable as a result of an asset's continued use, including those from its ultimate disposal, discounted at 5.6% at December 31, 2019.

The calculation of value in use for aircraft showing signs of impairment requires the use of judgement in the assessment of estimated future cash flows associated with the aircraft and its eventual disposition. Future cash flows are assumed to occur under the current market conditions and assume adequate time for a sale between a willing buyer and seller. Changes in the expected residual value, inflation rate and discount rate assumptions could have a material impact on Chorus's conclusion.

Income taxes

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors potential changes to tax law and bases its estimates on the best available information at each reporting date.

Leases

Management makes assumptions and estimations in the determination of the incremental borrowing rates used to calculate the present value of lease payments. Chorus exercises judgment when assessing whether renewal options are reasonably certain to be exercised and when assessing whether an arrangement contains a lease.

13 CHANGES IN ACCOUNTING STANDARDS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2019 consolidated financial statements, except for the following:

New accounting standards adopted during the period

IFRS 16 - *Leases*

On January 1, 2019, Chorus adopted *IFRS 16* using the retrospective transition approach with restatement to comparative periods. The impacts from adoption of the new standard are outlined below.

Aircraft leased from Air Canada and subleased to Air Canada under the CPA - Refer to adjustments (a) in the transition impact table below.

Lease revenues embedded in the CPA related to providing Air Canada the right to use the Covered Aircraft were previously accounted for as operating leases. The associated lease income generated was included in revenue in the statement of income.

Chorus leases 47 aircraft and six spare engines from Air Canada that constitute the Covered Aircraft used to fulfill its obligations under the CPA. Chorus has determined that these lease agreements with Air Canada and the CPA meet the contract combination requirements in IFRS 16 and therefore should be accounted for as a single contract. When viewing the agreements as one contract, Chorus does not have the right to direct the use of the aircraft and therefore, no leases have been identified. This conclusion resulted in revenue and operating expenses being reduced by equal amounts, corresponding to the amount of lease payments.

Chorus previously recorded leasehold improvements, deferred lease inducements, deferred transaction fees and prepaid rent related to certain of these 47 aircraft and six engines. Given that a lease no longer exists, these assets and liabilities have been re-characterized. On application of IFRS 16, work performed related to these leasehold improvements is viewed as services provided by Chorus to Air Canada that are accounted for under IFRS 15. The deferred transaction costs, deferred lease inducements and prepaid rent have been recognized on a net basis as a receivable from or payable to Air Canada. These changes primarily impacted certain classifications of assets and liabilities on the balance sheet.

Aircraft leased from third parties and subleased to Air Canada under the CPA - Refer to adjustments (b) in the transition impact table below.

Chorus supplies Air Canada with five aircraft that are leased from third parties under the CPA. These third-party leases were previously classified as a mix of operating and finance leases. Chorus has determined that it is subleasing the aircraft to Air Canada and therefore assessed the classification of these leases by reference to the right-of-use asset arising from the head lease rather than the underlying asset. As a result, the classification of the operating subleases changed to finance leases.

As the lessee, Chorus has a right-of-use asset and lease liability related to the head lease. However, as the intermediate lessor to Air Canada, Chorus derecognized the right-of-use asset and recognized a lease receivable. Due to the change in classification of the sublease, interest income is recognized rather than lease income from Air Canada. In addition, due to the recognition of the lease liability, interest expense is recognized rather than straight-line lease expense.

The new standard did not result in any adjustments in relation to the remainder of the Covered Aircraft used under the CPA, which are owned by Chorus.

Facilities - Refer to adjustments (c) in the transition impact table below.

Chorus has leases related to airport terminal operations that represent Chorus' right to use designated facility space at airport locations. On adoption of IFRS 16, right-of-use assets and lease liabilities have been recognized in relation to facilities that are not short-term leases.

Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 16 on Chorus' consolidated financial statements.

Consolidated Statements of Financial Position

January 1, 2018 *(expressed in thousands of Canadian dollars)*	As previously reported	IFRS 16 adoption	Adjustments	As restated
Prepaid expenses and deposits	12,920	(1,586)	*(a),(b)*	11,334
Current portion of lease receivables	—	4,511	*(b)*	4,511
Lease receivables	—	17,522	*(b)*	17,522
Property and equipment	1,742,674	(5,747)	*(b),(c)*	1,736,927
Other long-term assets	33,647	(5,285)	*(a),(b)*	28,362
Accounts payable and accrued payables	215,196	(1,286)	*(a)*	213,910
Current portion of lease liabilities	2,762	3,417	*(b),(c)*	6,179
Lease liabilities	5,219	15,713	*(b),(c)*	20,932
Deferred income tax liability	135,740	(163)		135,577
Other long-term liabilities	65,679	(7,844)	*(a)*	57,835
Equity	282,022	(422)		281,600

Consolidated Statements of Financial Position

December 31, 2018 *(expressed in thousands of Canadian dollars)*	As previously reported	IFRS 16 adoption	Adjustments	As restated
Prepaid expenses and deposits	13,535	(2,049)	*(a),(b)*	11,486
Current portion of lease receivables	—	5,190	*(b)*	5,190
Lease receivables	—	13,865	*(b)*	13,865
Property and equipment	2,001,099	(3,547)	*(b),(c)*	1,997,552
Other long-term assets	41,693	(4,203)	*(a),(b)*	37,490
Accounts payable and accrued payables	190,311	(1,263)	*(a)*	189,048
Current portion of lease liabilities	3,117	3,603	*(b),(c)*	6,720
Lease liabilities	2,558	13,352	*(b),(c)*	15,910
Deferred income tax liability	172,254	8		172,262
Other long-term liabilities	67,595	(6,464)	*(a)*	61,131
Equity	429,787	20		429,807

Consolidated Statements of Income

(in thousands of Canadian dollars)	Three months ended December 31, 2018				Year ended December 31, 2018			
	As previously reported	IFRS 16 adoption	Adjustments	As restated	As previously reported	IFRS 16 adoption	Adjustments	As restated
Operating revenue	358,663	(24,939)	*(a),(b)*	333,724	1,451,194	(97,907)	*(a),(b)*	1,353,287
Depreciation and amortization	31,130	(552)	*(a),(b),(c)*	30,578	120,687	(2,200)	*(a),(b),(c)*	118,487
Aircraft rent(1)	24,861	(24,008)	*(a),(b)*	853	98,023	(94,279)	*(a),(b)*	3,744
Other	33,802	(379)	*(c)*	33,423	139,867	(1,496)	*(c)*	138,371
Foreign exchange loss	(33,806)	302	*(b)*	(33,504)	(56,530)	544	*(b)*	(55,986)
Deferred income tax	(10,536)	(84)		(10,620)	(35,041)	(170)		(35,211)
Net income	2,019	218		2,237	66,988	442		67,430
Earnings per share, basic	0.01	0.01		0.02	0.49	—		0.49
Earnings per share, diluted	0.01	0.01		0.02	0.48	—		0.48

(1) The remainder of aircraft rent, after the IFRS 16 adjustments, relates to short-term and/or variable engine lease contracts and as a result has been reclassified to other expense.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)	Three months ended December 31, 2018				Year ended December 31, 2018			
	As previously reported	IFRS 16 adoption	Adjustments	As restated	As previously reported	IFRS 16 adoption	Adjustments	As restated
Net income	2,019	218		2,237	66,988	442		67,430
Depreciation and amortization	31,130	(552)	*(a),(b),(c)*	30,578	120,687	(2,200)	*(a),(b),(c)*	118,487
Amortization of accrued transaction and financing fees	741	(395)	*(a)*	346	2,972	(1,581)	*(a)*	1,391
Deferred income tax expense	10,536	84		10,620	35,041	170		35,211
Net changes in non-cash balances related to operations	(17,729)	594		(17,135)	(41,976)	2,366		(39,610)
Net cash from operating activities	60,219	(51)		60,168	240,036	(803)		239,233
Repayment of lease liabilities	(737)	(164)	*(b),(c)*	(901)	(2,850)	(2,175)	*(b),(c)*	(5,025)
Net cash from financing activities	17,124	(164)		16,960	86,148	(2,175)		83,973
Payments received on lease receivables	—	215	*(b)*	215	—	2,978	*(b)*	2,978
Net cash from investing activities	(168,634)	215		(168,419)	(318,731)	2,978		(315,753)

Accounting standards issued but not yet applied

The IASB issued *Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39, and IFRS 7*. The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships directly affected by interest rate benchmark reform. The amendments modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. Chorus is currently evaluating the impact of these amendments on its consolidated financial statements.

14 FAIR VALUE OF FINANCIAL INSTRUMENTS

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, ABCP, total return swap, accounts payable and accrued liabilities, dividends payable, 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, accounts payable and accrued liabilities and dividends payable 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:

- Asset Backed Commercial Paper ("ABCP")

  At December 31, 2019, the ABCP had a fair value and carrying value of $0.4 million. The ABCP is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis.

- Lease receivables

  At December 31, 2019, the lease receivables had a fair value of $14.3 million versus a carrying value of $13.2 million. Chorus' annual cash flows have been discounted at the relevant market interest rates.

- Amortizing term loans

  At December 31, 2019, the term loans had a fair value of $1,561.5 million versus a carrying value of $1,546.0 million. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- Convertible Units

  At December 31, 2019, the Convertible Units had a fair value of $219.3 million versus a carrying value of $195.1 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.

- 5.75% Unsecured Debentures

  At December 31, 2019, the 5.75% Unsecured Debentures had a fair value of $88.1 million versus a carrying value of $82.0 million, net of transaction costs associated with the offering. The fair value is based on quoted prices observed in active markets.

- Interest rate swaps

  At December 31, 2019, the interest rate swaps had a fair value and carrying value liability of $2.4 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 swaps

  At December 31, 2019, the total return swaps had a fair value and carrying value of $0.7 million. The fair value of total return swaps, 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 2020 to 2024:

(expressed in thousands of Canadian dollars)	2020 $	2021 $	2022 $	2023 $	2024 $
Defined benefit pension plans, current service	26,200	28,600	28,100	27,400	26,900
Defined benefit pension plan, past service	3,500	—	—	—	—
Defined contribution pension plans	18,400	19,300	20,500	21,000	21,500
Projected pension funding obligations	48,100	47,900	48,600	48,400	48,400

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 January 1, 2019 financial position of the plan for funding purposes and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the SERP DB Plan are based on a funding policy adopted by Chorus and the January 1, 2019 financial position of the plan for funding purposes.

The solvency deficiency for the Pilot DB Plan as at January 1, 2019 was $36.6 million compared with $31.5 million as at January 1, 2018.

The January 1, 2019 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, 2020, 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, 2019, 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 information required to be disclosed in any public filings is recorded, processed, summarized and reported on a timely basis. Chorus' internal controls over financial reporting ("ICFR") have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. They were both designed based on the framework established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

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, 2019, 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, 2019 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, 2019, and approved these documents prior to their release.

18 NON-GAAP FINANCIAL MEASURES

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

Adjusted Net Income, Adjusted EBT and Adjusted EBITDA

Adjusted net income and Adjusted net income per Share are used by Chorus to assess performance without the effects of unrealized foreign exchange gains or losses on long-term debt and lease liability related to aircraft, signing bonuses, employee separation program costs and strategic advisory fees. 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.)

EBT is defined as earnings before income tax. Adjusted EBT (EBT before signing bonuses, employee separation program 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 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, and depreciation and amortization 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 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 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.

	Three months ended December 31,			**Year ended December 31,**		
(expressed in thousands of Canadian dollars, except per share amounts)	**2019 $**	**2018[(1)] $**	**Change $**	**2019 $**	**2018[(1)] $**	**Change $**
Net income	36,577	2,237	34,340	**133,160**	**67,430**	**65,730**
Add (Deduct) items to get to Adjusted net income						
Unrealized foreign exchange (gain) loss	(13,354)	32,869	(46,223)	(41,305)	49,482	(90,787)
Employee separation program	61	217	(156)	2,308	5,364	(3,056)
Signing bonuses	—	—	—	2,000	—	2,000
	(13,293)	33,086	(46,379)	(36,997)	54,846	(91,843)
Adjusted net income	**23,284**	**35,323**	**(12,039)**	**96,163**	**122,276**	**(26,113)**
Adjusted net income per Share - basic	**0.15**	**0.25**	**(0.10)**	**0.61**	**0.90**	**(0.29)**
Add items to get to Adjusted EBT						
Income tax expense	5,362	11,095	(5,733)	25,100	37,344	(12,244)
Adjusted EBT	**28,646**	**46,418**	**(17,772)**	**121,263**	**159,620**	**(38,357)**
Add (Deduct) items to get to Adjusted EBITDA						
Net interest expense	19,730	14,447	5,283	71,768	56,285	15,483
Depreciation and amortization	37,142	30,578	6,564	136,948	118,487	18,461
Foreign exchange loss	1,453	635	818	10,692	6,504	4,188
Loss (gain) on disposal of property and equipment	1,270	(22)	1,292	653	164	489
Other	395	—	395	395	(500)	895
	59,990	45,638	14,352	220,456	180,940	39,516
Adjusted EBITDA	**88,636**	**92,056**	**(3,420)**	**341,719**	**340,560**	**1,159**

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

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, 2019** **$**	**December 31, 2018[1]** **$**	**Change** **$**
Long-term debt (including current portion)	1,839,446	1,462,359	377,087
Less: Cash	(87,167)	(92,592)	5,425
Net debt	1,752,279	1,369,767	382,512
Adjusted net debt	1,752,279	1,369,767	382,512
Adjusted EBITDA[2]	341,719	340,560	1,159
Leverage ratio	5.1	4.0	1.1

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

(2) As a result of the implementation of IFRS 16, aircraft rent was eliminated from the statement of income. (Refer to Section 13 Changes in Accounting Standards for further information.)

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, 2019, Adjusted net debt increased from $1,369.8 million to $1,752.3 million, representing an increase of $382.5 million or 27.9% from December 31, 2018. The increase was primarily related to increased long-term borrowings of $562.7 million and net proceeds of $82.0 million received from the 5.75% Unsecured Debentures, net of transaction costs; offset by the impact of a lower US dollar exchange rate which decreased long-term debt by approximately $78.7 million and $203.1 million in scheduled payments on long-term borrowings and lease liabilities.

Chorus' leverage ratio (Adjusted net debt to trailing 12-month Adjusted EBITDA) was 5.1 as at December 31, 2019 (December 31, 2018 - 4.0). Leverage increased for December 31, 2019 compared to year ended December 31, 2018. Leverage as measured on an Adjusted net debt to Adjusted EBITDA basis is typically higher in the regional aircraft leasing business. As the regional aircraft leasing business continues to grow, Chorus' overall leverage will migrate to be more in line with market acceptable levels for regional aircraft leasing businesses.

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,		
	2019	2018[(1)]	Change	2019	2018[(1)]	Change
(expressed in thousands of Canadian dollars)	$	$	$	$	$	$
Cash Provided by Operating Activities	88,734	60,168	28,566	261,707	239,233	22,474
Add (Deduct)						
Net changes in non-cash balances related to operations	(14,305)	17,135	(31,440)	4,628	39,610	(34,982)
Capital expenditures, excluding aircraft acquisitions and ESP	(9,990)	(6,106)	(3,884)	(31,547)	(19,624)	(11,923)
Capitalized major maintenance overhauls	(2,805)	(7,457)	4,652	(14,444)	(22,542)	8,098
Adjusted Cash Provided by Operating Activities	**61,634**	**63,740**	**(2,106)**	**220,344**	**236,677**	**(16,333)**

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

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 twelve months ended		
(expressed in thousands of Canadian dollars)	**December 31, 2019 $**	**December 31, 2018[1] $**	**Change $**
Income before income taxes	158,260	104,774	53,486
Unrealized foreign exchange (gain) loss	(41,305)	49,482	(90,787)
	116,955	154,256	(37,301)
Add:			
Finance costs	74,820	59,209	15,611
	191,775	213,465	(21,690)
Invested capital:			
Average long-term debt[2]	1,650,903	1,373,449	257,982
Average lease liabilities[3]	19,473	24,870	(5,397)
Average consideration payable[4]	—	2,194	(2,194)
Average Shareholders' equity	517,400	355,704	161,696
	2,187,776	1,756,217	431,559
Return on invested capital	8.8 %	12.2 %	(3.4)%

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.
(2) Average long-term debt includes the current portion and long-term portion.
(3) Average lease liabilities includes the current portion and long-term portion.
(4) Average obligations under consideration payable includes the current portion.

During 2019, the average return on invested capital decreased from 12.2% to 8.8%. The decrease is due to the Air Canada Investment, the 5.75% Unsecured Debenture and higher long-term debt for the Regional Aircraft Leasing segment; partially offset by higher aircraft leasing income in the trailing 12 months of December 31, 2019 versus December 2018 relative to the invested capital. The regional aircraft leasing business is both capital intensive and more reliant on debt than equity financing. This may lead to Chorus changing its measure of return to return on equity in the future as its regional aircraft leasing business expands.

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 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018(1)	Q3 2018(1)	Q2 2018(1)	Q1 2018(1)
Chorus								
Total revenue ($000)	338,606	351,454	332,520	343,867	333,724	341,993	353,907	323,663
Net income ($000)	36,577	24,195	38,941	33,447	2,237	43,649	16,314	5,230
Adjusted net income(2) ($000)	23,284	29,177	24,653	19,049	35,323	30,765	29,525	26,663
Adjusted EBITDA(2) ($000)	88,636	92,639	85,720	74,724	92,056	86,851	84,100	77,553
Net income per Share, basic ($)	0.23	0.15	0.25	0.22	0.02	0.31	0.12	0.04
Net income per Share, diluted ($)	0.23	0.15	0.24	0.22	0.02	0.31	0.12	0.04
Adjusted net income,(2) per Share - basic ($)	0.15	0.18	0.16	0.13	0.25	0.22	0.21	0.21
FTE employees (end of period)	4,910	4,985	4,938	4,851	4,826	4,949	4,985	4,921
Number of aircraft (end of period)	213	199	184	179	174	171	169	169
Jazz								
Departures	56,299	60,111	56,415	54,738	57,798	62,584	60,233	55,376
Block Hours	84,950	90,540	82,938	83,799	87,838	95,891	89,394	83,522
Billable Block Hours	87,532	91,391	83,903	88,386	89,980	96,879	90,639	88,153

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

(2) 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 2017 through to 2019. The information for 2017 is reported on an IAS 17 basis (prior to the adoption of IFRS 16) while the information for 2018 and 2019 are reported on an IFRS 16 basis.

	Year ended December 31,		
	2019	2018	2017
(expressed in thousands of Canadian dollars, except per Share amounts)	$	$	$
Revenue	1,366,447	1,353,287	1,352,200
Operating income	200,463	216,709	173,046
Net income	133,160	67,430	167,323
Cash	87,167	92,592	78,007
Total assets	2,945,694	2,325,281	2,024,645
Total long-term liabilities	1,969,637	1,546,380	1,395,240
Dividends declared	76,315	66,215	59,278
Cash provided by operating activities	261,707	239,233	267,621
Per Share			
Operating income, basic	1.28	1.59	1.40
Net income, basic	0.85	0.49	1.36
Net income, diluted	0.84	0.48	1.33
Dividends declared	0.48	0.48	0.48

2019 Compared to 2018

The 2019 results compared to the 2018 results are discussed throughout this MD&A.

Revenue increased mainly due to the significant increase in aircraft under lease for the Regional Aircraft Leasing segment, offset by the Regional Aviation Services segment's expected decrease in the same periods due to decreased CPA revenue.

Operating income decreased due to reduced CPA revenue as well as higher stock-based compensation in the Regional Aviation Services segment partially offset by the growth in the Regional Aircraft Leasing segment.

Net income increased primarily related to unrealized foreign exchange gains due to a change in the foreign exchange rate and lower income tax.

Cash decreased primarily as a result of cash used to purchase four aircraft for the Regional Aircraft Leasing segment, partially offset by net proceeds of $82.0 million from the issuance of 5.75% Unsecured Debentures, net of transaction costs.

Total assets increased primarily as a result of the purchase of aircraft related to Regional Aircraft Leasing segment.

Total long-term liabilities increased primarily as a result of new long-term borrowings related to the acquisition of aircraft noted above, a change in the foreign exchange rate on long-term debt and net proceeds of $82.0 million received from the 5.75% Unsecured Debentures, net of transaction costs; offset by repayment of long-term debt.

2018 Compared to 2017

The following compares the 2018 results to 2017.

The following line items are not comparable to 2017 due to the material impact of IFRS16 adjustments on revenue, total assets and total liabilities.

Notwithstanding the impact of the reduction to 2018 revenues as a result of IFRS 16 of $97.9 million, revenues increased mainly as a result of increased third party aircraft leasing revenue and increased aircraft leasing revenue under the CPA; offset by decreased contract flying in Voyageur

Operating income increased mainly as a result of additional revenue for the new regional aircraft leasing segment. Operating income also increased due to decreased stock based compensation expense and increased aircraft leasing earnings under the CPA. These increases were offset by higher depreciation related to new aircraft and a reduction in capitalized labour and maintenance costs on owned aircraft for major maintenance overhauls.

Net income decreased primarily related to unrealized foreign exchange losses due to a change in the foreign exchange rate and higher income tax.

Cash increased primarily as a result of net proceeds of $107.1 million in relation to the public offering of Shares; offset by cash used to purchase aircraft for the Regional Aircraft Leasing segment.

Notwithstanding the impact of the increase to 2018 total assets as a result of IFRS 16 of $9.3 million, total assets increased primarily as a result of the purchase of aircraft related to Regional Aircraft Leasing segment and the increased cash as discussed above.

Notwithstanding the impact of the increase to 2018 total liabilities as a result of IFRS 16 of $9.2 million, total long-term liabilities increased primarily as a result of new long-term borrowings related to the acquisition of aircraft noted above and a change in the foreign exchange rate on long-term debt; offset by repayment of long-term debt and the consideration payable.

21 REGIONAL AVIATION SERVICES REVENUE

(expressed in thousands of Canadian dollars)	Three months ended December 31,				Year ended December 31,			
	2019 $	2018[1] $	Change $	Change %	2019 $	2018[1] $	Change $	Change %
Controllable Revenue	173,003	170,522	2,481	1.5	721,508	713,350	8,158	1.1
Pass-Through Revenue	54,755	51,999	2,756	5.3	212,564	215,347	(2,783)	(1.3)
Fixed Margin[2]	18,810	27,917	(9,107)	(32.6)	75,240	111,670	(36,430)	(32.6)
Incentive Revenue	654	4,324	(3,670)	(84.9)	2,068	14,067	(11,999)	(85.3)
	247,222	254,762	(7,540)	(3.0)	1,011,380	1,054,434	(43,054)	(4.1)
Aircraft leasing under the CPA	32,488	32,217	271	0.8	129,871	124,565	5,306	4.3
Other[3]	22,239	23,722	(1,483)	(6.3)	98,153	94,448	3,705	3.9
	301,949	310,701	(8,752)	(2.8)	1,239,404	1,273,447	(34,043)	(2.7)

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.
(2) Previously defined as Fixed Margin and Infrastructure Fee per Covered Aircraft. Refer to Section 2 - About Chorus.
(3) Other includes charter, contract flying, MRO and other.

22 CONSOLIDATED STATEMENTS OF INCOME

(expressed in thousands of Canadian dollars)	Year ended December 31, 2019 $	2018[1] $
Operating revenue	1,366,447	1,353,287
Operating expenses		
Salaries, wages and benefits	471,118	443,332
Depreciation and amortization	136,948	118,487
Aircraft maintenance materials, supplies and services	207,846	240,744
Airport and navigation fees	170,065	170,180
Terminal handling services	20,493	21,720
Other	159,514	142,115
	1,165,984	1,136,578
Operating income	200,463	216,709
Non-operating (expenses) income		
Interest revenue	3,052	2,924
Interest expense	(74,820)	(59,209)
Loss on disposal of property and equipment	(653)	(164)
Foreign exchange gain (loss)	30,613	(55,986)
Other	(395)	500
	(42,203)	(111,935)
Income before income taxes	158,260	104,774
Income tax expense		
Current income tax	(8,416)	(2,133)
Deferred income tax	(16,684)	(35,211)
	(25,100)	(37,344)
Net income	133,160	67,430

(1) On January 1, 2019, Chorus adopted IFRS 16 using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

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;

"**5.75% Unsecured Debentures**" means the 5.75% Senior Unsecured Debentures of the Corporation due December 31, 2024;

"**6.00% Debentures**" means the 6.00% Senior Debentures of the Corporation due December 31, 2024;

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

"**Air Canada Investment**" means the $97.3 million equity investment in the Corporation by Air Canada described in the Corporation's Material Change Report dated February 13, 2019;

"**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;

"**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;

"**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;

"**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 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 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 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 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;

"**CPA**" means the 2015 CPA, as amended and extended by the 2019 CPA Amendments, and as may be further amended;

"**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, 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;

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

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

"**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;

"**Infrastructure Fee per Covered Aircraft**" means the fixed fee that, prior to January 1, 2019, was paid to Jazz by Air Canada per Covered Aircraft for the additional services Chorus provides in support of Air Canada's regional flying network under the CPA;

"**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;

"**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;

"**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;

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

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

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

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

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

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

"**USM**" means used serviceable material;

"**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 warrants exercisable to acquire Shares at a price of $8.25 per Share.

25 CAUTION REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information is included in this MD&A. Forward-looking information is identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "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 expressed in the forward-looking information. Actual results may differ materially from anticipated results indicated in forward-looking information for a number of reasons, including without limitation, the development of circumstances which differ from the assumptions under the heading "Outlook", risks relating to Chorus' economic dependence on and relationship with Air Canada; the failure to close pending aircraft acquisitions or lease commitments relating to future aircraft deliveries; the failure to secure financing for future capital commitments; risks relating to the airline industry (including the international operation of aircraft in developing countries and areas of unrest); risks relating to aircraft leasing (including the financial condition of lessees, availability of aircraft, access to capital, fluctuations in aircraft market values, competition and political risks); the failure of Chorus or any other party to satisfy conditions precedent to the closing of transactions that are announced prior to their completion; energy prices, general industry, market, credit, and economic conditions (including a severe and prolonged economic downturn which could result in reduced payments under the CPA); increased competition affecting Chorus and/or Air Canada; insurance issues and costs; supply issues and costs; the risk of war, terrorist attacks, aircraft incidents and accidents; fraud, cybersecurity attacks or other criminal behaviour by internal or external parties; epidemic diseases, environmental factors or acts of God; changes in demand due to the seasonal nature of Chorus' business or general economic conditions; the ability to reduce operating costs and employee counts; the ability of Chorus to secure financing or refinance existing indebtedness or assets; the ability of Chorus to attract and retain the talent required for its existing operations and future growth; the ability of Chorus to remain in good standing under and to renew and/or replace the CPA and other important contracts; employee relations, labour negotiations or disputes; pension issues and costs; currency exchange and interest rates; debt leverage and restrictive covenants contained in debt facilities; future changes (if any) to Chorus' dividend policy; managing growth; changes in laws; adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate; pending and future litigation and actions by third parties; the risks referred to in Section 10 - Risk Factors of this MD&A as well as the factors identified throughout this MD&A. Examples of forward-looking information in this MD&A include the discussion of term sheets for transactions that remain subject to the execution of definitive agreements, outlook discussion in Section 4 - Outlook, and in the discussion throughout this MD&A concerning Chorus' expectations for CAC's future potential. The statements containing forward-looking information in this MD&A represent Chorus' expectations as of the date of this MD&A and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws. Readers are cautioned that the foregoing list of factors and risks is not exhaustive.