chorus aviation inc.

# Consolidated Financial Statements

December 31, 2017 and 2016

February 14, 2018

**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

February 14, 2018

# Independent Auditor's Report

**To the Shareholders of**
**Chorus Aviation Inc.**

We have audited the accompanying consolidated financial statements of Chorus Aviation Inc. and its subsidiaries, which comprise the consolidated statements of financial position at December 31, 2017 and December 31, 2016 and the consolidated statements of changes in equity, income, comprehensive income and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chorus Aviation Inc. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

**Chartered Professional Accountants, Licensed Public Accountants**

*PricewaterhouseCoopers LLP*
*1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6*
*T: +1 902 491 7400, F: +1 902 422 1166, www.pwc.com/ca*

chorus aviation inc.

# Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

| | As at December 31, 2017 $ | 2016 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 71,249 | 23,491 |
| Restricted cash (note 21) | 20,383 | 5,671 |
| Accounts receivable – trade and other (note 22) | 77,397 | 75,058 |
| Inventories (note 22) | 51,543 | 49,657 |
| Prepaid expenses and deposits (note 22) | 12,920 | 10,591 |
| Income tax receivable | 2,268 | 4,602 |
| **Total current assets** | 235,760 | 169,070 |
| **Property and equipment** (note 5) | 1,742,674 | 1,221,487 |
| **Intangibles** (note 6) | 2,392 | 2,698 |
| **Goodwill** (note 6) | 7,150 | 7,150 |
| **Deferred income tax asset** (note 12) | 3,022 | 19,844 |
| **Other long-term assets** (note 22) | 34,827 | 42,113 |
| | 2,025,825 | 1,462,362 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 22) | 216,197 | 173,656 |
| Current portion of obligations under finance leases (note 8) | 2,762 | 5,099 |
| Current portion of long-term incentive plan | 5,844 | 6,567 |
| Current portion of long-term debt (note 9) | 118,729 | 84,543 |
| Current portion of consideration payable (note 10) | 4,387 | 12,626 |
| Dividends payable | 5,014 | 4,889 |
| Income tax payable | — | 2,743 |
| **Total current liabilities** | 352,933 | 290,123 |
| **Obligations under finance leases** (note 8) | 5,219 | 8,534 |
| **Long-term debt** (note 9) | 996,080 | 803,954 |
| **Convertible units** (note 11) | 193,540 | — |
| **Consideration payable** (note 10) | — | 5,907 |
| **Deferred income tax liability** (note 12) | 134,240 | 126,099 |
| **Other long-term liabilities** (note 22) | 65,679 | 88,782 |
| | 1,747,691 | 1,323,399 |
| **Equity** | 278,134 | 138,963 |
| | 2,025,825 | 1,462,362 |

**Contingencies** (note 18)
**Economic dependence** (note 20)

*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<br>$ | Deficit<br>$ | Contributed surplus<br>$ | Equity component of convertible units<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Balance - December 31, 2015** | 16,819 | (946,493) | 1,040,470 | — | 110,796 |
| Net income for the year | — | 111,766 | — | — | 111,766 |
| Other comprehensive loss for the year (net of tax) | — | (25,957) | — | — | (25,957) |
| Comprehensive income for the year | — | 85,809 | — | — | 85,809 |
| Dividends | — | (58,517) | — | — | (58,517) |
| Expense related to stock-based compensation plans | — | — | 875 | — | 875 |
| **Balance - December 31, 2016** | 16,819 | (919,201) | 1,041,345 | — | 138,963 |
| Net income for the year | — | 166,347 | — | — | 166,347 |
| Other comprehensive income for the year (net of tax) | — | 14,047 | — | — | 14,047 |
| Comprehensive income for the year | — | 180,394 | — | — | 180,394 |
| 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 | (798,085) | 1,040,826 | 2,981 | 278,134 |

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

## Consolidated Statements of Income
**For the years ended December 31, 2017 and 2016**

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Operating revenue** (note 20) | | |
| Passenger | 1,279,818 | 1,251,856 |
| Other | 75,323 | 24,998 |
| | 1,355,141 | 1,276,854 |
| **Operating expenses** (note 20) | | |
| Salaries, wages and benefits | 444,993 | 432,921 |
| Aircraft fuel | 2,642 | 3,122 |
| Depreciation and amortization | 103,244 | 81,334 |
| Food, beverage and supplies | 3,773 | 13,075 |
| Aircraft maintenance materials, supplies and services | 192,639 | 167,547 |
| Airport and navigation fees | 167,147 | 160,612 |
| Aircraft rent | 99,390 | 91,047 |
| Terminal handling services | 27,907 | 39,319 |
| Other | 141,713 | 136,399 |
| | 1,183,448 | 1,125,376 |
| **Operating income** | 171,693 | 151,478 |
| **Non-operating income (expenses)** | | |
| Interest revenue | 2,246 | 578 |
| Interest expense | (45,757) | (22,667) |
| (Loss) gain on disposal of property and equipment | (125) | 394 |
| Foreign exchange gain | 53,886 | 14,331 |
| Other | 687 | 313 |
| | 10,937 | (7,051) |
| **Income before income taxes** | 182,630 | 144,427 |
| **Income tax (expense) recovery** (note 12) | | |
| Current income tax | (1,589) | 50 |
| Deferred income tax | (14,694) | (32,711) |
| | (16,283) | (32,661) |
| **Net income** | 166,347 | 111,766 |
| **Earnings per share, basic** | 1.35 | 0.91 |
| **Earnings per share, diluted** | 1.32 | 0.89 |

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

Consolidated Statements of Comprehensive Income
**For the years ended December 31, 2017 and 2016**

(expressed in thousands of Canadian dollars)

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Net income** | 166,347 | 111,766 |
| **Other comprehensive loss** | | |
| *Items that will not be subsequently reclassified to the statements of income* | | |
| Actuarial income (loss) on employee benefit liabilities, net of tax expense (recovery) of $7,493 (2016 - $10,014) | 19,453 | (26,084) |
| Cumulative translation adjustment | (5,406) | 127 |
| **Comprehensive income** | 180,394 | 85,809 |

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

chorus aviation inc.

# Consolidated Statements of Cash Flows
**For the years ended December 31, 2017 and 2016**

(expressed in thousands of Canadian dollars)

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income | 166,347 | 111,766 |
| Charges (credits) to operations not involving cash | | |
| Depreciation and amortization | 103,244 | 81,331 |
| Amortization of prepaid aircraft rent and related fees | 2,893 | 2,799 |
| Loss (gain) on disposal of property and equipment | 125 | (394) |
| Unrealized foreign exchange gain | (60,868) | (25,015) |
| Realized foreign exchange loss | 8,493 | 9,797 |
| Effect of foreign exchange rate changes on cash | 1,622 | 577 |
| Deferred income tax expense | 14,694 | 32,711 |
| Other | (1,000) | (1,681) |
| | 235,550 | 211,891 |
| Net changes in non-cash balances related to operations (note 21) | 35,670 | (21,390) |
| | 271,220 | 190,501 |
| **Financing activities** | | |
| Repayment of obligations under finance leases | (4,917) | (5,201) |
| Repayment of long-term borrowings | (91,437) | (59,511) |
| Convertible units, net of transaction costs | 195,972 | — |
| Long-term borrowings | 313,822 | 377,367 |
| Repayment of consideration payable | (13,000) | (12,438) |
| Stock options exercised | 14,525 | — |
| Dividends | (59,141) | (58,668) |
| | 355,824 | 241,549 |
| **Investing activities** | | |
| Acquisition of leased aircraft, net of debt and cash assumed | (31,487) | — |
| Additions to property and equipment | (533,209) | (437,314) |
| Proceeds on disposal of property and equipment | 69 | 497 |
| Increase in restricted cash | (8,588) | (3,842) |
| | (573,215) | (440,659) |
| **Effect of foreign exchange rate changes on cash** | (6,071) | (577) |
| **Net change in cash during the years** | 47,758 | (9,186) |
| **Cash – Beginning of years** | 23,491 | 32,677 |
| **Cash – End of years** | 71,249 | 23,491 |

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

# Notes to the Consolidated Financial Statements
**For the years ended December 31, 2017 and 2016**

(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.

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"), under which Air Canada purchases substantially all of Jazz's fleet capacity at pre-determined rates. Chorus is economically and commercially dependent upon Air Canada and one of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services and aircraft to Chorus (refer to note 20 - Economic Dependence for further details). Jazz also operates charter flights for a variety of customers. 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 aircraft leasing and is growing this business. Chorus' aircraft leasing portfolio includes a fleet of 34 Q400s, five CRJ900s and four Dash 8-300s which are currently operated by Jazz under the CPA. In addition, through its subsidiary Chorus Aviation Capital Corp. ("CAC"), the aircraft leasing portfolio includes four CRJ1000s (currently leased to Air Nostrum), six ATR 72-600s (currently leased to Flybe and Virgin Australia), five Q400s (currently leased to Falcon Aviation Services and Ethiopian Airlines), two Embraer 195s (currently leased to Azul Linhas Aéreas Brasileiras S.A) and four Embraer 190s (currently leased to KLM Cityhopper and Aeromexico Connect). Voyageur Airways Limited and North Bay Leasing Inc. also carry on a small amount of leasing activity.

In addition to contract flying and aircraft leasing, Chorus provides certain aviation industry services through both Jazz and Voyageur. Maintenance, repair and overhaul, including the sale of parts, and airport handling operations (both passenger and ramp handling), are businesses of both subsidiaries.

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, CAC, 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 incorporates IFRS as issued by the IASB.

These financial statements have been authorized for issuance by the Board of Directors on February 14, 2018.

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

## 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 $14,656 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) Operating revenue

Under the CPA, Chorus is paid to provide services to Air Canada, as explained in note 1. The related fees payable by Air Canada are recognized in revenue as the capacity is provided or on a fixed basis per aircraft. Revenue earned by Chorus under its operation of charter flights and other contract flying (including under the Voyageur operation) is also included in passenger revenue and recognized when the service is provided.

Maintenance, repair and overhaul ("MRO") operations and other sources of revenue, such as third party leasing and ground handling services, are included in other revenue and are recognized when the service is provided. Revenue earned under inventory consignment agreements with third parties is recognized when the inventory is received by the end purchaser.

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

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.

The CPA provides for a monthly payment per aircraft in an amount designed to reimburse Chorus for certain aircraft ownership costs. Chorus has concluded that a component of its revenue 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. The amount deemed to be rental income is $216,182 for the year ended December 31, 2017 ($189,052 for the year ended December 31, 2016).

f) 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.

    - 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.

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

- 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.

g) 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.

*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.

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

*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.

h) Financial instruments

Chorus has early adopted IFRS 9, *Financial Instruments (2013)* and all prior iterations. Chorus will adopt 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.

- 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.

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

- 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*

IFRS 9, "Financial Instruments", has been amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect the risk management activities in their financial statements. Chorus early adopted the amendments to this standard effective January 1, 2014. The amendments to this standard have no impact on Chorus' consolidated financial statements.

*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.

i) 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.

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.

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

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

j) 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.

k) 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.

l) 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.

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

m) 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.

n) 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 Chorus Aviation Capital Corp. ("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).

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.

o) 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.

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

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

p) 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.

q) 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.

r) 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.

s) 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.

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.

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

t) 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.

u) Dividends

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

v) 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 2017 and 2016, $687 and $313, respectively, has been recognized as income. The remaining $500 is expected to be earned in 2018.

**New accounting standards adopted during the year**

The IASB issued amendments to IAS 12 *Income Taxes* ("IAS 12") regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The adoption of this standard had no impact on the Chorus consolidated financial statements.

The IASB issued amendments to IAS 7 *Statement of Cash Flows* ("IAS 7") to improve financial information provided to users of financial statements about an entity's financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. As a result, additional disclosure has been included in the Chorus consolidated financial statements.

**Accounting standards issued but not yet applied**

The IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. IFRS 15 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (cumulative effect method). Chorus will adopt the standard using the full retrospective method on January 1, 2018.

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

Chorus has completed its research and has reached conclusions on key accounting impacts related to both the CPA and non-CPA revenue streams.

A portion of maintenance fees earned under the CPA will be recognized using a different methodology than under the current standard. Based on more specific guidance related to the identification of the contract and performance obligations, Chorus had determined that under IFRS 15, revenue recognition related to these services will be accelerated. This change will result in an adjustment to opening retained earnings of approximately $4,000 on January 1, 2017 and an increase in revenue for the year ended December 31, 2017 of approximately $1,400.

Currently, Chorus recognizes all CPA Pass-Through Revenue on a gross basis. On adoption of IFRS 15, some of these pass-through items will be recognized on a net basis as Chorus is deemed to be acting as an agent. This change will not result in an adjustment to opening retained earnings. However, revenue and costs for the year ended December 31, 2017 will be reduced by approximately $4,300.

No other significant impacts on implementation of the new revenue standard have been identified. Chorus has completed its analysis to identify data gaps against current disclosures and has processes in place that capture the required data.

The IASB issued IFRS 16 Leases ("IFRS 16") effective for annual periods beginning on or after January 1, 2019 with early adoption permitted for entities that have also adopted IFRS 15. 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. Chorus does not anticipate early adoption of the new standard.

IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. These new requirements will significantly impact Chorus' statement of financial position and statement of income. Qualifying leases will be recorded as a right-of-use asset or together with property and equipment, and will have a corresponding liability with both current and long-term portions. Lessor accounting under the new standard remains similar to IAS 17. Chorus anticipates that the CPA will continue to include a lease component with respect to the right to use a specific type and number of aircraft known as the Covered Aircraft. Chorus is continuing to evaluate the impact that the new standard will have on its consolidated financial statements.

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). Chorus has concluded that adoption of the standard will 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. Chorus has concluded that adoption of the standard will not have a material impact on the financial statements as Chorus' current accounting practice for share-based payments is consistent with the amendments.

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

## 4 Capital management

Chorus' capital structure includes 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 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 forecasts, multi-year business plans and making any required changes to its debt and equity facilities on a proactive basis. These changes can include early repayment of debt, issuing or repurchasing equity, issuing new debt, modifying the term of existing debt facilities or repaying existing facilities, utilizing surplus cash, and selling surplus assets to repay debt.

Chorus' capital structure was as follows as at December 31, 2017 and December 31, 2016.

| | **2017**<br>**$** | **2016**<br>**$** |
|---|---|---|
| **Equity** | | |
| Capital | 32,412 | 16,819 |
| Contributed surplus | 1,040,826 | 1,041,345 |
| Deficit | (798,085) | (919,201) |
| Equity component of convertible units | 2,981 | — |
| | 278,134 | 138,963 |
| **Convertible units** | 193,540 | — |
| **Finance leases** | 7,981 | 13,633 |
| **Long-term debt** | 1,114,809 | 888,497 |
| **Consideration payable** | 4,387 | 18,533 |
| **Total capital** | 1,598,851 | 1,059,626 |

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

## 5 Property and equipment

| | Year ended December 31, 2016 | | | | | Year ended December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 759,827 | 463,672 | — | (67,666) | 1,155,833 | 612,122 | (229) | (88,530) | 1,679,196 |
| Facilities | 31,498 | 2,439 | — | (1,784) | 32,153 | 3,721 | — | (1,946) | 33,928 |
| Equipment | 11,210 | 5,105 | — | (4,291) | 12,024 | 5,136 | — | (5,273) | 11,887 |
| Leaseholds | 6,835 | 591 | — | (1,840) | 5,586 | 3,718 | — | (1,876) | 7,428 |
| Flight equipment under finance leases | 18,741 | — | — | (5,438) | 13,303 | — | — | (5,298) | 8,005 |
| Deposits on aircraft/ engines | 35,881 | 24,382 | (57,675) | — | 2,588 | 671 | (1,029) | — | 2,230 |
| Total | 863,992 | 496,189 | (57,675) | (81,019) | 1,221,487 | 625,368 | (1,258) | (102,923) | 1,742,674 |

| | At December 31, 2016 | | | At December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Cost $ | Accumulated depreciation $ | Net book value $ | Cost $ | Accumulated depreciation $ | Net book value $ |
| Flight equipment | 1,471,526 | (315,693) | 1,155,833 | 2,038,527 | (359,331) | 1,679,196 |
| Facilities | 41,400 | (9,247) | 32,153 | 45,121 | (11,193) | 33,928 |
| Equipment | 70,215 | (58,191) | 12,024 | 73,937 | (62,050) | 11,887 |
| Leaseholds | 28,861 | (23,275) | 5,586 | 33,035 | (25,607) | 7,428 |
| Flight equipment under finance leases | 19,479 | (6,176) | 13,303 | 14,337 | (6,332) | 8,005 |
| Deposits on aircraft/engines | 2,588 | — | 2,588 | 2,230 | — | 2,230 |
| Total | 1,634,069 | (412,582) | 1,221,487 | 2,207,187 | (464,513) | 1,742,674 |

The table above includes a non-cash transaction of $1,768 related to the cumulative translation adjustment.

Non-cash transactions included in the above table include the following:

- $1,303 related to a Q400 engine moved from inventory to property and equipment for the year ended December 31, 2016.

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

## 6 Goodwill and intangibles

**Goodwill**

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

| | December 31, 2017 $ | December 31, 2016 $ |
|---|---|---|
| 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 2017 or 2016.

**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 2016 and 2017 for impairment. The customer relationships are amortized on a straight line basis over five years. During the year ended December 31, 2017 $306 was recorded as amortization expense on the value of the customer relationships (2016 - $306).

## 7 Credit facility

On August 30, 2017 Chorus entered into a three-year committed operating credit facility. 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 eligible accounts receivable, inventory and equipment. As at December 31, 2017, no amounts were drawn on the facility, however, Chorus has provided letters of credit totalling $6,323 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, 2017, Chorus was in compliance with this covenant.

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

## 8 Obligations under finance leases

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| No later than one year | 3,011 | 5,512 |
| Later than one year and no later than five years | 5,402 | 8,996 |
| Total minimum lease payments | 8,413 | 14,508 |
| Less: Amount representing interest (at weighted average rate of 3.70%) | 432 | 875 |
| Present value of net minimum finance lease payments | 7,981 | 13,633 |
| Less: Current portion | 2,762 | 5,099 |
| Obligations under finance leases | 5,219 | 8,534 |

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| No later than one year | 2,762 | 5,099 |
| Later than one year and no later than five years | 5,219 | 8,534 |
| | 7,981 | 13,633 |

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.2545, which was the exchange rate in effect at the end of day closing on December 31, 2017 (2016 - $1.3427). Interest of $401 for the year ended December 31, 2017 (2016 - $603) 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)

## 9 Long-term debt

Long-term debt consists of the following:

| | As at December 31, 2017 $ | 2016 $ |
|---|---|---|
| Amortizing term loans | | |
| Secured by aircraft(1a) | 1,093,350 | 866,141 |
| Secured by engines(1b) | 11,459 | 11,356 |
| Nova Scotia Jobs Fund loan - secured by office building(2) | 10,000 | 11,000 |
| | 1,114,809 | 888,497 |
| Less: Current portion | 118,729 | 84,543 |
| | 996,080 | 803,954 |

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in monthly, quarterly, or semi-annual instalments, ranging from $85 to $1,274, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.820%, maturing between April 2020 and December 2028, 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 1.2545 USD to CAD and 1.5052 Euro to CAD. As at December 31, 2017, the total payable under these term loans in US dollars and Euros was US$787,313 and €71,388, respectively (December 31, 2016 - US $603,970 and €38,952, respectively), and the net book value of property and equipment pledged as collateral under these term loans was CAD$1,431,922 (December 31, 2016 - CAD$970,241). Chorus has restricted cash of $19,265 related to these borrowings.

b) Secured by engines - Individual term loans, repayable in monthly instalments ranging from $66 to $116, including fixed interest at a weighted average rate of 4.316%, 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 1.2545 USD to CAD. As at December 31, 2017, the total engine financing payable in US dollars was US$9,134 (December 31, 2016 - US$8,457) and the net book value of property and equipment pledged as collateral under Q400 engine financing was CAD$11,025 (December 31, 2016 - CAD$11,543).

c) Amortizing term loans totalling $813,464, payable at December 31, 2017, have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing), the "North Bay Leasing Group" (comprising North Bay Leasing, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts), and various subsidiaries of Chorus Aviation Capital (which hold aircraft acquired for lease to customers outside the Chorus group and the CPA).

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. As at December 31, 2017, the Jazz Group was in compliance with these covenants.

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

## 9 Long-term debt (continued)

The North Bay Leasing Group is required to maintain prescribed liquidity levels, a minimum lease coverage ratio, and a minimum EBITDAR level, measured annually prior to the payment of consideration payable to the former owner of Voyageur. As at December 31, 2017, the North Bay Leasing Group was in compliance with these covenants. Also, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts 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.

On June 29, 2017, certain subsidiaries of Chorus Aviation Capital entered into financing agreements with the lender in connection with the acquisition of six ATR 72-600s. Both Chorus Aviation Capital and 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. As at December 31, 2017, Chorus Aviation Capital and its subsidiaries were in compliance with these covenants. 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 does not have recourse beyond the borrower entity.

Amortizing term loans totaling $32,451 payable at December 31, 2017 have covenants which apply directly to Chorus Aviation Leasing Inc., a subsidiary of Chorus Aviation Inc. This subsidiary is required to maintain a minimum consolidated tangible net worth. At December 31, 2017, Chorus Aviation Leasing Inc. was in compliance with this covenant.

(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, 2017, the total interest expense on long-term debt was $34,929 (for the year ended December 31, 2016 - $21,675).

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.2545, which was the exchange rate in effect at the end of day closing December 31, 2017.

| | $ |
|---|---|
| No later than one year | 118,729 |
| Later than one year and no later than five years | 542,773 |
| Later than five years | 453,307 |
| | 1,114,809 |

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

## 10 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, 2017 $ | December 31, 2016 $ |
|---|---|---|
| Consideration payable | 4,387 | 18,533 |
| Less: Current portion | 4,387 | 12,626 |
| | — | 5,907 |

The consideration is payable in four instalments to the former owner of Voyageur, ranging from $4,527 to $12,438 beginning on June 1, 2016 and maturing on May 1, 2018. For the year ended December 31, 2017, the total interest expense on consideration payable was $327 (2016 - $804).

The present value of future payments of consideration payable is as follows:

| | $ |
|---|---|
| No later than one year | 4,387 |
| Later than one year and no later than five years | — |
| | 4,387 |

## 11 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.

Chorus intends to use the proceeds of the convertible units primarily to fund the growth of its regional aircraft leasing business, as well as for working capital requirements and general corporate purposes.

Each convertible unit comprises a $1.0 senior debenture (the “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 Voting Share or one Variable Voting Share, as applicable, 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, representing approximately 16.2% of all issued and outstanding shares after the exercise of all of the Warrants (assuming no other issuances of shares by Chorus or any adjustments to the shares issuable upon the exercise of the Warrants pursuant to the applicable anti-dilution provisions).

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.

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

## 11 Convertible units (continued)

The following table illustrates the allocation of the convertible units between debt and equity as at December 31, 2017. 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 |
| | | **193,540** | **2,981** | **196,521** |

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, 2017, the total interest expense on the convertible units was $9,827 (2016 - $nil) which included interest accretion of $549 (2016 - $nil).

## 12 Income taxes

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

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2017 % | 2017 $ | 2016 % | 2016 $ |
| Income tax expense at the Canadian statutory tax rate | 27.1 | 49,471 | 29.2 | 42,125 |
| Recognition of previously unrecognized cumulative eligible capital | (4.4) | (7,984) | (5.9) | (8,548) |
| Net impact of capital items(1) | (7.5) | (13,716) | (2.9) | (4,184) |
| Non-deductible expenses | 1.9 | 3,382 | 2.2 | 3,268 |
| Impact of tax rate changes (2) | (8.2) | (14,870) | — | — |
| Income tax expense | 8.9 | 16,283 | 22.6 | 32,661 |

(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.

(2) The impact of change in tax rate resulted from changes in tax jurisdiction of certain Chorus entities.

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

## 12 Income taxes (continued)

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $380,919 as at December 31, 2017, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, 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, 2017 and December 31, 2016, Chorus utilized a total of $28,671 ($7,984 tax effected) and $30,829 ($8,548 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at December 31, 2017, Chorus had $42,172 (December 31, 2016 - $67,987) of allowable capital losses that have not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

**Deferred tax**

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

| | December 31, 2016 $ | Recognized in Net Income $ | Recognized in OCI $ | Recognized in Equity $ | December 31, 2017 $ |
|---|---|---|---|---|---|
| Deferred income tax liability | | | | | |
| – Pension and Other Employee Benefits | 6,984 | (1,752) | (7,493) | — | (2,261) |
| – Property and equipment | (131,289) | (22,475) | (49) | (2,727) | (156,540) |
| Deferred income tax asset | | | | | |
| – Loss carryforwards | 8,840 | 8,217 | — | — | 17,057 |
| – Deferred lease inducement | 3,643 | 283 | — | — | 3,926 |
| – Other long-term liabilities | 5,567 | 1,033 | — | — | 6,600 |
| Deferred income tax liability (1) | (106,255) | (14,694) | (7,542) | (2,727) | (131,218) |

(1) Included in the deferred income tax liability are net deferred tax assets of $3,022 and net deferred tax liabilities of $134,240 which cannot be offset against each other and are shown separately in the Consolidated Statement of Financial Position.

## 13 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, 2017 was $11,993, and for the year ended December 31, 2016 was $11,419.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2018 are $32,003. Expected contributions to the defined contribution pension plans for the year ending December 31, 2018 are $13,000. Expected benefit payments for Other Future Employee Benefits for the year ending December 31, 2018 are $2,125.

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, 2017 and the next funding valuations will be as of January 1, 2018.

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

## 13 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 | |
|---|---|---|---|---|
| | **2017 $** | **2016 $** | **2017 $** | **2016 $** |
| **Change in benefit obligation** | | | | |
| Benefit obligation, beginning of year | 428,702 | 396,780 | 24,601 | 22,191 |
| Current service cost | 26,207 | 26,620 | 1,972 | 2,374 |
| Past service cost | — | — | — | — |
| Interest cost | 16,709 | 16,585 | 601 | 702 |
| Plan participants' contributions | 6,456 | 7,148 | — | — |
| Benefits paid | (30,462) | (46,369) | (1,812) | (1,632) |
| (Gain) loss from change in demographic assumptions | — | (1,953) | (295) | 376 |
| Loss from change in financial assumptions | 4,408 | 11,222 | — | 252 |
| Experience losses (gains) | 3,624 | 18,669 | (4,062) | 338 |
| **Benefit obligation, end of year** | 455,644 | 428,702 | 21,005 | 24,601 |
| **Change in plan assets** | | | | |
| Fair market value of plan assets, beginning of year | 411,730 | 400,134 | — | — |
| Interest income | 15,607 | 15,716 | — | — |
| Employer contribution | 37,813 | 42,928 | 1,812 | 1,632 |
| Plan participants' contributions | 6,456 | 7,148 | — | — |
| Benefits paid | (30,462) | (46,368) | (1,812) | (1,632) |
| Administrative expenses | (500) | (500) | — | — |
| Return on plan assets (excluding interest income) | 30,187 | (7,328) | — | — |
| **Fair market value of plan assets, end of year** | 470,831 | 411,730 | — | — |
| **Funded (unfunded) status, end of year** | 15,187 | (16,972) | (21,005) | (24,601) |

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

## 13 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, 2017 $ | December 31, 2016 $ |
|---|---|---|
| Assets | | |
| Defined benefit pension | 15,187 | 10,892 |
| Liabilities | | |
| Defined benefit pension | — | 27,864 |
| Other Future Employee Benefits | 21,005 | 24,601 |
| | 21,005 | 52,465 |

Defined benefit pension plan assets are comprised as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Canadian Equity | 1% | 2% |
| Universe Bonds | —% | 23% |
| Long Bonds | 59% | 34% |
| International Equity | 30% | 31% |
| 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)

## 13 Pension and Other Future Employee Benefits (continued)

Weighted average assumptions used to determine the accrued benefit liability:

| | Pension Benefits | | Other Future Employee Benefits | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Discount rate to determine accrued benefit obligations | 3.5% | 3.7% | 3.2% | 3.2% |
| Discount rate to determine the pension and benefit cost | 3.7% | 3.9% | 3.2% | 3.4% |
| 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 | 5.8% | 6.0% |
| Health care inflation - Select to determine pension and benefit cost | n/a | n/a | 6.0% | 6.1% |

The health care inflation assumption was graded down to 4.5% per annum in and after 2029.

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:

| | **2017** | **2016** |
|---|---|---|
| Retiring at the end of the reporting period | | |
| Male | 21.6 | 21.6 |
| Female | 24.1 | 24.0 |
| Retiring 20 years after the end of the reporting period | | |
| Male | 22.7 | 22.7 |
| Female | 25.0 | 25.0 |

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

## 13 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 22% of assets in equities and 8% 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 2017 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)

## 13 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 2.6% | Increase by 2.8% |
| Compensation increase rate | 0.25% | Increase by 0.9% | Decrease by 0.8% |
| Life expectancy | 1 year | Increase by 2.1% | Decrease by 2.2% |

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 1.75% | Increase by 1.81% |
| Compensation increase rate | 0.25% | Increase by 0.97% | Decrease by 0.93% |
| Health care cost trend rate | 0.25% | Increase by 0.63% | Decrease by 0.61% |

The weighted average duration of the pension plans and Other Future Employee Benefits is 11 and 6 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 | 25,420 | 28,214 | 99,357 | 210,962 | 363,953 |
| Other Future Employee Benefits | 2,125 | 1,945 | 5,812 | 9,088 | 18,970 |
| | 27,545 | 30,159 | 105,169 | 220,050 | 382,923 |

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

## 13 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 | |
|---|---|---|---|---|
| | **2017 $** | **2016 $** | **2017 $** | **2016 $** |
| Components of cost under IAS 19 | | | | |
| Amounts recognized in profit or loss: | | | | |
| Current service cost | 26,207 | 26,620 | 1,972 | 2,374 |
| Past service cost | — | — | — | — |
| Interest cost on benefit obligation | 16,709 | 16,585 | 601 | 702 |
| Administrative expenses | 500 | 500 | — | — |
| Interest income on plan assets | (15,607) | (15,716) | — | — |
| Costs arising in the period | 27,809 | 27,989 | 2,573 | 3,076 |
| Remeasurements recognized in the consolidated statements of income | — | — | 434 | 133 |
| | 27,809 | 27,989 | 3,007 | 3,209 |
| Remeasurements recognized in other comprehensive income | | | | |
| (Gain) loss on demographic assumptions | — | (1,953) | — | 714 |
| Loss from financial assumptions | 4,408 | 11,222 | — | 118 |
| Experience losses (gains) | 3,624 | 18,669 | (4,791) | — |
| Return on plan assets (excluding interest income) | (30,187) | 7,328 | — | — |
| (Gain) loss recognized in the statement of other comprehensive income for the period(1) | (22,155) | 35,266 | (4,791) | 832 |

(1) There is no impact on the minimum funding requirements for pensions in 2017 or 2016.

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

## 13 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, 2017 $ | Year ended December 31, 2016 $ |
|---|---|---|
| **Net defined benefit pension and Other Future Employee Benefits expense recorded in the consolidated statements of income** | | |
| Wages, salaries and benefits | 30,816 | 31,198 |
| **Employee benefit funding by Chorus** | | |
| Defined benefit pension | 37,813 | 42,928 |
| Other Future Employee Benefits | 1,812 | 1,632 |
| | 39,625 | 44,560 |
| **Employee benefit funding greater than expense** | 8,809 | 13,362 |

## 14 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 $59,278 in dividends for the year ended December 31, 2017 ($58,517 for the year ended December 31, 2016). Cash dividends paid for the year ended December 31, 2017 were $59,141 ($58,668 for the year ended December 31, 2016).

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

## 15 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[1] | $ |
|---|---|---|
| Shares issued and outstanding December 31, 2015 | 122,232,397 | 16,819 |
| Shares cancelled [2] | (50,229) | — |
| 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 |

1) References to "Shares" above are inclusive of Variable Voting Shares and Voting Shares. Effective May 24, 2016, Variable Voting Shares and Voting Shares trade under a single stock symbol, CHR on the Toronto Stock Exchange.
2) On December 31, 2016, Chorus cancelled 50,229 unexchanged units of Jazz Air Income Fund. Upon conversion to a corporation, registered unitholders of Jazz Air Income Fund had six years to exchange units for shares of Chorus. Those units not exchanged by end of this period were cancelled.

The common shares issuable by Chorus consist of an unlimited number of Variable Voting Shares and an unlimited number of Voting Shares. The two classes of common shares have equivalent rights as common shareholders except for voting rights. 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. An issued and outstanding Variable Voting Share shall be 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 to be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share shall be 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.

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

## 15 Capital stock (continued)

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.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Numerator** | | |
| Income and diluted income | 166,347 | 111,766 |
| **Denominator** | | |
| Weighted average number of shares | 123,354,621 | 122,232,397 |
| Weighted average dilutive shares | 2,637,286 | 3,275,113 |
| Weighted average number of diluted shares | 125,991,907 | 125,507,510 |

(c) Stock options

On May 20, 2014, Chorus granted 5,350,000 stock options to certain executive employees of Chorus. The options have a three year vesting period and expire five years from the date of grant. The share price at the time of the grant was $3.84 and all options have a strike price of $4.50. Expected volatility was determined by calculating the historical volatility of the Chorus shares over a period equal to the expected life of the options, five years. The risk free rate is based on the Government of Canada three to five year monthly average bond yield. Dividend yield is based on the average yield since Chorus increased the annual dividend rate to $0.45 per share on December 10, 2013. The fair value of the options on the grant date, calculated using the Black-Scholes share option pricing model, is estimated to be $1,771.

During 2015, Chorus granted an additional 900,000 stock options to certain executive employees of Chorus. The options have a three year vesting period and expire five years from the date of grant. The average share price at the time of the grants was $6.00 and all options have a strike price of $7.25. Expected volatility was determined by calculating the historical volatility of the Chorus shares over a period equal to the expected life of the options, five years. The risk free rate is based on the Government of Canada three to five year monthly average bond yield. Dividend yield is based on the average yield since Chorus increased the annual dividend rate to $0.45 per share on December 10, 2013. The fair value of the options on the grant date, calculated using the Black-Scholes share option pricing model, is estimated to be $467.

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

## 15 Capital stock (continued)

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Options | Weighted Average Exercise Price Per Share $ | Options | Weighted Average Exercise Price Per Share $ |
| Beginning of year | 6,158,333 | 4.90 | 6,250,000 | 4.90 |
| Exercised | (3,227,833) | 4.50 | — | — |
| Forfeited | — | — | (91,667) | 4.50 |
| Outstanding options, end of year | 2,930,500 | 5.34 | 6,158,333 | 4.90 |
| Options exercisable, end of year | 2,030,500 | 4.50 | — | — |

The weighted average Share price on the date of exercise for options exercised in 2017 was $8.33 (2016 - $nil).

| | | 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 |

| | | 2016 Outstanding Options | | | 2016 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 | 5,258,333 | 2.38 | 4.50 | — | — |
| 7.25 | 2020 | 900,000 | 3.70 | 7.25 | — | — |
| | | 6,158,333 | 2.58 | 4.90 | — | — |

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

## 15 Capital stock (continued)

(d) 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** | **2017** Number of units | **2016** Number of units |
|---|---|---|
| RSUs outstanding beginning of the year | 2,275,154 | 2,461,544 |
| Total RSUs granted during the year | 615,315 | 635,846 |
| Dividend-equivalent units granted | 126,069 | 178,862 |
| RSUs redeemed during the year | (937,215) | (1,001,098) |
| RSUs outstanding | 2,079,323 | 2,275,154 |
| RSUs vested | 1,783,385 | 1,960,651 |

Fair value of total RSUs and dividend-equivalent units granted during the year ended December 31, 2017 was $4,600 and $982, respectively (2016 - $3,781 and $1,082, respectively).

(e) 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** | **2017** Number of units | **2016** Number of units |
|---|---|---|
| DSUs outstanding beginning of the year | 699,911 | 551,347 |
| Total DSUs granted during the year | 56,410 | 99,645 |
| Dividend-equivalent units granted | 44,492 | 48,919 |
| DSUs redeemed during the year | (117,781) | — |
| DSUs outstanding | 683,032 | 699,911 |

Fair value of total DSUs and dividend-equivalent units granted during the year ended December 31, 2017 was $466 and $346, respectively (2016 - $628 and $297, respectively).

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

## 15 Capital stock (continued)

(f) 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 2017 contributions, Chorus will match 60% of 2017 contributions made after 12 months of continuous participation in the program.

(g) Stock-based Compensation Expense

| Compensation Expense | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Stock Options | 369 | 731 |
| RSUs | 9,791 | 7,489 |
| DSUs | 2,421 | 1,891 |
| ESOP | 4,279 | 3,625 |
| Total | 16,860 | 13,736 |

## 16 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, 2017 | |
|---|---|---|
| | Other third parties<br>$ | Air Canada and its subsidiary<br>$ |
| No later than one year | 6,313 | 89,965 |
| Later than one year and no later than five years | 17,022 | 299,803 |
| Later than five years | 4,581 | 68,495 |

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.2545, which was the exchange rate in effect at the end of day closing on 2017 (2016 - $1.3427).

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".

## 17 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(h), 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, 2017, the term loans had a fair value of $1,079,119 versus a book value of $1,114,809. 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, 2017, the convertible units had a fair value of $217,594 versus a book value of $193,540. 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, 2017, 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.

- Consideration payable

  At December 31, 2017, consideration payable had a fair value of $4,387. The fair value was calculated by discounting the payable at the relevant market interest rates applicable at year-end.

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

## 17 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:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Level 3** | | |
| Asset backed commercial paper | 993 | 1,276 |

The following table presents the changes in level 3 instruments by class of asset for the years ended December 31, 2017 and 2016:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Start of year | 1,276 | 1,513 |
| Payments received | (205) | (191) |
| Foreign exchange loss | (78) | (46) |
| | 993 | 1,276 |

## 17 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 and the Nova Scotia Jobs Fund Loan, 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. Certain of these are related 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. It also has four additional term loans which bear floating interest rates, but has entered into interest rate swaps that effectively fix the interest rates of those loans. As at December 31, 2017, 94.2% of Chorus' debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 5.8% floating rate debt.

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, 2017.

*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)

## 17 Financial instruments and fair values (continued)

With the exception of trade receivables, Chorus has no financial assets past due. As at December 31, 2017, the total amount of trade receivables was $61,346 (2016 - $49,311), 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 $1,103 (2016 - $12). At December 31, 2017, trade receivables of $54,825 (2016 - $42,348) were not past due or impaired; $7,624 (2016 - $6,975) were past due, but not impaired; and $nil (2016 - $nil) were impaired. The aging of the latter two categories is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Past due but not impaired | | |
| 60 - 90 days | 3,150 | 2,426 |
| Over 90 days | 4,474 | 4,549 |
| | 7,624 | 6,975 |
| 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 $40,655 (2016 - $32,677) 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, 2017 Chorus had $71,249 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, 2017, however, Chorus has provided letters of credit totalling $6,323 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)

## 17 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, 2017 | | | |
|---|---|---|---|---|
| | **Less than 3 months $** | **3 months to 1 year $** | **2 - 5 years $** | **Over 5 years $** |
| **Principal** | | | | |
| Trade payables and accrued liabilities[(1)] | 191,672 | — | — | — |
| Finance leases | 681 | 2,081 | 5,219 | — |
| Long-term debt | 29,591 | 89,138 | 542,773 | 453,307 |
| Convertible units | — | — | — | 200,000 |
| Long-term incentive plan | 5,844 | — | 10,348 | — |
| Consideration payable | — | 4,387 | — | — |
| | 227,788 | 95,606 | 558,340 | 653,307 |
| **Interest** | | | | |
| Finance leases | 71 | 177 | 184 | — |
| Long-term debt | 10,759 | 30,059 | 109,510 | 40,224 |
| Convertible units | — | 12,000 | 36,000 | 36,000 |
| Consideration payable | — | 140 | — | — |
| | 10,830 | 42,376 | 145,694 | 76,224 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | **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)] | 191,672 | — | — | — |
| Finance leases | 752 | 2,258 | 5,403 | — |
| Long-term debt | 40,350 | 119,197 | 652,283 | 493,531 |
| Convertible units | — | 12,000 | 36,000 | 236,000 |
| Long-term incentive plan | 5,844 | — | 10,348 | — |
| Consideration payable | — | 4,527 | — | — |
| | 238,618 | 137,982 | 704,034 | 729,531 |

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

## 17 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 $53,437 and US denominated liabilities was $659,756 at December 31, 2017. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $6,063.

## 18 Contingencies

As permitted by the CBCA, the bylaws 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 directors' and officers' liability insurance. The aggregate of all amounts recorded in these financial statements with respect to such indemnifications is not material.

Various other 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)

## 19 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, 2017 $ | 2016 $ |
|---|---|---|
| Salaries and other benefits | 5,812 | 4,225 |
| Other post-employment benefits | 2,943 | 2,346 |
| Stock-based compensation | 3,854 | 2,951 |
| | 12,609 | 9,522 |

## 20 Economic dependence

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

| | Year ended December 31, 2017 $ | 2016 $ |
|---|---|---|
| **Operating revenue** | | |
| Air Canada | 1,237,243 | 1,205,352 |
| **Operating expenses** | | |
| Air Canada | 5,998 | 4,917 |
| Air Canada Capital Ltd. | 71,020 | 77,671 |

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

## 20 Economic dependence (continued)

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Accounts receivable** | | |
| Air Canada | 40,655 | 32,677 |
| **Accounts payable and accrued liabilities** | | |
| Air Canada | 2,021 | 6,441 |
| Air Canada Capital Ltd. | 8,086 | 8,655 |

**Capacity Purchase Agreement with Air Canada**

Chorus provides capacity for a significant portion of Air Canada's domestic and transborder regional network. Chorus is economically and commercially dependent upon Air Canada and one of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services to Chorus.

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. The CPA is in effect until December 31, 2025.

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)

## 21 Statement of cash flows - supplementary information

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

| | 2017 $ | 2016 $ |
|---|---|---|
| (Increase) decrease in accounts receivable – trade and other | (1,953) | 6,451 |
| Increase in inventories | (2,080) | (5,018) |
| (Increase) decrease in prepaid expenses | (2,329) | 5,127 |
| Decrease (increase) in income tax receivable | 2,334 | (4,602) |
| Decrease (increase) in other long-term assets | 9,749 | (5,725) |
| Increase (decrease) in accounts payable and accrued liabilities | 40,115 | (3,657) |
| (Decrease) increase in current portion of long-term incentive plan | (723) | 1,408 |
| Decrease in income tax payable | (2,743) | (4,527) |
| Decrease in other long-term liabilities | (6,700) | (10,847) |
| | 35,670 | (21,390) |

b) Other

| | 2017 $ | 2016 $ |
|---|---|---|
| Cash payments of interest | 37,068 | 21,313 |
| Cash receipts of interest | 1,629 | 542 |
| Cash payments of tax | 2,009 | 8,745 |

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

## 21 Statement of cash flows - supplementary information (continued)

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

| | Obligations under Finance Leases<br>$ | Long-term Borrowings<br>$ | Consideration Payable<br>$ | Convertible Units<br>$ |
|---|---|---|---|---|
| **Balance - December 31, 2016** | 13,633 | 888,497 | 18,533 | — |
| Issue of convertible units | — | — | — | 200,000 |
| Transaction costs related to convertible units | — | — | — | (4,028) |
| Long-term borrowings | — | 313,822 | — | — |
| Repayment of long-term borrowings | — | (91,437) | — | — |
| Repayment of obligations under finance leases | (4,917) | — | — | — |
| Repayment of consideration payable | — | — | (13,000) | — |
| **Total financing cash flow activities** | (4,917) | 222,385 | (13,000) | 195,972 |
| Interest expense | — | — | 327 | 549 |
| Unrealized foreign exchange gain | (735) | (60,211) | — | — |
| Realized foreign exchange loss | — | 8,493 | — | — |
| Cumulative translation adjustment | — | 409 | — | — |
| Assumption of long-term debt on acquisition of leased aircraft | — | 55,236 | — | — |
| Reduction of contingent consideration | — | — | (1,473) | — |
| Allocation of equity component of convertible units | — | — | — | (2,981) |
| **Total financing non-cash activities** | (735) | 3,927 | (1,146) | (2,432) |
| **Balance - December 31, 2017** | 7,981 | 1,114,809 | 4,387 | 193,540 |

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 (2017 - $20,383; 2016 - $5,671).

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

## 22 Additional information

(a) Assets

| | As at December 31, 2017 $ | 2016 $ |
|---|---|---|
| **Accounts receivable** | | |
| Trade receivables | 21,794 | 16,646 |
| Allowance for doubtful accounts | (1,103) | (12) |
| Commodity taxes | 2,932 | 3,500 |
| Other receivables | 13,119 | 22,247 |
| | 36,742 | 42,381 |
| Trade amounts due from Air Canada and its subsidiary (refer to note 20 - Economic Dependence) | 40,655 | 32,677 |
| | 77,397 | 75,058 |
| **Inventories**[1] | | |
| Aircraft expendables | 35,902 | 44,318 |
| Used aircraft expendables and rotables for resale | 13,155 | 1,569 |
| Supplies | 2,402 | 2,641 |
| Fuel and de-icing fluid | 84 | 1,129 |
| | 51,543 | 49,657 |

(1) For the year ended December 31, 2017, the cost of aircraft expendables and supplies recognized as a maintenance expense was $39,506 (2016 - $47,535). For the year ended December 31, 2017 inventory write-downs to net realizable value of $837 were recognized as a maintenance expense (2016 - $819).

| | As at December 31, 2017 $ | 2016 $ |
|---|---|---|
| **Prepaid expenses and deposits** | | |
| Airport and navigation fees | 2,048 | 1,949 |
| Fuel | 229 | 568 |
| Aircraft rent and other | 3,532 | 3,157 |
| Other | 7,111 | 4,917 |
| | 12,920 | 10,591 |
| **Other long-term assets** | | |
| Prepaid aircraft rent and related fees, net of accumulated amortization | 16,018 | 17,881 |
| Accrued pension benefit asset ("SERP") (note 13) | 10,352 | 10,892 |
| Accrued defined pension benefit asset ("RPP") (note 13) | 4,835 | — |
| Long-term receivable | 2,629 | 12,064 |
| Asset backed commercial paper | 993 | 1,276 |
| | 34,827 | 42,113 |

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

## 22 Additional information (continued)

(b) Liabilities

| | As at December 31, 2017 $ | 2016 $ |
|---|---|---|
| **Accounts payable and accrued liabilities** | | |
| Trade payables and accrued liabilities | 181,565 | 150,604 |
| Commodity taxes | 22,508 | 5,363 |
| Current portion of deferred lease inducements | 2,017 | 2,593 |
| | 206,090 | 158,560 |
| Trade payables and accrued liabilities due to Air Canada and its subsidiary (refer to note 20 - Economic Dependence) | 10,107 | 15,096 |
| | 216,197 | 173,656 |
| **Other long-term liabilities** | | |
| Accrued pension benefit liability ("RPP") (note 13) | — | 27,864 |
| Accrued Other Future Employee Benefits liability (note 13) | 21,005 | 24,601 |
| Deferred operating lease inducements, non-current portion | 11,047 | 13,342 |
| Long-term incentive plan | 10,348 | 7,039 |
| DSU liability | 6,591 | 5,060 |
| Security deposits and maintenance reserves | 11,755 | — |
| Other | 4,933 | 10,876 |
| | 65,679 | 88,782 |