Consolidated Financial Statements

December 31, 2018 and 2017

chorus aviation inc.

February 21, 2019

Management's Report

The accompanying consolidated financial statements of **Chorus Aviation Inc. ("Chorus")** (the "financial statements") are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Chartered Professional Accountants of Canada Handbook - Accounting - Part 1 (the "Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgement.

Management is responsible for establishing and maintaining adequate internal control over financial reporting which includes those policies and procedures that provide reasonable assurance over the safeguarding of assets and over the completeness, fairness and accuracy of the consolidated financial statements and other financial information.

The Audit, Finance and Risk Committee, which is comprised entirely of independent directors, reviews Chorus' financial reporting and recommends approval to the Board of Directors; oversees management’s responsibilities as to the adequacy of the supporting systems of internal controls; provides oversight of the independence, qualifications and appointment of the external auditor; and, pre-approves audit and audit-related fees and expenses. The Board of Directors approves Chorus' consolidated financial statements, management’s discussion and analysis and annual report disclosures prior to their release. The Audit, Finance and Risk Committee meets with management, the internal auditors and external auditors at least four times each year to review and discuss financial reporting issues and disclosures, auditing and other matters.

The external auditors, PricewaterhouseCoopers LLP, conduct an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The external auditors have unlimited access to the Audit, Finance and Risk Committee and meet with the Committee on a regular basis.

(signed) "Joseph D. Randell"
President and Chief Executive Officer

(signed) "Jolene Mahody"
Executive Vice President and
Chief Financial Officer

Independent auditor's report

To the Shareholders of Chorus Aviation Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Chorus Aviation Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis of Results of Operations and Financial Condition.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Donald M. Flinn.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants, Licensed Public Accountants
Halifax, Nova Scotia
February 21, 2019

Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at December 31, 2018 $	2017 $ (Restated - Note 3)
Assets		
Current assets		
Cash	92,592	78,007
Accounts receivable – trade and other (note 24)	77,097	77,397
Inventories (note 24)	55,691	51,543
Prepaid expenses and deposits (note 24)	13,535	12,920
Income tax receivable	704	2,268
Total current assets	239,619	222,135
Restricted cash (note 23)	20,081	13,625
Property and equipment (note 7)	2,001,099	1,742,674
Intangibles (note 8)	2,088	2,392
Goodwill (note 8)	7,150	7,150
Deferred income tax asset (note 14)	4,295	3,022
Other long-term assets (note 24)	41,693	33,647
	2,316,025	2,024,645
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 24)	190,311	210,809
Current portion of obligations under finance leases (note 10)	3,117	2,762
Current portion of long-term incentive plan	4,087	5,844
Current portion of long-term debt (note 11)	142,652	118,567
Current portion of consideration payable (note 12)	—	4,387
Dividends payable	5,657	5,014
Income tax payable	930	—
Total current liabilities	346,754	347,383
Obligations under finance leases (note 10)	2,558	5,219
Long-term debt (note 11)	1,102,783	995,062
Convertible units (note 13)	194,294	193,540
Deferred income tax liability (note 14)	172,254	135,740
Other long-term liabilities (note 24)	67,595	65,679
	1,886,238	1,742,623
Equity	429,787	282,022
	2,316,025	2,024,645

Contingencies (note 20)
Economic dependence (note 22)
Subsequent events (note 25)

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

Approved by the Board of Directors

By: (signed) *"Karen Cramm"*
Director

By: (signed) *"Richard H. McCoy"*
Director

Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Exchange differences on foreign operations $	Contributed surplus $	Equity component of Convertible Units $	Total $
Balance - December 31, 2016	16,819	(919,328)	127	1,041,345	—	138,963
Adjustment on initial adoption of IFRS 15 (net of tax) (note 3)	—	2,912	—	—	—	2,912
Restated balance at January 1, 2017	16,819	(916,416)	127	1,041,345	—	141,875
Net income for the year	—	167,323	—	—	—	167,323
Other comprehensive income for the year (net of tax)	—	19,453	(5,406)	—	—	14,047
Comprehensive income (loss) for the year	—	186,776	(5,406)	—	—	181,370
Dividends	—	(59,278)	—	—	—	(59,278)
Issuance of Convertible Units	—	—	—	—	2,981	2,981
Stock options exercised	15,593	—	—	(1,068)	—	14,525
Expense related to stock-based compensation plans	—	—	—	549	—	549
Balance - December 31, 2017	32,412	(788,918)	(5,279)	1,040,826	2,981	282,022
Net income for the year	—	66,988	—	—	—	66,988
Other comprehensive income for the year (net of tax)	—	4,796	21,129	—	—	25,925
Comprehensive income for the year	—	71,784	21,129	—	—	92,913
Dividends	—	(66,215)	—	—	—	(66,215)
Issuance of shares, net of transaction costs and related tax	108,498	—	—	—	—	108,498
Dividend reinvestment plan	12,389	(464)	—	—	—	11,925
Stock options exercised	370	—	—	(25)	—	345
Expense related to stock-based compensation plans	—	—	—	299	—	299
Balance - December 31, 2018	153,669	(783,813)	15,850	1,041,100	2,981	429,787

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

Consolidated Statements of Income
For the years ended December 31, 2018 and 2017

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

	2018 $	2017 $ (Restated - Note 3)
Operating revenue (note 22)	1,451,194	1,352,200
Operating expenses (note 22)		
Salaries, wages and benefits	443,332	444,993
Depreciation and amortization	120,687	103,244
Aircraft maintenance materials, supplies and services	240,744	192,639
Airport and navigation fees	170,180	167,147
Aircraft rent	98,023	99,390
Terminal handling services	21,720	27,907
Other	139,867	143,834
	1,234,553	1,179,154
Operating income	216,641	173,046
Non-operating (expenses) income		
Interest revenue	2,924	2,246
Interest expense	(59,209)	(45,757)
Loss on disposal of property and equipment	(164)	(125)
Foreign exchange (loss) gain	(56,530)	53,886
Other	500	687
	(112,479)	10,937
Income before income taxes	104,162	183,983
Income tax expense (note 14)		
Current income tax	(2,133)	(1,589)
Deferred income tax	(35,041)	(15,071)
	(37,174)	(16,660)
Net income	66,988	167,323
Earnings per share, basic	0.49	1.36
Earnings per share, diluted	0.48	1.33

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

chorus aviation inc.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017

(expressed in thousands of Canadian dollars)

	2018 $	2017 $ (Restated - Note 3)
Net income	66,988	167,323
Other comprehensive income		
Items that will not be subsequently reclassified to the statements of income		
Actuarial income on employee benefit liabilities, net of tax expense of $1,059 (2017 - $7,493)	2,744	19,453
Change in fair value of financial assets, net of tax expense of $257	2,052	—
Items that will be subsequently reclassified to the statements of income		
Exchange differences on translation of foreign operations	21,129	(5,406)
Comprehensive income	92,913	181,370

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

(expressed in thousands of Canadian dollars)

	2018 $	2017 $ (Restated - Note 3)
Cash provided by (used in)		
Operating activities		
Net income	66,988	167,323
Charges (credits) to operations not involving cash		
Depreciation and amortization	120,687	103,244
Amortization of prepaid aircraft rent and related fees	2,972	2,893
Loss on disposal of property and equipment	164	125
Unrealized foreign exchange loss (gain)	49,482	(60,868)
Realized foreign exchange loss	8,583	8,493
Effect of foreign exchange rate changes on cash	(3,016)	1,622
Deferred income tax expense	35,041	15,071
Other	1,111	(147)
	282,012	237,756
Net changes in non-cash balances related to operations (note 23)	(41,976)	29,865
	240,036	267,621
Financing activities		
Repayment of obligations under finance leases	(2,850)	(4,917)
Repayment of long-term borrowings	(127,261)	(91,437)
Convertible units, net of transaction costs	—	195,972
Long-term borrowings	167,005	312,969
Repayment of consideration payable	(4,527)	(13,000)
Issuance of shares, net of transaction costs	107,084	—
Stock options exercised	344	14,525
Dividends	(53,647)	(59,141)
	86,148	354,971
Investing activities		
Acquisition of leased aircraft, net of debt and cash assumed	—	(31,487)
Increase in security deposits and maintenance reserves	11,896	4,452
Change in fair value of investments	957	—
Additions to property and equipment	(326,712)	(533,209)
Proceeds on disposal of property and equipment	395	69
Increase in restricted cash	(5,267)	(1,830)
	(318,731)	(562,005)
Effect of foreign exchange rate changes on cash	7,132	(6,071)
Net change in cash during the years	14,585	54,516
Cash – Beginning of years	78,007	23,491
Cash – End of years	92,592	78,007

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

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

1 General information

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

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

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

Contract flying is currently Chorus' primary business and these flying operations are conducted through both its Jazz Aviation LP ("Jazz") and Voyageur Aviation Corp. ("Voyageur") subsidiaries. Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus and Air Canada are parties to an Amended and Restated Capacity Purchase Agreement dated January 1, 2015 (the "CPA") (refer to note 25 - Subsequent events for details of CPA amendments), under which Air Canada purchases substantially all of Jazz's fleet capacity at pre-determined rates. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on Air Canada (refer to note 22 - Economic dependence for further details). Jazz also operates charter flights for a variety of customers. Voyageur Airways Limited ("Voyageur Airways") provides specialized contract ACMI (aircraft, crew, maintenance and insurance) flying, such as medical, logistical and humanitarian flights, to international and domestic customers.

Chorus also conducts business in regional aircraft leasing and continues to grow this business.

Under the CPA, Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year, principally as a result of the high number of leisure travelers and their preference for travel during the summer months. Seasonality has little effect on the operations of Voyageur, Chorus Aviation Capital Corp. ("CACC"), and other lines of business carried on by Chorus. Chorus has substantial fixed costs that do not meaningfully fluctuate with demand in the short-term.

2 Basis of presentation

Chorus prepares these consolidated financial statements in accordance with GAAP as set out in the Handbook which incorporate IFRS as issued by the IASB.

These financial statements have been authorized for issuance by the Board of Directors on February 21, 2019.

3 Significant accounting policies, judgements and estimation uncertainty

a) Basis of measurement

These consolidated financial statements have been prepared under a historical cost basis, except for certain financial assets and financial liabilities, that are measured at fair value.

b) Critical accounting estimates and judgements

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

Significant estimates made in the preparation of these financial statements include, but are not limited to, the following areas, with further information contained in the applicable accounting policy or note:

Employee benefits

The cost and related liabilities of Chorus' post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve certain assumptions including those in relation to discount rates, future salary increases, mortality rates and future benefit increases. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty.

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 25% reduction to the residual values of aircraft would result in an increase of $10,642 to annual depreciation expense.

Business combination

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

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

Consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by Chorus is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognized in profit or loss.

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

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.

c) Principles of consolidation

These financial statements include the accounts of Chorus and its subsidiaries. Subsidiaries are all entities which Chorus controls. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. All inter-company balances and transactions are eliminated.

d) Restricted cash

Restricted cash includes cash that is subject to withdrawal restrictions. Such amounts are typically restricted under secured debt agreements and can be used only to maintain the aircraft securing the debt and to provide debt service payments of principal and interest. Chorus also has restricted cash related to funds on deposit with financial institutions, pledged as collateral for letters of credit.

e) Revenue from contracts with customers

Chorus recognizes revenue upon the transfer of control of promised goods or services to a customer, in an amount that reflects the consideration expected to be received for those goods or services.

Chorus generates revenue through the provision of flight operations under the CPA, international and domestic specialized contract flying, charter flying, airport handling services, and maintenance, repair and overhaul (MRO) activities. These contracts vary from very short term to multiple years in duration.

Some contracts may include promises to transfer multiple products or services to a customer. Chorus accounts for individual products or services separately if they are distinct - i.e. if a service is separately identifiable from other services in the bundle.

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

The following is a description of principal activities from which Chorus generates its revenue.

Services provided under the CPA

Chorus is responsible for the overall operation of scheduled passenger flights on behalf of Air Canada under the Air Canada Express brand. Flight services include the provision of all crews and applicable personnel and the performance of maintenance activities necessary to execute the scheduled flights. In addition, at certain stations, Chorus provides airport handling services that are distinct from the flight services. Chorus also provides a service of maintaining an available pool of qualified pilots that Air Canada is able to leverage for its hiring needs.

During the term of the CPA, Chorus is entitled to the following forms of consideration from Air Canada, which are billed and paid for on a monthly basis:

- A variable amount of Controllable Revenue based on rates that are reset annually and variables such as Block Hours, Flight Hours, cycles, passengers carried, and number of training events, as well as certain aircraft related costs;
- A fixed margin per Covered Aircraft and fixed infrastructure fee per Covered Aircraft;
- Performance incentives available for achieving established performance targets;
- Payments for aircraft and spare engines that are leased to Air Canada; and
- Reimbursement for the actual amount of costs incurred that are defined as Pass-Through Costs.

Chorus has concluded that a component of the consideration it is entitled to under the CPA is rental income since the CPA identifies the "right of use" of a specific type and number of aircraft over a stated period of time otherwise known as the Covered Aircraft.

To the extent it is variable, the remaining consideration is allocated to the distinct services or service periods to which it specifically relates and is recognized as the related services are provided. Given that the flight services and airport handling services are provided on an ongoing basis and are substantially the same, Chorus has determined a time-based measure of progress depicts the transfer of services to the customer. As a result, fixed consideration related to the flight services and airport handling services is recognized on a straight-line basis over the contract term. In relation to the service of maintaining an available pool of qualified pilots, a measure of progress using training hours depicts the transfer of services to the customer.

Under the CPA, Chorus incurs certain costs which subsequently are reimbursed by Air Canada. Consideration for Pass-Through Costs that relates to goods or services that are used by Chorus to fulfill performance obligations to Air Canada are recognized gross as revenue. In contrast, consideration that relates to Pass-Through Costs that are incurred by Chorus on behalf of Air Canada, for which Chorus is deemed to be acting as an agent, is recognized net of the costs incurred.

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

Charter and other contract flying services

Charter services are provided to a variety of customers for routes that are determined by the customer. Consideration for these services typically is equivalent to a fixed rate for each flight, which is billed and paid for upon completion of the flight. Revenue is recognized as each flight is completed. Other contract flying services are provided to Canadian and international customers in the Voyageur operation. Consideration typically comprises a flat rate for each period of service - for example, a monthly or annual period - along with a variable rate based on cycles or flight hours. Variable consideration is allocated to distinct flights to which it specifically relates and recognized as the flight is provided. Given that the flying services are provided on an ongoing basis and are substantially the same, Chorus has determined a time-based measure of progress depicts the transfer of services to the customer. As a result, fixed consideration is recognized on a straight-line basis over the contract term. The amount of revenue recognized is adjusted for estimates related to performance penalties incurred in the reporting period. These services are billed and paid for on a monthly basis.

Other services

Airport handling services provided outside of the CPA are recognized in other revenue as the services are provided.

Maintenance, repair and overhaul service revenue is recognized over time based on costs incurred.

Revenue generated from the sale of aircraft parts is recognized at the point in time control of the part is transferred to the customer, generally at the point of shipping. For inventory consignment arrangements, control is transferred when the inventory is received by the end purchaser.

f) Aircraft leasing revenue

Revenue is earned through the leasing of aircraft to third parties. Revenue is recognized as earned over the term when the amount of revenue can be reliably measured and it is probable the future economic benefits will flow to Chorus.

g) Employee benefits

Chorus' significant policies related to the defined benefit pension plan for its pilots, the supplemental executive retirement plan for certain Chorus executives, which is also a defined benefit pension plan (collectively referred to as "Pension Benefits"), and the Other 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.

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

  - 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.

h) Stock-based compensation

Long-term incentive plan

The long-term incentive plan (the "LTIP") is a restricted share unit ("RSU") plan under which participants receive an annual grant of RSUs that vest over a three year period if certain performance goals and service conditions, established at the time of grant by the Board of Directors, are achieved. RSUs entitle the participant to receive common shares of Chorus on a one-for-one basis or an equivalent cash payout at the participant's election. Additional RSUs representing the value of dividends paid on corresponding common shares of Chorus accrue for the benefit of participants. Unvested RSUs held by participants are forfeited if performance goals or service conditions are not met. On vesting, Chorus will purchase the shares on the secondary market or settle in cash (at the election of the participant in accordance with the LTIP).

Participants have the option, prior to the vesting of their RSUs, to receive cash or shares. As a result the RSU obligation is treated as a cash settled obligation and recognized in the appropriate short and long-term liability accounts in the Statement of Financial Position. The RSU liability is adjusted quarterly to reflect the number of RSUs expected to vest and the fair market value of the RSUs at the end of the reporting period. Changes to the outstanding RSU liability are accounted for in salaries, wages and benefits expense in the Statement of Income.

On May 1, 2015 Chorus acquired Voyageur. As part of the acquisition, certain key employees were inducted into a Voyageur LTIP plan (the "Voyageur LTIP"). These employees were given a one time RSU grant that vests on December 31, 2019. On vesting, Chorus will issue the shares from treasury to fulfill the obligation and as a result, the RSUs are considered an equity settled obligation and are recorded in the Statement of Equity. Changes to the outstanding RSU liability are accounted for in salaries, wages and benefits expense in the Statement of Income.

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

Stock options

The fair value of stock options are determined at the time of the grant using a Black-Scholes option pricing model. The fair value of the options are recognized as expense over the vesting period, based on the number of options expected to vest, with a corresponding entry to equity. The number of options expected to vest is reviewed at least annually with any related impact on previously recognized expense being unrecognized immediately.

Deferred share units

Non-executive directors receive a portion of their remuneration in deferred share units ("DSUs") under a DSU plan (the "DSU Plan") designed to promote the alignment of interests between individual non-executive directors and the shareholders of Chorus. Each DSU has a value equivalent to the value of a Chorus share. DSUs vest immediately, may only be redeemed for cash and will only be paid out subsequent to the time a director ceases to be a director, or in the case of a U.S. taxpayer, subsequent to the date such person incurs a "separation from service" under applicable U.S. law. Participating directors will receive, in respect of their DSUs, an amount equivalent to the amount of any dividends paid on Chorus shares in the form of additional DSUs. Under the DSU Plan, participating directors may receive annual grants of DSUs. In addition, a participating director may elect to have his or her annual cash retainer and/or any additional retainer payable in the form of DSUs or a combination of DSUs and cash. DSUs are cash-settled share-based payments that are measured at fair value and recognized as a liability. The liability is remeasured at fair value each period and at the settlement date with changes in fair value recognized in the Statement of Income.

Employee share ownership program

Chorus' employee share ownership plan (the "ESOP") permits employees to buy common shares of Chorus through payroll deduction. Under the ESOP, contributions made by employees are matched to a specific percentage by Chorus. These contributions are expensed to salaries, wages and benefits expense over the one year vesting period. The amount expected to vest is reviewed at least annually, with any change in estimate recognized immediately in salaries, wages and benefits.

i) Financial instruments

Chorus early adopted IFRS 9, *Financial Instruments (2013)* and all prior iterations. Chorus adopted the final iteration, IFRS 9 (2014) on January 1, 2018. The standard requires financial assets to be classified into two measurement categories: amortized cost and fair value. Classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For investments in equity instruments which are not subject to control, joint control, or significant influence, on initial recognition GAAP allows an entity to irrevocably elect classification at "fair value through profit or loss" or "fair value through other comprehensive income". For financial liabilities, changes in fair value attributable to an entity's own credit risk are recorded through other comprehensive income rather than through net income.

Management has designated that equity investments not held for trading that were previously classified as available for sale be classified as fair value through other comprehensive income.

Financial instruments are classified as follows:

- Asset backed commercial paper ("ABCP") is classified as "Fair Value through Profit and Loss." These financial assets are measured at fair value, with changes in fair value recognized in the statement of income each reporting period.

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

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

- Cash, restricted cash and accounts receivable are classified as "Financial Assets Measured at Amortized Cost". After their initial fair value measurement, they are measured at amortized cost using the effective interest method, less a provision for impairment, established on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.

- Accounts payable, dividends payable, long-term debt, convertible units, obligations under finance leases and consideration payable are classified as "Other Financial Liabilities". Other Financial Liabilities are initially recognized at fair value less transaction costs. Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method.

Hedging

Chorus may use cash flow hedges to hedge the variability of future interest rates and related interest payments on its respective loans. Cash flow hedges are recognized on the balance sheet at fair value with the effective portion of the hedging relationship recognized in other comprehensive income (loss). Any ineffective portion of the cash flow hedge is recognized in operating income. Amounts recognized in accumulated other comprehensive income (loss) are reclassified to operating income in the same periods in which the hedged item is recognized in operating income.

Chorus assesses on an ongoing basis whether any existing derivative financial instrument continues to be effective in offsetting changes in interest rates on the hedged items.

Impairment of financial assets

At each reporting date, Chorus assesses whether there is objective evidence that a financial asset carried at amortized cost is impaired. If such evidence exists, Chorus recognizes an impairment loss, as the difference between the carrying value of the instrument and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate or a discount rate based on the risk associated with the financial asset being tested. The carrying amount of the asset is reduced by this amount through a charge to the statement of income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

j) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Property and equipment are depreciated to estimated residual values based on the straight-line method over their useful lives. New aircraft and flight equipment are depreciated over 20 to 30 years, with 5% - 25% estimated average residual values.

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

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

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

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

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

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

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

k) Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Financial assets or financial liabilities at fair value through profit and loss - expensed to net income as incurred;
- Financial assets or liabilities recorded at amortized cost - included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method; and
- Equity instruments recorded at fair value through other comprehensive income - included in the initial cost of the underlying asset.

Transaction costs for operating and finance leases are capitalized and amortized over the life of the lease on a straight-line basis. However, if the expenses are not attributable to a specific aircraft transaction, they are expenses to net income as incurred.

l) Intangible assets

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

Trade name	Indefinite life - not amortized
Customer relationships	Finite life - amortized on a straight line basis over 3-5 years

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

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

m) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Chorus' share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested each year, in the fourth quarter for impairment, or at any time if an indication of impairment exists, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is tested for impairment at the cash-generating unit ("CGU") level.

n) Impairment of non-financial assets

Property and equipment, is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Chorus evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

o) Foreign currency translation

Items included in the financial statements of each of the consolidated entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Chorus and its subsidiaries is the Canadian dollar with the exception of CACC and its wholly owned subsidiaries whose functional currency is the US dollar (this excludes Commuter Aircraft Leasing Limited ("CALL") whose functional currency is the Euro and Jazz Leasing Inc. whose functional currency is the Canadian dollar).

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the statement of financial position. Non-monetary assets, liabilities and other items recorded in income are translated at rates of exchange in effect at the date of the transaction.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than the Canadian dollar are recognized in the statement of income.

The assets and liabilities of foreign operations which have a functional currency different from Chorus' presentation currency, are translated into Canadian dollars at the rates of exchange in effect at the date of the statement of financial position. Income statement items are translated using the exchange rates prevailing at the dates of the transactions. Foreign currency differences resulting from this translation are recognized in other comprehensive income and accumulated in cumulative translation adjustment in equity.

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

p) Provisions

Provisions are recognized in other liabilities when Chorus has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Chorus performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

q) Maintenance reserves

In certain of Chorus' third party aircraft lease contracts, the lessee has the obligation to make periodic cash payments which are calculated with reference to the utilization of airframes, engines and other major life-limited components during the lease (supplemental amounts). In such contracts, upon lessee presentation of invoices evidencing the completion of qualifying work on the aircraft, Chorus reimburses the lessee for the work, up to a maximum of the supplemental amounts received with respect to such work. Chorus records supplemental amounts as maintenance reserves. Amounts not expected to be reimbursed to the lessee during the lease are recorded as lease revenue when Chorus has reliable information that the lessee will not require reimbursement.

r) Aircraft lease payments

Total aircraft rentals under operating leases and the related lease inducements received and fees paid over the lease term are amortized to operating expense on a straight-line basis. Prepaid aircraft rentals and related fees are the difference between the straight-line aircraft rent and the payments stipulated under the lease agreements and legal and related transaction fees associated with the leases. Current and non-current unamortized lease inducements are included in accounts payable and accrued liabilities and other long-term liabilities, respectively.

s) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis, and net realizable value is the estimated selling price to a third party in the ordinary course of business, less estimated selling costs. Inventories consist of aircraft expendables and supplies, fuel and de-icing fluid and used aircraft expendables and rotables that are being held for sale.

t) Income taxes

Chorus uses the asset and liability method for accounting for income taxes.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be paid or recovered, using tax rates and tax laws that have been enacted or substantively enacted by the end of the period.

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

Deferred tax assets and liabilities are recognized for all future tax consequences attributable to the differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, except for the initial recognition of goodwill and the initial recognition of an asset or liability, which at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Deferred tax assets are also recognized for unused tax losses and unused tax credits. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates and tax laws expected to apply when the carrying amount of the assets or liabilities are recovered or settled or the unused losses are expected to be utilized.

Current and deferred income tax expense is recognized in the statement of income for the period, except to the extent that the income taxes related to a transaction or event which is recognized, in the same or different period, either in other comprehensive income or directly in equity.

u) Earnings per share

Earnings per share is calculated on a weighted average number of shares outstanding basis.

Diluted earnings per share is calculated by adjusting the weighted average number of shares to assume conversion of all dilutive potential common shares. To calculate the dilutive effect of the stock-based compensation, the number of options or LTIP units issued is reduced by the number of shares that could have been acquired at fair value (determined as the average annual market share price) based on the fair value of the stock-based compensation to determine the number of dilutive shares outstanding.

v) Dividends

Dividends payable by Chorus to its shareholders, which are determined at the discretion of the Board of Directors, are recorded when declared.

w) Government assistance

Non-repayable government assistance is recorded in the period earned as non-operating income. Where forgivable loans are provided by governments with forgiveness contingent on meeting certain criteria, the forgivable loan is recorded as non-operating income when Chorus has met the terms for forgiveness of the loan. Chorus has a forgivable loan from the Province of Nova Scotia. In 2018 and 2017, $500 and $687, respectively, has been recognized as income.

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

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

New accounting standards adopted during the year

On January 1, 2018, Chorus adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15" or the "new standard") using the full retrospective method applied to contracts that were not completed as of January 1, 2017. Chorus also elected not to restate contracts that began and ended in the comparative period. IFRS 15 establishes a new control-based revenue recognition model and the adoption of the new standard required restatement of certain previously reported results, relating to the following accounting changes:

- A portion of maintenance fees earned under the CPA is recognized using a different methodology than under the previous standard. Based on more specific guidance related to the identification of the contract and performance obligations, revenue recognition related to these services has been accelerated.
- Some pass-through billings previously recognized as revenue have been recorded net of the related costs. This change relates to costs that Chorus incurs on behalf of Air Canada, for which Chorus is deemed to be acting as an agent.

Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 15 on Chorus' consolidated financial statements.

Consolidated Statements of Financial Position *January 1, 2017*	As previously reported $	IFRS 15 adoption $		As restated $
Deferred income tax liability	126,099	1,124	*(1)*	127,223
Accounts payable and accrued liabilities	173,656	(4,036)	*(1)*	169,620
Equity	138,963	2,912	*(1)*	141,875

Consolidated Statements of Financial Position *December 31, 2017*	As previously reported $	IFRS 15 adoption $		As restated $
Deferred income tax liability	134,240	1,500	*(1)*	135,740
Accounts payable and accrued liabilities	216,197	(5,388)	*(1)*	210,809
Equity	278,134	3,888	*(1)*	282,022

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

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

Consolidated Statements of Income *Year ended December 31, 2017*	As previously reported $	IFRS 15 adoption $		As restated $
Revenue	1,355,141	(2,941)	*(1)(2)*	1,352,200
Other expense	148,128	(4,294)	*(2)*	143,834
Deferred income tax expense	(14,694)	(377)		(15,071)
Net income	166,347	976		167,323
Earnings per share, basic	1.35	0.01		1.36
Earnings per share, diluted	1.32	0.01		1.33

(1) Adjustments related to acceleration of revenue recognition on a portion of maintenance fees.
(2) Adjustments related to Pass-Through Revenue recorded net of related costs.

The IASB issued IFRS 9 (2014) *Financial Instruments* ("IFRS 9 (2014)") effective for annual periods beginning on or after January 1, 2018. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment, additional changes relating to financial liabilities and new general hedge accounting requirements. Chorus has already early adopted all previous iterations of IFRS 9 (2009 through 2013). The adoption of this standard did not have a material impact on the financial statements.

The IASB issued amendments to IFRS 2 *Share-based Payment* ("IFRS 2"), to clarify the classification and measurement of share-based payment transactions. The amendments provide for requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The adoption of the standard did not have a material impact on the financial statements as Chorus' current accounting practice for share-based payments is consistent with the amendments.

Accounting standards issued but not yet applied

The IASB issued IFRS 16 *Leases* ("IFRS 16") effective for annual periods beginning on or after January 1, 2019. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 *Leases* ("IAS 17") and IFRIC 4 *Determining whether an Arrangement contains a Lease*. Entities have the option of transitioning to IFRS 16 using either a full retrospective approach or a modified retrospective approach.

IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a lessee, an entity recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessor accounting under the new standard remains largely similar to IAS 17, with the exception of new requirements relating to subleases.

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

Chorus has completed the scoping and review of material contracts and is now in the process of quantifying the impact of IFRS 16 on the leases identified. A lease accounting system has been selected and is currently in the process of being implemented. Chorus anticipates using the full retrospective transition approach with restatement to each prior reporting period presented.

Chorus continues to assess the impacts that the adoption of IFRS 16 will have on its consolidated financial statements, but expects the new standard will have an impact on its statement of financial position. Chorus is anticipating an increase in both total assets and total liabilities of approximately $10,000 to $15,000 as at January 1, 2019 (January 1, 2018: $12,000 to $17,000). The impact to the statement of income for year ended December 31, 2018 and the adjustment to retained earnings on January 1, 2018 is expected to be immaterial.

Aircraft leased from Air Canada and subleased to Air Canada under the CPA

Lease components embedded in the CPA related to providing Air Canada the right to use the Covered Aircraft are currently accounted for as operating leases. The associated lease income generated is included in revenue in the statement of income.

As of December 31, 2018, Chorus had 35 aircraft and six spare engines that are leased from Air Canada and used as part of the Covered Aircraft to fulfill its obligations under the CPA. Currently, the leased aircraft and spare engines from Air Canada are accounted for as operating leases. 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, from both the lessee perspective and lessor perspective. This conclusion will result in revenue and operating expenses being reduced by equal amounts, corresponding to the amount of lease payments made to Air Canada. The reductions of revenue and operating expenses in 2018 and 2019 are expected to be approximately $90,000 to $95,000 (prior to the 2019 CPA Amendments).

Chorus currently has recorded leasehold improvements, deferred lease inducements, deferred transaction fees and prepaid rent related to certain of these 35 aircraft and six engines. Given that a lease no longer exists, these assets and liabilities will be re-characterized. On application of IFRS 16, work performed related to these leasehold improvements will be viewed as services provided by Chorus to Air Canada, and accounted for under IFRS 15. The deferred transaction costs, deferred leases inducements and prepaid rent will be recognized on a net basis as a receivable from or payable to Air Canada go forward. These changes primarily impact certain classifications of assets and liabilities on the balance sheet and are not expected to result in material impacts to the income statement.

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

Aircraft leased from third parties and subleased to Air Canada under the CPA

As of December 31, 2018, Chorus supplies Air Canada with five aircraft that are leased from third parties under the CPA. These third party leases are currently classified as a mix of operating and finance leases. Chorus has determined that it is subleasing the aircraft to Air Canada and therefore is required to assess 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 will change to finance leases.

As the lessee, Chorus will have a right-of-use asset and lease liability related to the head lease. However, as the intermediate lessor to Air Canada, Chorus will derecognize the right-of-use asset and recognize a lease receivable. Due to the change in classification of the sublease, lease income from Air Canada will no longer be recognized and instead interest income will be recognized. In addition, due to the recognition of the lease liability, straight-line lease expense will no longer be recorded, and instead interest expense will be recognized. This change is not expected to have a material impact on net income.

No changes compared to the current accounting are expected in relation to the remainder of the Covered Aircraft used under the CPA, which are owned by Chorus.

Facilities

Chorus has leases related to airport terminal operations that represent Chorus' right to use designated facility space at airport locations. Shared spaces for which Chorus' capacity portion does not represent substantially all of the capacity of the asset are not identified assets under IFRS 16 and therefore no lease exists. Leases with reciprocal termination rights with no more than an insignificant penalty, subject to a notice period of less than 12 months, are considered short-term leases and therefore are excluded from the balance sheet recognition under the practical expedient. Leases with underlying assets that are of low value are also excluded from the balance sheet recognition.

4 Segmented information

Chorus' reportable operating segments have been identified on the basis of services provided, are in alignment with Chorus' strategic direction and vision of delivering regional aviation and are consistent with the internal reporting provided to the Chief Executive Officer and Chief Financial Officer (the "chief operating decision makers").

Chorus has two reportable operating segments:

- The Regional Aviation Services segment includes contract flying, charter operations and maintenance, repair and overhaul services that is carried on by both Jazz and Voyageur. This segment also includes corporate expenses, such as interest on convertible units, executive and share-based compensation and professional fees. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment as it is an important part of the CPA. Aircraft leasing under the CPA currently includes 34 Q400s, five CRJ900s, eight Dash 8-300s which have completed the extended service program, or ESP, as well as five engines which are owned by Chorus.

- The Regional Aircraft Leasing segment leases aircraft to third parties through Chorus Aviation Capital and has grown significantly since its inception at the end of 2016. Its current portfolio of leased aircraft includes 29 aircraft comprising eight ATR 72-600s, nine Q400s, four CRJ1000s, two CRJ900s, four E190s and two E195s.

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

Adjusted EBITDA refers to earnings before net interest expense, income taxes, and depreciation and amortization, signing bonuses, employee separation program costs, strategic advisory fees and other items such as foreign exchange gains or losses. Adjusted EBT refers to earnings before income tax, signing bonuses, employee separation program costs, strategic advisory fees and other items such as foreign exchange gains and losses.

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

A significant customer is one that represents 10% or more of each segment revenue earned during the period. For the years ended December 31, 2018 and December 31, 2017, the Regional Aviation Services segment reported revenue from one significant customer. See note 22 "Economic dependence" for a discussion of transactions between Air Canada, and its subsidiary (Air Canada Capital Ltd.), and this segment. A number of current leasing customers represent 10% or more of the Regional Aircraft Leasing segment due to the early life cycle of this segment.

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

4 Segmented information (continued)

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

	For the year ended December 31, 2018			For the year ended December 31, 2017		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Operating Revenue	1,371,354	79,840	1,451,194	1,322,816	29,384	1,352,200
Operating Expenses	1,194,799	39,754	1,234,553	1,160,216	18,938	1,179,154
Operating Income	176,555	40,086	216,641	162,600	10,446	173,046
Net interest expense	(36,569)	(19,716)	(56,285)	(36,838)	(6,673)	(43,511)
Foreign exchange (loss) gain	(57,123)	593	(56,530)	57,892	(4,006)	53,886
Other(1)	336	—	336	562	—	562
Earnings (loss) before Income tax	**83,199**	**20,963**	**104,162**	**184,216**	**(233)**	**183,983**
Income tax expense	(34,311)	(2,863)	(37,174)	(16,584)	(76)	(16,660)
Net Income (loss)	**48,888**	**18,100**	**66,988**	**167,632**	**(309)**	**167,323**

(1) Other includes gain on disposal of property and equipment and other income.

The following table reconciles operating income to Adjusted EBITDA and earnings before income tax to Adjusted EBT:

	For the year ended December 31, 2018		For the year ended December 31, 2017	
	Regional Aviation Services	Regional Aircraft Leasing	Regional Aviation Services	Regional Aircraft Leasing
	$	$	$	$
Operating income	**176,555**		**162,600**	
Depreciation and amortization(1)	91,827		92,011	
Employee separation program(1)	5,364		10,622	
Adjusted EBITDA(2)	**273,746**		**265,233**	
Earnings (loss) before income tax		**20,963**		**(233)**
Unrealized foreign exchange loss (gain)		—		—
Employee separation program		—		—
Foreign exchange gain on cash held for deposit		—		—
Adjusted EBT(2)		**20,963**		**(233)**

(1) Included in operating expenses.
(2) These are non-GAAP financial measures.

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

4 Segmented information (continued)

Selected assets and liability information by reportable operating segment:

	As at December 31, 2018			As at December 31, 2017		
	Regional Aviation Services $	Regional Aircraft Leasing $	Total $	Regional Aviation Services $	Regional Aircraft Leasing $	Total $
Additions to property and equipment[1]	96,180	284,566	380,746	80,207	545,161	625,368
Property and equipment	1,141,862	859,237	2,001,099	1,139,060	603,614	1,742,674
Long-term debt (excluding finance leases)	885,467	554,262	1,439,729	914,833	396,723	1,311,556

(1) Includes non-cash transactions of foreign currency adjustments of $53,259 (2017 - $1,768) and an adjustment related to the acquisition of Q400s through the issuance of shares in July 2017 of $621.

Revenue from external customers by continent, based on the destinations of the customer:

	Year ended December 31,			
	2018 $	%	2017 $	%
Canada	1,371,354	94.5%	1,322,815	97.8%
Other[1]	79,840	5.5%	29,385	2.2%
	1,451,194	100.0%	1,352,200	100.0%

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

	Year ended December 31,			
	2018 $	%	2017 $	%
Canada	1,145,764	57.3%	1,139,056	65.4%
Other[1]	855,335	42.7%	603,618	34.6%
	2,001,099	100.0%	1,742,674	100.0%

(1) No country included in other represents more than 10% of total assets.

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

5 Capital management

Chorus' capital structure consists primarily of a combination of equity and debt including common shares, convertible units, finance leases, amortizing debt facilities, and consideration payable related to an acquisition.

Chorus' objective, when managing its capital structure, is to maintain adequate liquidity and flexibility, while obtaining the lowest cost of capital available. It manages 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 maintains flexibility in its capital structure by regularly reviewing annual forecasts and 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 debt, modifying the term of existing debt facilities or repaying existing debt facilities from surplus cash or proceeds from the sale of surplus assets.

Chorus' capital structure was as follows as at December 31, 2018 and December 31, 2017.

	2018 $	2017 $
Equity		
Capital	153,669	32,412
Contributed surplus	1,041,100	1,040,826
Deficit	(783,813)	(788,918)
Exchange differences on foreign operations	15,850	(5,279)
Equity component of convertible units	2,981	2,981
	429,787	282,022
Convertible units	194,294	193,540
Finance leases	5,675	7,981
Long-term debt	1,245,435	1,113,629
Consideration payable	—	4,387
Total capital	1,875,191	1,601,559

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

6 Revenue from contracts with customers

a) Revenue

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes $317,717 for the year ended December 31, 2018, (for the year ended December 31, 2017 - $262,131), in other sources of revenue relating to lease income, including any rights to use specified aircraft that have been identified as lease components embedded in the CPA and contract flying service agreements. Revenue is disaggregated primarily by nature and category in the underlying contract.

	Year ended December 31,	
	2018	**2017**
	$	**$**
Controllable revenue	707,441	660,705
Fixed margin and infrastructure fee per Covered Aircraft	111,670	111,295
Incentive revenue	14,067	15,313
CPA pass-through revenue	215,347	210,569
Other	84,952	92,187
	1,133,477	1,090,069

b) Transaction price allocated to the remaining performance obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, excluding variable consideration allocated entirely to distinct services or performance obligations that will be satisfied in the future. Chorus has elected to apply the practical expedient to exclude amounts related to contracts that have an original expected duration of one year or less.

As of December 31, 2018, the aggregate amount of remaining performance obligations was approximately $550,925, of which approximately $113,000 is expected to be recognized evenly until the end of 2020 and then on average $64,891 recognized per year until the end of 2025 (refer to note 25 - Subsequent events).

On adoption of IFRS 15, Chorus elected to use the practical expedient in paragraph C5(c) of IFRS 15 and therefore has not disclosed the amount of the transaction price allocated to the remaining performance obligations and an explanation of when Chorus expects to recognize that amount as revenue for the year ended December 31, 2017.

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

7 Property and equipment

	Year ended December 31, 2017					Year ended December 31, 2018			
	Opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the year $	Closing/ opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	1,155,833	612,122	(229)	(88,530)	1,679,196	333,016	(559)	(107,309)	1,904,344
Facilities	32,153	3,721	—	(1,946)	33,928	2,875	—	(2,056)	34,747
Equipment	12,024	5,136	—	(5,273)	11,887	3,547	—	(5,768)	9,666
Leaseholds	5,586	3,718	—	(1,876)	7,428	2,145	—	(2,365)	7,208
Flight equipment under finance leases	13,303	—	—	(5,298)	8,005	—	—	(2,867)	5,138
Deposits on aircraft/ engines	2,588	671	(1,029)	—	2,230	39,163	(1,397)	—	39,996
Total	1,221,487	625,368	(1,258)	(102,923)	1,742,674	380,746	(1,956)	(120,365)	2,001,099

	At December 31, 2017			At December 31, 2018		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	2,038,527	(359,331)	1,679,196	2,331,755	(427,411)	1,904,344
Facilities	45,121	(11,193)	33,928	47,996	(13,249)	34,747
Equipment	73,937	(62,050)	11,887	76,873	(67,207)	9,666
Leaseholds	33,035	(25,607)	7,428	35,879	(28,671)	7,208
Flight equipment under finance leases	14,337	(6,332)	8,005	14,337	(9,199)	5,138
Deposits on aircraft/engines	2,230	—	2,230	39,996	—	39,996
Total	2,207,187	(464,513)	1,742,674	2,546,836	(545,737)	2,001,099

For the year ended December 31, 2018, the table above includes the following non-cash transactions:

- foreign currency adjustments of $53,259 (2017 - $1,768); and
- an adjustment related to the acquisition of Q400s through the issuance of shares in July 2017 of $621.

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

8 Goodwill and intangibles

Goodwill

Goodwill, representing less than one percent of Chorus' total assets, is allocated to the following CGU's:

	December 31, 2018 $	December 31, 2017 $
Jazz	6,693	6,693
Voyageur	457	457
	7,150	7,150

The recoverable amount of the CGU's are determined using fair value less costs of disposal. In assessing the goodwill for impairment, Chorus uses a combination of discounted cash flow analysis and market approaches to determine the fair value of each of the CGU's. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment of goodwill was recognized during 2018 or 2017.

Intangibles

As a result of the purchase price allocation related to the acquisition of Voyageur on May 1, 2015, Chorus recorded customer relationships of $1,526 and trade name value of $1,681. The trade name is an indefinite life asset and was reviewed in the fourth quarter of 2018 and 2017 for impairment. The customer relationships are amortized on a straight line basis over five years. During the year ended December 31, 2018 $306 was recorded as amortization expense on the value of the customer relationships (2017 - $306).

9 Credit facility

On August 30, 2017 Chorus entered into a three-year committed operating credit facility and on June 7, 2018, extended the term of that facility for a further year ending August 30, 2021. The facility provides Chorus and certain designated subsidiaries (collectively, the "Credit Parties") with a committed limit of up to $50,000 with the opportunity to borrow up to a further $25,000 on a demand basis, subject in each case to a borrowing base calculation, based principally on the value of certain eligible accounts receivable, inventory and equipment. As at December 31, 2018, no amounts were drawn on the facility, however, Chorus has provided letters of credit totaling $6,987 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. It contains customary representations, warranties and covenants, including maximum total leverage and fixed charge covenants.

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. At December 31, 2018, Chorus was in compliance with these covenants.

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

10 Obligations under finance leases

Chorus has entered into finance leases related to aircraft. The obligations are as follows:

	2018 $	2017 $
No later than one year	3,274	3,011
Later than one year and no later than five years	2,600	5,402
Total minimum lease payments	5,874	8,413
Less: Amount representing interest (at weighted average rate of 3.70%)	199	432
Present value of net minimum finance lease payments	5,675	7,981
Less: Current portion	3,117	2,762
Obligations under finance leases	2,558	5,219

The present value of net minimum finance lease payments is as follows:

	2018 $	2017 $
No later than one year	3,117	2,762
Later than one year and no later than five years	2,558	5,219
	5,675	7,981

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.3642, which was the exchange rate in effect at the end of day closing on December 31, 2018 (2017 - $1.2545). Interest of $257 for the year ended December 31, 2018 (2017 - $401) relating to finance lease obligations has been included in aircraft rent.

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

11 Long-term debt

Long-term debt consists of the following:

	As at December 31, 2018 $	2017 $
Amortizing term loans		
Secured by aircraft(1a)	1,227,716	1,093,350
Secured by engines(1b)	10,937	11,459
Nova Scotia Jobs Fund loan - secured by office building(2)	9,000	10,000
	1,247,653	1,114,809
Less: Deferred Financing fees	(2,218)	(1,180)
	1,245,435	1,113,629
Less: Current portion	142,652	118,567
	1,102,783	995,062

The current portion of long-term debt in the above table includes deferred financing fees of $299 for the year ended December 31, 2018 (December 31, 2017 - $162).

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in monthly, quarterly, or semi-annual instalments, ranging from $94 to $1,385, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 4.061%, maturing between April 2020 and December 2030, each secured primarily by its respective aircraft and engines. These instalments are payable in USD or Euro and have been converted to CAD at period end foreign exchange rates of 1.3642 USD to CAD and 1.5613 Euro to CAD. As at December 31, 2018, the total payable under these term loans in US dollars and Euros was US $825,907 and €64,697, respectively (December 31, 2017 - US $785,874 and €71,388, respectively), and the net book value of property and equipment pledged as collateral under these term loans was CAD $1,623,929 (December 31, 2017 - CAD $1,429,300).

b) Secured by engines - Individual term loans, repayable in quarterly instalments ranging from $72 to $128, including fixed and floating interest at a weighted average rate of 4.437%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine. These instalments are payable in USD and have been converted to CAD at a period end foreign exchange rate of 1.3642 USD to CAD. As at December 31, 2018, the total engine financing payable in US dollars was US $8,017 (December 31, 2017 US $9,134) and the net book value of property and equipment pledged as collateral under Q400 engine financing was CAD $13,019 (December 31, 2017 - CAD $13,647).

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

The principal financial covenants are as follows:

Amortizing term loans totaling CAD $939,801, as at December 31, 2018, 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), the "North Bay Leasing Group" (comprising North Bay Leasing Inc., Voyageur Aviation Corp., Voyageur Airways Limited, Voyageur Aerotech Inc. and Voyageur Avparts Inc.), and various subsidiaries of Chorus Aviation Capital (which hold aircraft acquired for lease to customers outside the Chorus group and the CPA).

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

11 Long-term debt (continued)

- The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreement with the lender also contains a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Q400s, Q400 spare engines, and CRJ900s.
- The North Bay Leasing Group is required to maintain prescribed liquidity levels and a minimum lease coverage ratio. Also, Voyageur Aviation Corp., Voyageur Airways Limited, Voyageur Aerotech Inc. and Voyageur Avparts Inc. have each provided full recourse guarantees to the lender, and Chorus Aviation Holdings II Inc. has pledged the shares of North Bay Leasing Inc. to the lender.
- Certain subsidiaries of Chorus Aviation Capital have entered into financing agreements in connection with the acquisition of aircraft. Both Chorus Aviation Capital and Jazz Leasing Inc. ("Jazz Leasing") have guaranteed the indebtedness under these agreements to the lender. Under the terms of the financing agreements, Chorus Aviation Capital is required to maintain a maximum consolidated total debt to tangible net worth ratio and is also prohibited from declaring or paying dividends or other distributions unless its consolidated tangible net worth is equal to at least the prescribed minimum. The indebtedness under these agreements is cross-defaulted to any payment default by Jazz Leasing under its other debt facilities with the lender. It is also cross-defaulted and cross-collateralized to any other debt of Chorus Aviation Capital or its subsidiaries supported by the lender, except debt in respect of which such lender's recourse is generally limited to the borrower entity.

Amortizing term loans totaling CAD $113,131 as at December 31, 2018 have covenants which apply directly to certain subsidiaries of Chorus Aviation Capital. These entities are required to maintain minimum lease rent coverage ratios.

Amortizing term loans totaling CAD $32,630 as at December 31, 2018 have covenants which apply directly to Chorus Aviation Leasing Inc., a subsidiary of Chorus Aviation Inc. This entity is required to maintain a minimum consolidated tangible net worth.

As at December 31, 2018, Chorus (or as applicable, certain subsidiaries) was in compliance with all of these financial covenants.

(2) Nova Scotia Jobs Fund loan

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

For the year ended December 31, 2018, the total interest expense on long-term debt, inclusive of deferred financing expense amortization, was $46,004 (for the year ended December 31, 2017 - $34,929).

The majority of the following future repayments of long-term debt are payable in US dollars and Euros and have been converted to Canadian dollars at closing rates on December 31, 2018. The timing of future principal payments is as follows:

	$
No later than one year	142,951
Later than one year and no later than five years	644,777
Later than five years	459,925
	1,247,653

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

12 Consideration payable

Consideration payable on the acquisition of Voyageur included $31,439 payable over three years, which was recorded at the fair value on the date of acquisition at $29,484. This consideration payable does not bear interest. As a result, an imputed interest rate of 3.5% was used to calculate fair value of interest savings of $1,955.

Consideration payable is as follows:

	December 31, 2018 $	December 31, 2017 $
Consideration payable	—	4,387
Less: Current portion	—	4,387
	—	—

The consideration was payable in four instalments to the former owner of Voyageur, ranging from $4,527 to $12,438 which began on June 1, 2016 and matured on May 1, 2018. For the year ended December 31, 2018, the total interest expense on consideration payable was $140 (2017 - $327).

13 Convertible units

In December 2016, Chorus entered into a subscription agreement with Fairfax Financial Holdings Limited ("Fairfax") for an investment of $200,000 in Chorus through a private placement of convertible debt units (the "Convertible Units"). In March 2017, Chorus received gross proceeds of $200,000 upon issuance of the Convertible Units. The net proceeds received by Chorus were $195,972 after deduction of the expenses associated with the placement.

Each Convertible Unit comprises a $1.0 senior debenture (a “Debenture”) and 121.21212121 warrants (the “Warrants”). The Debentures bear interest at a rate of 6.00% per annum, are secured by certain Dash 8-100s and Dash 8-300s and certain real estate property owned by Chorus (the “Collateral Security”), mature on December 31, 2024 (the “Maturity Date”) 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 Debentures) or the exercise of the Warrants. The Collateral Security will be released in the event that Fairfax sells or otherwise disposes of any of the Convertible Units.

Each Warrant is exercisable by the holder thereof to acquire one share of Chorus at an exercise price equal to $8.25 per share payable in cash or by tendering the Debentures. Except in certain circumstances relating to a change of control of Chorus, the Warrants may only be exercised after December 31, 2019 up to and including the earlier of the redemption of the Debentures by Chorus and the business day immediately preceding the Maturity Date. 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.

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

13 Convertible units (continued)

The Debentures are listed on the Toronto Stock Exchange under the symbol CHR.DB. Fairfax has agreed to hold the Convertible Units until at least December 31, 2019 after which time it may dispose of all or part of the Convertible Units.

The following table illustrates the allocation of the Convertible Units between debt and equity as at December 31, 2018. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity component of Convertible Units $	Total $
	6.0	192,991	2,981	195,972
Accretion expense		549	—	549
Balance - December 31, 2017		193,540	2,981	196,521
Accretion expense		754	—	754
Balance - December 31, 2018		**194,294**	**2,981**	**197,275**

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

For the year ended December 31, 2018, the total interest expense on the Convertible Units was $12,754 (for the year ended December 31, 2017 - $9,827) which included interest accretion of $754 (for the year ended December 31, 2017 - $549).

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

14 Income taxes

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

	Year ended December 31, 2018	
	2018	**2017**
	$	**$**
Earnings before income tax	104,162	183,983
Combined statutory tax rate	25.0 %	27.1 %
Income tax expense at the statutory tax rates	26,041	49,848
Recognition of previously unrecognized cumulative eligible capital	(7,429)	(7,984)
Net impact of capital items[(1)]	15,677	(13,716)
Non-deductible expenses	2,885	3,382
Impact of tax rate changes	—	(14,870)
Income tax expense	37,174	16,660
Effective tax rate	35.7 %	9.1 %

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

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $354,255 as at December 31, 2018, related to capital cost allowance on eligible capital property. In accordance with the initial recognition exemption, as outlined in IAS 12 *Income taxes*, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the years ended December 31, 2018 and December 31, 2017, Chorus utilized a total of $26,664 ($7,429 tax effected) and $28,671 ($7,984 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

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

14 Income taxes (continued)

Deferred tax

Components of the net deferred income tax liabilities are as follows:

	December 31, 2017 $	Recognized in Net Income $	Recognized in OCI $	Recognized in Equity $	December 31, 2018 $
Deferred income tax liability					
– Deferred partnership income	—	(6,046)	—	—	(6,046)
– Pension and Other Employee Benefits	(2,261)	(2,115)	(1,059)	—	(5,435)
– Property and equipment	(156,540)	(28,268)	(507)	—	(185,315)
Deferred income tax asset					
– Loss carryforwards	15,557	4,426	—		19,983
– Deferred lease inducement	3,926	(754)	—	—	3,172
– Other long-term liabilities	6,600	(2,284)	—	1,366	5,682
Deferred income tax liability (1)	(132,718)	(35,041)	(1,566)	1,366	(167,959)

(1) Included in the deferred income tax liability are net deferred tax assets of $4,295 and net deferred tax liabilities of $172,254 which cannot be offset against each other and are shown separately in the Consolidated Statements of Financial Position.

15 Pension and Other Future Employee Benefits

Chorus maintains several registered defined contribution pension plans for eligible employees and a registered defined benefit plan for eligible pilots. The registered defined benefit plan was closed to new entrants as at January 1, 2015. Chorus is the plan sponsor for these plans under the Pension Benefits Standard Act, 1985 (Canada). In addition, Chorus maintains an unregistered supplemental executive retirement plan ("SERP") which is partially funded for certain employees. Contributions to the supplemental pension plan started in December 2007. On February 19, 2014, the SERP was closed to new entrants. The registered and supplemental defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and the final average earnings for a specified period.

Chorus also maintains Other (non-pension) Future Employee Benefits. The Other Future Employee Benefits include medical and dental benefits provided to the employees on long-term disability and Workplace Safety Insurance Board ("WSIB"). These benefits cease to be provided when the employee reaches age 65. The sick leave gratuity benefits represent the payout of sick leave accruals upon or just prior to retirement for eligible employees. The self-insured WSIB benefits are in respect of self-insured benefits provided to Ontario employees.

During 2017, Chorus recognized a credit to Other Comprehensive Income of $4,062 as a result of the tri-annual valuation of the Other Post-Employment Benefits. The reduction in the liability is primarily a result of changes in assumptions related to the sick leave payouts upon retirement for pilots.

The total expense for Chorus' defined contribution plans for which Chorus is obligated to make defined contributions only, for the year ended December 31, 2018 was $13,229 and for the year ended December 31, 2017 was $11,993.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2019 are $30,200. Expected contributions to the defined contribution pension plans for the year ending December 31, 2019 are $15,200. Expected benefit payments for Other Future Employee Benefits for the year ending December 31, 2019 are $2,034.

Jazz is the legal administrator of the plans and is responsible for its overall management of the plans. Responsibility for the governance of the plans, including investment decisions lies with Chorus and the Board of Directors.

The most recent actuarial valuations of the defined benefit pension plans for funding purposes were as of January 1, 2018 and the next funding valuations will be as of January 1, 2019.

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

15 Pension and Other Future Employee Benefits (continued)

Information about Chorus' defined benefit plans and Other Future Employee Benefits in aggregate, is as follows:

	Pension Benefits		Other Future Employee Benefits	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Change in benefit obligation				
Benefit obligation, beginning of year	455,644	428,702	21,005	24,601
Current service cost	23,773	26,207	1,967	1,972
Past service cost	1,185	—	—	—
Interest cost	16,848	16,709	639	601
Plan participants' contributions	5,642	6,456	—	—
Benefits paid	(18,548)	(30,462)	(1,311)	(1,812)
Loss from change in demographic assumptions	(2,453)	—	(448)	(295)
(Gain) loss from change in financial assumptions	(23,348)	4,408	(545)	—
Experience losses (gains)	6,927	3,624	(1,496)	(4,062)
Benefit obligation, end of year	465,670	455,644	19,811	21,005
Change in plan assets				
Fair market value of plan assets, beginning of year	470,831	411,730	—	—
Interest income	16,850	15,607	—	—
Employer contribution	32,055	37,813	1,311	1,812
Plan participants' contributions	5,642	6,456	—	—
Benefits paid	(18,548)	(30,462)	(1,311)	(1,812)
Administrative expenses	(500)	(500)	—	—
(Loss) return on plan assets (excluding interest income)	(15,361)	30,187	—	—
Fair market value of plan assets, end of year	490,969	470,831	—	—
Funded (unfunded) status, end of year	25,299	15,187	(19,811)	(21,005)

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

15 Pension and Other Future Employee Benefits (continued)

The table below outlines where the defined benefit pension and Other Future Employee Benefits amounts are included in the statements of financial position.

	December 31, 2018 $	December 31, 2017 $
Assets		
Defined benefit pension	25,299	15,187
Liabilities		
Other Future Employee Benefits	19,811	21,005

Defined benefit pension plan assets are comprised as follows:

	December 31, 2018	December 31, 2017
Canadian Equity	1%	1%
Long Bonds	71%	59%
International Equity	18%	30%
Short-term and Other	3%	3%
Real Estate	7%	7%
	100%	100%

The plan's assets are invested in Canadian bonds and equities, real estate and foreign equities. These assets include no significant investment in Chorus at the measurement date.

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

15 Pension and Other Future Employee Benefits (continued)

Weighted average assumptions used to determine the accrued benefit liability:

	Pension Benefits		Other Future Employee Benefits	
	2018	**2017**	**2018**	**2017**
Discount rate to determine accrued benefit obligations	3.8%	3.5%	3.6%	3.2%
Discount rate to determine the pension and benefit cost	3.5%	3.7%	3.2%	3.2%
Rate of compensation increase	4.5%	4.5%	2.0%	2.0%
Health care inflation - Select to determine accrued benefit obligation	n/a	n/a	5.5%	5.8%
Health care inflation - Select to determine pension and benefit cost	n/a	n/a	5.8%	6%

The health care inflation assumption was graded down to 4.0% per annum in and after 2040.

Assumptions regarding future mortality are set based on actuarial advice with statistics published by the Canadian Institute of Actuaries. The assumptions translate into an average life expectancy in years for a pensioner retiring at age 65 as follows:

	2018	**2017**
Retiring at the end of the reporting period		
Male	21.7	21.6
Female	24.1	24.1
Retiring 20 years after the end of the reporting period		
Male	22.8	22.7
Female	25.1	25.0

15 Pension and Other Future Employee Benefits (continued)

The defined benefit pension plans and Other Future Employee Benefits produce exposure to a number of risks, the most significant of which are detailed below:

Asset volatility

For a defined benefit pension plan, fluctuations in the value of plan assets are assessed in the context of fluctuations in the plan liabilities. The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields. As discount rates change, the value of the plan liabilities will fluctuate. If the growth of plan liabilities exceeds that of plan assets a deficit will result. The plan currently holds approximately 19% of assets in equities and 7% in Canadian Real Estate, which are expected to outperform corporate bonds in the long-term but which provide volatility and risk in the short-term. The plan's investment time horizon is a key input in deciding on the proportion of equities held.

Given the long-term nature of the defined benefit pension plan, the current level of equity investment is an appropriate element of the long-term strategy to manage the defined benefit plan efficiently. Based on a comprehensive asset-liability study completed in late 2011, the plan's investment policy was revised in the years 2012 to 2018 inclusive. These changes include revisions to:

- Reduce equity content over time
- Improve the equity portfolio's diversification
- Lower equity portfolio volatility
- Reduce interest rate risk over time
- Improve the bond portfolio diversification and ability to enhance return
- Expand investments to include a diversified real estate allocation

Interest rate risk

The discount rate used to determine benefit obligations was determined by reference to the market interest rates on corporate bonds rated "AA" or higher, with cash flows that approximate the timing and amount of the expected benefit payments. Also, the discount rate used to determine the portion of the benefit obligations assumed to be settled by lump sum payments was determined by reference to the market interest rates on government bonds. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pension plans' bond holdings.

Salary risk

The present value of the benefit obligations is calculated by reference to the future salaries of plan participants, so salary increases of the plan participants greater than assumed will increase plan liabilities.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the statement of financial position.

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

15 Pension and Other Future Employee Benefits (continued)

The sensitivity of the defined benefit obligation to changes in assumptions on the pension plans is as follows:

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 2.3%	Increase by 2.5%
Compensation increase rate	0.25%	Increase by 0.7%	Decrease by 0.8%
Life expectancy	1 year	Increase by 1.8%	Decrease by 1.8%

The sensitivity of the defined benefit obligation to changes in assumptions on Other Future Employee Benefits is as follows:

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 1.70%	Increase by 1.70%
Compensation increase rate	0.25%	Increase by 1.10%	Decrease by 1.10%
Health care cost trend rate	0.25%	Increase by 0.60%	Decrease by 0.60%

The weighted average duration of the pension plans and Other Future Employee Benefits is 11 and 7 years, respectively.

Expected maturity analysis of undiscounted defined benefit pension and Other Future Employee Benefit payments are as follows:

	Year 1 **$**	**Year 2** **$**	**3 - 5 years** **$**	**Next 5 years** **$**	**Total** **$**
Defined benefit pension	22,900	27,130	100,953	205,740	356,723
Other Future Employee Benefits	2,034	2,008	5,679	8,860	18,581
	24,934	29,138	106,632	214,600	375,304

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

15 Pension and Other Future Employee Benefits (continued)

Chorus' net defined benefits pension plan and Other Future Employee Benefits expense recognized in the consolidated statements of income and consolidated statements of comprehensive income is as follows:

	Pension		Other Future Employee Benefits	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Components of cost under IAS 19				
Amounts recognized in profit or loss:				
Current service cost	23,773	26,207	1,967	1,972
Past service cost	1,185	—	—	—
Interest cost on benefit obligation	16,848	16,709	639	601
Administrative expenses	500	500	—	—
Interest income on plan assets	(16,850)	(15,607)	—	—
Costs arising in the period	25,456	27,809	2,606	2,573
Remeasurements recognized in the consolidated statements of income	—	—	(2,197)	434
	25,456	27,809	409	3,007
Remeasurements recognized in other comprehensive income				
Gain on demographic assumptions	(2,453)	—	—	—
(Gain) loss from financial assumptions	(23,348)	4,408	—	—
Experience losses (gains)	6,927	3,624	(292)	(4,791)
Loss (return) on plan assets (excluding interest income)	15,361	(30,187)	—	—
Gain recognized in the statement of other comprehensive income for the period(1)	(3,513)	(22,155)	(292)	(4,791)

(1) There is no impact on the minimum funding requirements for pensions in 2018 or 2017.

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

15 Pension and Other Future Employee Benefits (continued)

The funding of employee benefits as compared to the expense recorded in the consolidated statements of income is summarized in the table below:

	Year ended December 31, 2018 $	Year ended December 31, 2017 $
Net defined benefit pension and Other Future Employee Benefits expense recorded in the consolidated statements of income		
Wages, salaries and benefits	25,865	30,816
Employee benefit funding by Chorus		
Defined benefit pension	32,055	37,813
Other Future Employee Benefits	1,311	1,812
	33,366	39,625
Employee benefit funding greater than expense	7,501	8,809

16 Dividends

Chorus currently pays a monthly dividend of $0.04 per Share. Chorus' Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board.

Chorus declared $66,215 in dividends for the year ended December 31, 2018 ($59,278 for the year ended December 31, 2017). Cash dividends paid for the year ended December 31, 2018 were $53,647 ($59,141 for the year ended December 31, 2017).

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

17 Capital stock

a) Authorized:

An unlimited number of Variable Voting Shares, no par value ("Variable Voting Shares"); and

An unlimited number of Voting Shares, no par value ("Voting Shares")

Issued and outstanding:

	Number of Shares	$
Shares issued and outstanding December 31, 2016	122,182,168	16,819
Shares issued through exercise of stock options	3,227,833	15,593
Shares issued and outstanding December 31, 2017	125,410,001	32,412
Shares issued through public offering	13,028,000	108,498
Shares issued through equity dividend reinvestment plan	1,695,673	12,389
Shares issued through exercise of stock options	76,500	370
Shares issued and outstanding December 31, 2018	140,210,174	153,669

Public Offering

On March 13, 2018, Chorus completed a public offering of 11,628,000 common shares at an offering price of $8.60 per share. In addition, Chorus issued an additional 1,400,000 shares in connection with the partial exercise of the underwriters' over-allotment option. Gross proceeds of the offering were $112,041 ($108,498 net of transaction costs and income tax).

The net proceeds of the offering are being primarily used to fund the growth of Chorus Aviation Capital, Chorus' aircraft leasing business, including the acquisition of aircraft intended for or currently on lease to third parties, as well as for working capital requirements and other general corporate purposes.

Dividend Reinvestment Program ("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 Chorus from treasury, and the proceeds received by Chorus are used for general corporate purposes.

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

17 Capital stock (continued)

The price for shares purchased under the DRIP is equal to 100% of the average market price; however, Chorus may, from time to time, offer a discount of up to 5% from the average market price for shares purchased under the DRIP. Currently, Chorus offers a 4% discount and reserves the right to change or eliminate the discount at any time.

During the year ended December 31, 2018, 1,695,673 shares were issued under the DRIP for total value of $12,389.

The shares issuable by Chorus consist of an unlimited number of Variable Voting Shares and an unlimited number of Voting Shares (collectively, the "shares"). Holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Chorus exceeds 25% or, (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that, (i) the Variable Voting Shares as a class do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of Chorus, and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% of the votes that may be cast at such meeting.

Variable Voting Shares are to be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians within the meaning of the Canada Transportation Act. Each issued and outstanding Variable Voting Share is converted into one Voting Share automatically and without any further act of Chorus or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the Canada Transportation Act.

Voting Shares are held, beneficially owned and controlled, directly or indirectly, by Canadians. Each issued and outstanding Voting Share is converted into one Variable Voting Share automatically and without any further act of Chorus or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

b) Earnings per share

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

	2018 $	2017 $
Numerator		
Income	66,988	167,323
Denominator		
Weighted average number of shares	136,506,798	123,354,621
Weighted average dilutive shares	2,745,104	2,637,286
Weighted average number of diluted shares	139,251,902	125,991,907

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

17 Capital stock (continued)

The following is a continuity of the changes in the number of stock options outstanding:

	2018		2017	
	Options	Weighted Average Exercise Price Per Share $	Options	Weighted Average Exercise Price Per Share $
Beginning of year	2,930,500	5.34	6,158,333	4.90
Exercised	(76,500)	4.50	(3,227,833)	4.50
Outstanding options, end of year	2,854,000	5.37	2,930,500	5.34
Options exercisable, end of year	2,854,000	5.37	2,030,500	4.50

The weighted average Share price on the date of exercise for options exercised in 2018 was $7.35 (2017 - $8.33).

		2018 Outstanding Options			2018 Exercisable Options	
Exercise Price $	Expiry Date	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price Per Share $	Number of Exercisable Options	Weighted Average Exercise Price Per Share $
4.50	2019	1,954,000	0.38	4.50	1,954,000	4.50
7.25	2020	900,000	1.71	7.25	900,000	7.25
		2,854,000	0.8	5.37	2,854,000	5.37

		2017 Outstanding Options			2017 Exercisable Options	
Exercise Price $	Expiry Date	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price Per Share $	Number of Exercisable Options	Weighted Average Exercise Price Per Share $
4.50	2019	2,030,500	1.38	4.50	2,030,500	4.50
7.25	2020	900,000	2.70	7.25	—	—
		2,930,500	1.79	5.34	2,030,500	4.50

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

17 Capital stock (continued)

c) RSUs

Chorus awards RSUs to certain key employees under the LTIP plan and the Voyageur LTIP plan. The below table shows the movement of RSUs throughout the year:

Long-term incentive plan	**2018** **Number of units**	**2017** **Number of units**
RSUs outstanding beginning of the year	2,079,323	2,275,154
Total RSUs granted during the year	623,514	615,315
Dividend-equivalent units granted	129,270	126,069
RSUs redeemed during the year	(623,143)	(937,215)
RSUs outstanding	2,208,964	2,079,323
RSUs vested	1,953,657	1,783,385

Fair value of total RSUs and dividend-equivalent units granted during the year ended December 31, 2018 was $5,405 and $973, respectively (2017 - $4,600 and $982, respectively).

d) DSUs

Chorus awards DSUs to certain non-executive Directors under the DSU plan. The below table shows the movement of DSUs throughout the year:

Deferred share unit plan	**2018** **Number of units**	**2017** **Number of units**
DSUs outstanding beginning of the year	683,032	699,911
Total DSUs granted during the year	93,836	56,410
Dividend-equivalent units granted	45,170	44,492
DSUs redeemed during the year	—	(117,781)
DSUs outstanding	822,038	683,032

Fair value of total DSUs and dividend-equivalent units granted during the year ended December 31, 2018 was $638 and $352, respectively (2017- $466 and $346, respectively).

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

17 Capital stock (continued)

e) Employee Share Purchase Plan

Eligible employees can participate in the ESOP under which employees can invest between 2% and 6% of their base salary for the purchase of Shares on the secondary market. For 2018 contributions, Chorus will match 60% of 2018 contributions made after 12 months of continuous participation in the program.

f) Stock-based Compensation Expense

Compensation Expense	2018 $	2017 $
Stock Options	108	369
RSUs	(475)	9,791
DSUs	(1,955)	2,421
ESOP	4,927	4,279
Total	2,605	16,860

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

18 Commitments

Chorus is committed to the following future minimum lease payments under operating leases for flight equipment and base facilities that have initial non-cancellable terms in excess of one year. The majority of these lease agreements are renewable at the end of the lease period, at market rates.

	December 31, 2018	
	Other third parties $	**Air Canada and its subsidiary $**
No later than one year	8,145	97,719
Later than one year and no later than five years	17,347	276,780
Later than five years	1,812	25,059

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.3642, which was the exchange rate in effect at the end of day closing on December 31, 2018 (2017 - $1.2545).

Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Chorus. Future minimum lease payments that will arise under these leases are listed in the above table under the heading "Air Canada and its subsidiary".

Chorus has the following future minimum lease revenues under operating leases with third parties for flight equipment that have initial non-cancellable terms in excess of one year. The majority of these lease agreements are renewable at the end of the lease period, at market rates.

	December 31, 2018 $
No later than one year	98,141
Later than one year and no later than five years	332,125
Later than five years	190,853

19 Financial instruments and fair values

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, asset backed commercial paper, accounts payable and accrued liabilities, dividends payable, long-term incentive plan liability, convertible units, consideration payable, obligations under finance leases and long-term debt.

Fair value of financial instruments

As explained in note 3(i), financial assets and liabilities have been classified into categories that determine their basis for measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; fair value through other comprehensive income; and amortized cost.

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")

  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.

- Long-term debt

  At December 31, 2018, the term loans had a fair value of $1,232,979 versus a book value of $1,245,435. 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, 2018, the convertible units had a fair value of $197,830 versus a book value of $194,294. The fair value was calculated by discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

- Finance leases

  The repayment terms that Chorus is committed to make have been discounted at the relevant market interest rates applicable at year end. Interest rates used to calculate fair value are based on the change in the risk-free rate at December 31, 2018, compared to the risk-free rates at the inception of the leases. Chorus determined there was no difference between carrying value and fair value as the interest rates used at the inception of the leases were, on average, not materially different from the year-end interest rate.

- Interest rate swaps

  The fair value of interest rate swaps, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

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

19 Financial instruments and fair values (continued)

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheet, classified using the fair value hierarchy described above:

	2018 $	2017 $
Level 3		
Asset backed commercial paper	637	993

The following table presents the changes in level 3 instruments by class of asset for the years ended December 31, 2018 and 2017:

	2018 $	2017 $
Start of year	993	1,276
Payments received	(411)	(205)
Foreign exchange loss	55	(78)
	637	993

19 Financial instruments and fair values (continued)

Financial risk factors

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

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, including the majority of the amortizing terms loans, the Nova Scotia Jobs Fund Loan, and the Convertible Units, is not subject to interest rate volatility as it bears interest at fixed rates. Chorus has several term floating rate loans that are subject to interest rate volatility. As at December 31, 2018, 93.6% of Chorus' debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 6.4% floating rate debt. Approximately 80% 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 four term loans which bear floating interest rates, but has entered into interest rate swaps to convert floating interest rates to fixed rates for the duration of each loan. 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 of interest rate swaps was $1,352 at December 31, 2018 and is recorded in other long-term assets. Changes in the fair value of interest rate swaps are recorded in other comprehensive income. During the year ended December 31, 2018, Chorus recognized other comprehensive income of $1,095, net of tax (December 31, 2017 - $nil).

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 year ended December 31, 2018.

Credit risk

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

The maximum exposure to credit risk for cash, restricted cash, deposits and trade and other receivables approximate the amount recorded on the statement of financial position.

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

19 Financial instruments and fair values (continued)

With the exception of trade receivables, Chorus has no financial assets past due. As at December 31, 2018, the total amount of trade receivables was $63,814 (2017 - $61,346), net of allowance for doubtful accounts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The amount of this allowance was $1,458 (2017 - $1,103). At December 31, 2018, trade receivables of $54,335 (2017 - $54,825) were not past due or impaired; $10,937 (2017 - $7,624) were past due, but not impaired; and $nil (2017 - $nil) were impaired. The aging of the latter two categories is as follows:

	2018 $	2017 $
Past due but not impaired		
60 - 90 days	1,613	3,150
Over 90 days	9,324	4,474
	10,937	7,624
Impaired		
60 - 90 days	—	—
Over 90 days	—	—
	—	—

Chorus continues to work with the entities from which it holds past due receivables to recover the full amount outstanding. Approximately $51,437 (2017 - $40,655) of the total receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada.

Liquidity risk

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 practices related to liquidity, leverage, cash flows and dividends, foreign exchange risk and interest rate risk.

As of December 31, 2018 Chorus had $92,592 in cash, and a committed facility of up to $50,000 with the opportunity to borrow up to a further $25,000 on a demand basis. The ability to borrow on the facility is based upon eligible inventory and receivables; no amounts were drawn as of December 31, 2018, however, Chorus has provided letters of credit totaling $6,987 that reduce the amount available under this facility. The cash balance, together with available credit on the revolving loan, will be used to fund the growth of its Regional Aircraft Leasing business, as well as for working capital requirements and general corporate purposes. Chorus is satisfied that it has ample liquidity to satisfy its working capital requirements.

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

19 Financial instruments and fair values (continued)

The tables below analyze Chorus' non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The analysis is based on foreign exchange in effect at the consolidated statement of financial position date, and contractual interest rates, and includes both principal and interest cash flows for long-term debt, obligations under finance leases and convertible debentures.

	December 31, 2018			
	Less than 3 months $	**3 months to 1 year $**	**2 - 5 years $**	**Over 5 years $**
Principal				
Trade payables and accrued liabilities[(1)]	173,296	—	—	—
Finance leases	769	2,348	2,558	—
Long-term debt	33,385	109,566	644,777	459,925
Convertible units	—	—	—	200,000
Long-term incentive plan	4,087	—	6,038	—
	211,537	111,914	653,373	659,925
Interest				
Finance leases	50	107	42	—
Long-term debt	12,219	36,839	129,087	44,594
Convertible units	2,975	9,025	48,000	12,000
	15,244	45,971	177,129	56,594

	December 31, 2018			
	Less than 3 months $	**3 months to 1 year $**	**2 - 5 years $**	**Over 5 years $**
Total principal and interest				
Trade payables and accrued liabilities[(1)]	173,296	—	—	—
Finance leases	819	2,455	2,600	—
Long-term debt	45,604	146,405	773,864	504,519
Convertible units	2,975	9,025	48,000	212,000
Long-term incentive plan	4,087	—	6,038	—
	226,781	157,885	830,502	716,519

(1) Excludes commodity taxes and deferred lease inducements as they do not meet the definition of a financial liability.

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

19 Financial instruments and fair values (continued)

Currency risk

Chorus receives revenue and incurs expenses in US and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure and by maintaining debt balances in a similar currency to the amount billed. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and in particular, obligations under finance leases and long-term debt, which are long-term and so are subject to larger unrealized gains or losses. The amount of US dollar denominated assets was $46,391 and US denominated liabilities was $638,193 at December 31, 2018. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $5,918.

20 Contingencies

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

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

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

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

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

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

21 Related parties

Compensation of key management

Key management includes Chorus' Directors, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Corporate Development Officer, and the Presidents of Jazz Aviation LP, Chorus Aviation Capital Corp. and Voyageur Aviation Corp. Compensation awarded to key management is summarized as follows:

	Year ended December 31, 2018 $	2017 $
Salaries and other benefits	6,514	5,812
Other post-employment benefits	1,424	2,943
Stock-based compensation	3,771	4,348
	11,709	13,103

22 Economic dependence

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

	2018 $	2017 $
Operating revenue		
Air Canada	1,280,752	1,237,243
Operating expenses		
Air Canada	6,517	5,998
Air Canada Capital Ltd.	67,389	71,020

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

	2018 $	2017 $
Accounts receivable		
Air Canada	51,437	40,655
Accounts payable and accrued liabilities		
Air Canada	3,975	2,021
Air Canada Capital Ltd.	8,793	8,086

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

22 Economic dependence (continued)

Capacity Purchase Agreement with Air Canada

Chorus provides capacity for a significant portion of Air Canada's domestic and transborder regional network. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on Air Canada.

Chorus is party to the CPA with Air Canada, under which Air Canada purchases the capacity of Covered Aircraft operated by Jazz under the Air Canada Express brand on routes determined by Air Canada. Under the CPA, Chorus is required to provide Air Canada with the capacity of covered aircraft, all crews and applicable personnel, aircraft maintenance, some airport, flight operations and general overhead support for such flights. Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada bears all of the commercial risk, retains all revenue derived from the sale of seats to passengers and cargo services, and pays Chorus for the capacity provided. As at December 31, 2018, the CPA was in effect until December 31, 2025 (refer to note 25 - Subsequent events).

Under the CPA, Chorus is paid controllable revenue rates, based on controllable costs, using variables such as block hours, flight hours, cycles and passengers carried, as well as certain variable and fixed aircraft ownership rates and fixed rates.

Chorus is also compensated by the industry standard approach of fixed fees. There are two fixed fees which establish the minimum level of compensation under the CPA: fixed margin per covered aircraft and infrastructure fee per covered aircraft. The fixed margin per covered aircraft does not vary regardless of network size, complexity or hours flown. The infrastructure fee per covered aircraft compensates for the additional services Chorus provides in support of Air Canada's regional flying network such as airport operations.

Performance incentives are available for achieving established performance targets under the CPA.

Chorus incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

Pass-Through Costs are passed through to Air Canada and are fully reimbursed. These include costs such as airport and navigation fees and terminal handling fees. Services provided by Air Canada are provided at no cost to Chorus. These include aircraft fuel, Air Canada ground handling and facilities leased from Air Canada.

The balances in accounts payable and accrued liabilities are payable on normal trade terms and have arisen from the services provided by the applicable party.

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

23 Statement of cash flows - supplementary information

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

	2018 $	2017 $
Decrease (increase) in accounts receivable – trade and other	303	(1,953)
Increase in inventories	(4,148)	(2,080)
Increase in prepaid expenses	(615)	(2,329)
Decrease in income tax receivable	1,564	2,334
(Increase) decrease in other long-term assets	(5,741)	9,749
(Decrease) increase in accounts payable and accrued liabilities	(21,297)	38,762
Decrease in current portion of long-term incentive plan	(1,757)	(723)
Increase (decrease) in income tax payable	930	(2,743)
Decrease in other long-term liabilities	(11,215)	(11,152)
	(41,976)	29,865

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

b) Other

	2018 $	2017 $
Cash payments of interest	63,624	37,068
Cash receipts of interest	2,777	1,629
Cash (receipts) payments of tax	(361)	2,009

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

23 Statement of cash flows - supplementary information (continued)

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

	Obligations under Finance Leases $	Long-term Borrowings $	Consideration Payable $	Convertible Units $
Balance - December 31, 2017	7,981	1,113,629	4,387	193,540
Long-term borrowings	—	167,005	—	—
Repayment of long-term borrowings	—	(127,261)	—	—
Repayment of obligations under finance leases	(2,850)	—	—	—
Repayment of consideration payable	—	—	(4,527)	—
Total financing cash flow activities	(2,850)	39,744	(4,527)	—
Interest expense	—	—	140	754
Deferred financing fee amortization	—	296	—	—
Unrealized foreign exchange loss	544	48,995	—	—
Realized foreign exchange loss	—	8,583	—	—
Foreign currency adjustments	—	34,188	—	—
Total financing non-cash activities	544	92,062	140	754
Balance - December 31, 2018	5,675	1,245,435	—	194,294

d) Restricted cash

Cash encumbered in support of issued letters of credit and leasing arrangements have been classified as restricted cash and shown separately in the consolidated statement of financial position (2018 - $20,081; 2017 - $13,625).

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

24 Additional information

a) Assets

	As at December 31, 2018 $	2017 $
Accounts receivable		
Trade receivables	13,835	21,794
Allowance for doubtful accounts	(1,458)	(1,103)
Commodity taxes	1,728	2,932
Other receivables	11,555	13,119
	25,660	36,742
Trade amounts due from Air Canada and its subsidiary (refer to note 22 - Economic dependence)	51,437	40,655
	77,097	77,397
Inventories(1)		
Aircraft expendables	36,590	35,902
Used aircraft expendables and rotables for resale	16,649	13,155
Supplies	2,383	2,402
Fuel and de-icing fluid	69	84
	55,691	51,543

(1) For the year ended December 31, 2018, the cost of aircraft expendables and supplies recognized as a maintenance expense was $38,730 (2017 - $39,506). For the year ended December 31, 2018 inventory write-downs to net realizable value of $1,969 were recognized as a maintenance expense (2017 - $837).

	As at December 31, 2018 $	2017 $
Prepaid expenses and deposits		
Airport and navigation fees	3,200	2,048
Fuel	140	229
Aircraft rent and other	3,723	3,532
Other	6,472	7,111
	13,535	12,920
Other long-term assets		
Prepaid aircraft rent and related fees, net of accumulated amortization	12,581	14,838
Accrued pension benefit asset ("SERP") (note 15)	8,009	10,352
Accrued defined pension benefit asset (note 15)	17,290	4,835
Long-term receivable	1,767	2,629
Asset backed commercial paper	637	993
Other	1,409	—
	41,693	33,647

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

24 Additional information (continued)

b) Liabilities

	As at December 31, 2018 $	2017 $
Accounts payable and accrued liabilities		
Trade payables and accrued liabilities	160,528	176,177
Commodity taxes	14,998	22,508
Current portion of deferred lease inducements	2,017	2,017
	177,543	200,702
Trade payables and accrued liabilities due to Air Canada and its subsidiary (refer to note 22 - Economic dependence)	12,768	10,107
	190,311	210,809
Other long-term liabilities		
Accrued Other Future Employee Benefits liability (note 15)	19,811	21,005
Deferred operating lease inducements, non-current portion	8,463	11,047
Long-term incentive plan	6,038	10,348
DSU liability	4,636	6,591
Security deposits and maintenance reserves	25,179	11,755
Other	3,468	4,933
	67,595	65,679

25 Subsequent events

On January 1, 2019, Voyageur Aviation Corp., Voyageur Aerotech Inc., Voyageur Airways Limited, Voyageur Avparts Inc., North Bay Leasing Inc. and Chorus Aviation Holdings II Inc. were amalgamated under the *Business Corporations Act* (Ontario) as "Voyageur Aviation Corp.".

On January 21, 2019, Chorus Aviation Capital (Ireland) Limited, a wholly-owned subsidiary of Chorus, secured a US $300,000 committed, revolving credit facility to be used to finance future aircraft acquisitions for its regional aircraft leasing business.

On February 4, 2019, the capacity purchase agreement between Jazz Aviation LP and Air Canada was amended and extended for an additional 10 years ending December 31, 2025 (the “CPA Amendments”). The CPA Amendments became effective on a retroactive basis to January 1, 2019. On the same day, Chorus issued 15,561,600 Class B Voting Shares to Air Canada for gross proceeds of $97,260, and Chorus and Air Canada entered an investor rights agreement (the “Investor Rights Agreement”). Chorus’ Material Change Reports dated January 24, 2019 and February 13, 2019 describing the foregoing transactions in further detail are available on SEDAR at www.sedar.com. Furthermore, copies of the term sheet setting out the CPA Amendments, the subscription agreement in respect of the share issuance to Air Canada, and the Investor Rights Agreement are all available on SEDAR at www.sedar.com.

On February 6, 2019, Chorus announced it had entered into a firm purchase agreement with Bombardier to acquire nine new CRJ900 aircraft. These aircraft are expected to be delivered in 2020 and will be operated by Jazz under the CPA.

On February 21, 2019, Chorus announced it had entered into an agreement to acquire a portfolio of six aircraft with leases attached. The portfolio consists of two ATR72-600s on lease to Azul and four Q400s on lease to two other existing customers of CAC. The acquisitions of the aircraft on lease to Azul was complete at the time of the announcement with the remaining acquisitions of the aircraft on lease to the other two lessees to be completed in the first quarter of 2019 subject to satisfaction of customary conditions precedent to closing.

Chorus' capital commitments for the above deliveries occurring subsequent to December 31, 2018 are expected to be approximately US $308,000 funded from debt facilities and available cash resources.