chorus aviation inc.

Consolidated Financial Statements

December 31, 2022 and 2021

February 15, 2023

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)	"Gary Osborne" Chief Financial Officer

Independent auditor's report

To the Shareholders of Chorus Aviation Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Chorus Aviation Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers LLP
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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of aircraft in the Regional Aircraft Leasing segment *Refer to note 3 – Significant accounting policies, judgements and estimation uncertainty, note 5 – Segmented information and note 9 – Property and equipment to the consolidated financial statements.* The Company's property and equipment in the Regional Aircraft Leasing segment as at December 31, 2022 amounted to $2.15 billion and consists of aircraft. Management performs impairment assessments of its aircraft whenever events or changes in circumstances indicate that the carrying value of the aircraft may not be recoverable. Aircraft leased to third parties are not reviewed for impairment until after five years from the date of manufacture unless changes in circumstances suggest that there is an indicator of impairment. For any aircraft for which an indicator of impairment is present, management estimates the recoverable amount, which is the greater of fair value less cost to dispose and value in use. An impairment charge is recorded if the estimated recoverable amount is less than the carrying amount of the assets being tested. Based on the impairment assessment performed, management recorded an impairment provision of $20.5 million in 2022 on the aircraft in the Regional Aircraft Leasing segment. Fair value less cost to dispose is estimated with reference to third party market data less cost to dispose. Value in use is estimated by taking the	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the value in use of aircraft in the Regional Aircraft Leasing segment having indicators of impairment, which included the following, as applicable: – Tested the appropriateness of the methods applied and the mathematical accuracy of the discounted cash flow models. – Evaluated the reasonableness of significant estimates and assumptions used by management, which included the following: o Estimated future cash flows by considering (i) current lease contracts and (ii) market lease rates obtained from third party sources as applicable. o Creditworthiness of the lessees by considering recent payment history, credit rating and the expectation of future default events, as applicable. o Expected residual values of the aircraft by comparing to third party market data. o Discount rate with the assistance of professionals with specialized skill and knowledge in the field of valuation.

Key audit matter	How our audit addressed the key audit matter
present value of future cash flows obtainable as a result of an asset's continued use, including those from its ultimate disposition. Management applies significant judgement in the estimation of value in use. This includes making significant estimates and assumptions related to the estimated future cash flows, the creditworthiness of the lessees, the expected residual values, which include an inflation rate assumption, and the discount rate. We considered this a key audit matter due to (i) the significant judgement made by management in developing the significant estimates and assumptions in determining the value in use of the aircraft; (ii) the significant audit effort and subjectivity in performing audit procedures to test the recoverable amounts determined by management; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.	• Tested how management determined the fair value less cost to dispose for a sample of aircraft by: – Assessing the appropriateness of the method used. – Comparing the fair value determined by management to third party market data and assessing the sources of the market data. • Tested the disclosures made in the consolidated financial statements, with respect to impairment of aircraft in the Regional Aircraft Leasing segment.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to

the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
February 15, 2023

Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at December 31, 2022 $	2021 $
Assets		
Current assets		
Cash	100,027	123,573
Restricted cash (note 23)	67,884	54,873
Accounts receivable – trade and other (note 24)	197,364	140,091
Inventories (note 24)	113,820	76,235
Prepaid expenses and deposits (note 24)	19,268	12,159
Current portion of finance lease receivables (note 8)	4,157	2,485
Income tax receivable	1,228	157
	503,748	409,573
Finance lease receivables (note 8)	42,797	3,641
Property and equipment (note 9)	3,282,008	2,589,087
Intangibles (note 10)	18,880	1,681
Goodwill (note 10)	9,010	7,150
Investments (note 19)	26,008	—
Deferred income tax asset (note 14)	22,240	6,661
Other long-term assets (note 24)	151,218	162,724
	4,055,909	3,180,517
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 24)	346,296	217,804
Current portion of lease liabilities (note 12)	5,041	3,801
Current portion of long-term incentive plan	2,821	911
Current portion of long-term debt (note 13)	340,308	226,509
Preferred shares dividend payable (note 16)	8,888	—
Income tax payable	29,335	2,650
	732,689	451,675
Lease liabilities (note 12)	6,268	6,336
Long-term debt (note 13)	1,678,659	1,677,168
Deferred income tax liability (note 14)	187,684	195,996
Other long-term liabilities (note 24)	182,186	158,873
	2,787,486	2,490,048
Equity attributable to shareholders	1,179,573	690,469
Equity attributable to non-controlling interest	88,850	—
Equity	1,268,423	690,469
	4,055,909	3,180,517

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

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

Approved by the Board of Directors

By: (signed) "Karen Cramm"
Director

By: (signed) "Paul Rivett"
Director

Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Equity Attributable to Shareholders							
	Capital $	Deficit $	Exchange differences on foreign operations $	Contributed surplus $	Warrants $	Equity component of convertible units/ debentures $	Equity attributable to non-controlling interest $	Total $
Balance - December 31, 2020	288,475	(684,375)	(5,570)	1,039,832	—	2,981	—	641,343
Net loss for the year	—	(20,485)	—	—	—	—	—	(20,485)
Other comprehensive (loss) income for the year (net of tax)	—	(3,048)	327	—	—	—	—	(2,721)
Comprehensive (loss) income for the year	—	(23,533)	327	—	—	—	—	(23,206)
Issuances of common shares, net of transaction costs and related tax	68,135	—	—	—	—	—	—	68,135
Warrants exercised	1	—	—	—	(1)	—	—	—
Issuance of convertible debentures, net of transaction costs	—	—	—	—	—	2,683	—	2,683
Warrants issued, net of transaction costs	—	—	—	—	1,514	—	—	1,514
Balance - December 31, 2021	356,611	(707,908)	(5,243)	1,039,832	1,513	5,664	—	690,469
Net income for the year	—	48,890	—	—	—	—	3,027	51,917
Other comprehensive (loss) income for the year (net of tax)	—	(20,492)	33,680	—	—	—	4,606	17,794
Comprehensive income for the year	—	28,398	33,680	—	—	—	7,633	69,711
Preferred share dividends declared	—	(22,902)	—	—	—	—	—	(22,902)
Issuance of common shares, net of transaction costs and related tax	70,093	—	—	—	—	—	—	70,093
Issuance of preferred shares, net of transaction costs and related tax	375,217	—	—	—	—	—	—	375,217
Repurchase of shares under normal course issuer bid	(3,612)	—	—	(1,851)	—	—	—	(5,463)
Share repurchase commitment under the automatic share purchase plan	(9,611)	—	—	(4,925)	—	—	—	(14,536)
Redemption of convertible debentures	—	—	—	2,981	—	(2,981)	—	—
Warrants expired	—	—	—	1,513	(1,513)	—	—	—
Warrants issued, net of transaction costs and related tax	—	—	—	—	24,366	—	—	24,366
Expense related to stock-based compensation plans	—	—	—	251	—	—	—	251
Non-controlling interest:								
Distributions	—	—	—	—	—	—	(6,433)	(6,433)
Business combination	—	—	—	—	—	—	87,650	87,650
Balance - December 31, 2022	788,698	(702,412)	28,437	1,037,801	24,366	2,683	88,850	1,268,423

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

Consolidated Statements of Income (Loss)
For the years ended December 31, 2022 and 2021

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

	2022 $	2021 $
Operating revenue (note 22)	1,595,804	1,023,275
Operating expenses (note 22)		
Salaries, wages and benefits	500,670	366,095
Depreciation, amortization and impairment (note 5)	202,613	201,126
Aircraft maintenance materials, supplies and services	289,237	136,314
Airport and navigation fees	166,290	106,460
Terminal handling services	13,597	7,648
Other	235,131	134,653
	1,407,538	952,296
Operating income	188,266	70,979
Non-operating (expenses) income		
Interest revenue	4,047	880
Interest expense	(104,890)	(97,213)
Gain on disposal of property and equipment	172	1,725
Loss on fair value of investments	(133)	—
Foreign exchange loss	(13,612)	(4,595)
Other	—	344
	(114,416)	(98,859)
Income (loss) before income taxes	73,850	(27,880)
Income tax (expense) recovery (note 14)		
Current income tax	(36,178)	(6,831)
Deferred income tax	14,245	14,226
	(21,933)	7,395
Net income (loss)	51,917	(20,485)
Net income attributable to non-controlling interest	3,027	—
Net income (loss) attributable to shareholders	48,890	(20,485)
Preferred share dividends declared	(22,902)	—
Earnings (loss) attributable to common shareholders	25,988	(20,485)
Earnings (loss) attributable to common shareholders, per share, basic and diluted	0.13	(0.12)

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

Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31, 2022 and 2021

(expressed in thousands of Canadian dollars)

	2022 $	2021 $
Net income (loss)	51,917	(20,485)
Other comprehensive income (loss)		
Items that will not be subsequently reclassified to the statements of income		
Actuarial loss on employee benefit liabilities, net of tax recovery of $10,504 (2021 - $3,671)	(28,408)	(9,889)
Items that will be subsequently reclassified to the statements of income		
Change in fair value of financial assets and liabilities, net of tax expense of $1,131 (2021 - $792)	7,916	6,841
Exchange differences on translation of foreign operations	38,286	327
Comprehensive income (loss)	69,711	(23,206)
Comprehensive income attributable to non-controlling interest	7,633	—
Comprehensive income (loss) attributable to shareholders	62,078	(23,206)

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, 2022 and 2021

(expressed in thousands of Canadian dollars)

	2022 $	2021 $
Cash provided by (used in)		
Operating activities		
Net income (loss)	51,917	(20,485)
Charges (credits) to operations not involving cash		
Depreciation, amortization and impairment	202,613	201,126
Inventory provision	—	10,090
Amortization of accrued transaction and financing fees	2,075	4,134
Gain on disposal of property and equipment	(3,185)	(1,725)
Loss on fair value of investments	133	—
Unrealized foreign exchange loss (gain)	7,356	(1,302)
Realized foreign exchange loss	11,513	6,310
Effect of foreign exchange rate changes on cash	(4,829)	(32)
Deferred income tax recovery	(14,245)	(14,226)
Other	(2,609)	4,412
	250,739	188,302
Net changes in non-cash balances related to operations (note 23)	28,773	(3,318)
	279,512	184,984
Financing activities		
Repayment of lease liabilities	(4,333)	(3,971)
Repayment of long-term borrowings	(450,091)	(336,348)
Repayment of 6.00% Debentures	(115,000)	(85,000)
Long-term borrowings, net of financing fees	59,439	25,078
Issuance of shares and warrants, net of transaction costs	465,038	68,560
Unsecured debentures, net of transaction costs	—	150,756
Repurchase of shares under normal course issuer bid	(5,463)	—
Preferred dividends	(14,616)	—
Distribution to non-controlling interests	(6,433)	—
	(71,459)	(180,925)
Investing activities		
Business and aircraft acquisition, net of cash acquired	(464,831)	—
Increase in security deposits and maintenance reserves	23,510	42,907
Additions to property and equipment	(62,280)	(74,707)
Investment in funds	(5,816)	—
Payments received on finance lease receivables	4,342	2,265
Proceeds on disposition/return of investments	2,399	—
Proceeds on disposal of property and equipment	271,307	1,725
	(231,369)	(27,810)
Effect of foreign exchange rate changes on cash	12,781	(2,013)
Net change in cash during the years	(10,535)	(25,764)
Cash and restricted cash (note 23) – Beginning of years	178,446	204,210
Cash and restricted cash (note 23) – End of years	167,911	178,446

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

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

1 General information

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

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

Chorus’ primary business activities include contract flying, aircraft leasing, managing aircraft on behalf of fund investors and other third-party aircraft investors and/or owners as well as maintenance, repair and overhaul services.

Contract flying is currently Chorus’ primary business and these flying operations are conducted through both its Jazz Aviation LP ("Jazz") and Voyageur Aviation Corp. ("Voyageur") subsidiaries. Through Jazz's operations, Chorus provides a significant part of Air Canada’s domestic and transborder network. Jazz and Air Canada are parties to an amended and restated capacity purchase agreement dated January 1, 2015, most recently amended effective January 1, 2021 and previously amended and restated on January 1, 2019 (the "CPA"), under which Air Canada purchases substantially all of Jazz’s fleet capacity at pre-determined rates. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on Air Canada (refer to note 22 - Economic dependence for further details). Jazz also operates charter flights for a variety of customers. Voyageur provides specialized contract ACMI (aircraft, crew, maintenance and insurance) flying, such as medical, logistical and humanitarian flights, to international and domestic customers.

On May 3, 2022, Chorus completed a sale and purchase agreement (the "Purchase agreement") pursuant to which one of its wholly-owned subsidiaries acquired Falko Regional Aircraft Limited, a leading regional aircraft lessor and the equity interests in certain entities ("Falko") and aircraft which are managed by Falko ("Falko Acquisition").

Chorus provides aircraft leasing to third-party air operators and asset management services such that it earns lease revenue, asset management fees and incentives for outperforming performance targets through its wholly-owned subsidiary Chorus Aviation Capital Corp. and its wholly-owned subsidiaries inclusive of Falko (collectively, "CAC"). Chorus rebranded its leasing business from CAC to Falko Regional Aircraft.

2 Basis of presentation

Chorus prepares these consolidated financial statements in accordance with Generally Accepted Accounting Principles ("GAAP") as set out in the Handbook which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been authorized for issuance by Chorus' Board of Directors on February 15, 2023.

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) Use of estimates, judgements and assumptions

The preparation of consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Significant judgement, estimate and assumption items include employee future benefits, depreciation and amortization of long-lived assets and impairment. These estimates are based on historical experience and management's best knowledge of current events and actions that Chorus may undertake in the future. Actual results could differ from those estimates.

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

c) Critical accounting estimates, judgements and assumptions

Significant accounting estimates and judgements 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 future 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, amortization and impairment expense. A 10% reduction to the residual values of aircraft would result in an increase of $8,451 to annual depreciation expense. For aircraft with shorter remaining depreciation periods, the residual values are not expected to change significantly.

Impairment of non-financial assets

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

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

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

For any aircraft for which an indicator of impairment is present, management estimates the recoverable amount which is the greater of fair value less cost of disposal and value in use. An impairment charge is recorded if the estimated recoverable amount is less than the carrying amount of the assets being tested. For the year ended December 31, 2022, Chorus recorded an impairment provision of $20,499, net of recoveries of $10,205 (2021 - $54,589) (refer to note 9 - Property and equipment).

In assessing recoverable amounts, Chorus makes significant estimates and assumptions about the expected useful lives and the expected residual value of aircraft, supported by estimates received from independent appraisers, for the same or similar aircraft types, and considers contractual cash flows, the creditworthiness of its lessees and Chorus' anticipated utilization of the aircraft. In determining the residual value of the aircraft, Chorus also applies a future inflation rate assumption of 2.0%. The December 31, 2022 value in use is estimated by taking the present value of future cash flows obtainable as a result of an asset's continued use, including those from its ultimate disposition, discounted at 7.20% (2021 - 6.39%).

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

Impairment of financial assets

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

Chorus has entered into lease deferral arrangements with certain of its lessees.

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

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

For the year ended December 31, 2022, Chorus recorded a charge related to the allowance for expected credit loss of trade and other receivables of $15,786 (2021 - $5,415), which is included in operating expense.

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

d) 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.

e) 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.

Some of the cash balances held by Chorus are restricted under the terms of the asset backed securitization financing and certain amounts may not be used to pay interest or principal on any of the notes in issue. The cash must be retained to fund the costs of other ongoing activities.

f) Revenue from contracts with customers

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

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

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

Operating revenue

In accordance with the CPA, Chorus and Air Canada are required to re-set certain Controllable Cost Revenue rates for the year ended December 31, 2022. These rates were finalized in the fourth quarter of 2022 and were retroactive to January 1, 2022. Given the nature of the Controllable Cost Guardrail, Chorus' exposure to variances between the Controllable Cost Revenue Chorus receives from Air Canada to cover annually negotiated Controllable Costs and Chorus' actual Controllable Costs incurred in performing its services for Air Canada is limited to $2,000 annually.

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

Services provided under the CPA

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

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

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

- A variable amount of controllable cost revenue based on rates that are reset annually and variables such as block hours, flight hours, cycles, passengers carried, and number of training events, as well as certain aircraft related costs with Jazz's respective exposures limited to $2,000 annually for variances between the revenue Jazz receives from Air Canada to cover controllable costs and Jazz's actual controllable costs;
- A fixed margin for the operation of the Covered Aircraft;
- Performance incentives available for achieving established performance targets;
- Payments for aircraft and spare engines that are leased to Air Canada; and
- Reimbursement for the actual amount of costs incurred by Chorus in performing its services under the CPA which are designated as pass-through costs.

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

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

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

Charter and other contract flying services

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

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

Other services

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

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

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

Asset management fee revenue, related to managing aircraft on behalf of fund investors and other third-party aircraft investors and/or owners, is recognized as the services are provided.

g) Aircraft leasing revenue

Aircraft leasing revenue is earned from third-party lessees under lease agreements. Certain leases have rental payments that change over their term due to changes in rates. Chorus records the aircraft lease revenue from leases on a straight-line basis over the term of the lease. Accordingly, an accrued lease receivable is recorded for the difference between the straight-line rent recorded as lease revenue and the rent that is contractually due from the lessees. Gains or losses arising from the Regional Aircraft Leasing segment's sale of aircraft leased to third parties is recognized as an increase or decrease to operating revenues.

h) Lease modifications

Due to the impact of COVID-19 on the airline industry and its third-party lessees, Chorus agreed to modify the terms of certain lease agreements. These lease amendments are accounted for as a new lease from the effective date of the amendments with revenue recognized on a straight-line basis over the remaining term in accordance with IFRS 16.

i) Employee future 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 all other employee benefits (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.

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

- The cost of the Other Employee Benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation, as applicable to each of the categories of benefits.
- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan and other employee benefit plans are recognized immediately in income.
- The registered pension plan is subject to certain minimum funding requirements. The liability, where applicable, in respect of the minimum funding requirement is determined using the projected minimum funding requirements based on actuarial forecasts. The liability in respect of the minimum funding requirement and any subsequent re-measurement of that liability is recognized in other comprehensive income without subsequent reclassification to income.
- The measurement date of each of the plans' assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement. The obligations relating to other employee benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).
- Chorus also maintains several defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable.

j) Stock-based compensation

Long-term incentive plan

The long-term incentive plan (the "LTIP") provides for the annual issuance of restricted share units ("RSU") that vest over a three year period if certain performance goals and/or service conditions, established at the time of grant by the Board of Directors, are achieved. RSUs entitle the participant to receive shares of Chorus (as defined below) 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 shares of Chorus accrue for the benefit of participants. Unvested RSUs held by participants are forfeited if performance goals or service conditions (as applicable) are not met. On vesting, Chorus will typically purchase the shares on the secondary market or settle the RSUs 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 choose cash or shares. As a result, the RSU obligation is typically 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.

Stock options

The LTIP also provides for the issuance of options to acquire shares at a pre-determined exercise price. 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 ("DSU") 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 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 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 stock-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 shares 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.

k) Financial instruments

The fair value of marketable financial instruments is the estimated amount for which an instrument could be exchanged, or a liability settled, by Chorus and a knowledgeable, willing party in an arm's length transaction at the measurement date. The fair value of other financial instruments is based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Financial assets are classified into two measurement categories: amortized cost and fair value.

Financial instruments are classified as follows:

- Investments, asset backed commercial paper ("ABCP") and total return swaps are 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, accounts receivable, finance lease receivables and long term receivables that are included in other assets are classified as "Financial Assets Measured at Amortized Cost". After their initial fair value measurement, accounts receivable and finance lease receivables are measured at amortized cost using the effective interest method, less an allowance for ECL, established on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.
- Accounts payable, dividends payable, long-term debt and lease liabilities 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.
- Interest rate swaps are classified as "Fair value through other comprehensive income". These financial instruments are measured at fair value, with changes in fair value recognized in the statement of other comprehensive income each reporting period. Any ineffective portion of the cash flow hedge is recognized in non-operating income.

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

Hedging

Chorus may use cash flow hedges to hedge the variability of future interest rates and related interest payments on its respective loans as well as variability of its share price affecting settlement under its various stock-based compensation programs. Cash flow hedges qualifying for hedge accounting are recognized on the balance sheet at fair value with the effective portion of the hedging relationship recognized in other comprehensive income (loss). Any ineffective portion of the cash flow hedge is recognized in non-operating income. Amounts recognized in accumulated other comprehensive income (loss) are reclassified to non-operating income in the same periods in which the hedged item is recognized in operating income. Cash flow hedges not qualifying for hedge accounting are recognized on the balance sheet at fair value with changes in fair value recognized in operating income.

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

l) 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 other flight equipment are depreciated over 20 to 30 years or to the end of the lease for certain aircraft, with 5% - 25% estimated average residual values or appraised residual values. Additional depreciation is charged to reduce the carrying value of specific assets to the recoverable amount where impairment is considered to have occurred. Where the recoverable amount is greater than the carrying value no adjustment is made.

Major maintenance overhaul expenditures (also referred to as "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.

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

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

m) 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 lease liabilities 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 expensed to net income as incurred.

n) 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
Management contracts	Finite life - amortized on a straight line basis over 5 years
Maintenance intangible	Finite life - recognized at end of lease

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.

Maintenance intangibles are recognized when Chorus acquires flight equipment subject to existing leases (refer to note 4 - Business acquisition) and are included in property and equipment. The intangibles represent the contractual right to receive the aircraft in a specified maintenance condition at the end of the lease under lease contracts with end of lease ("EOL") cash compensation, or Chorus' right to receive the aircraft in better maintenance condition due to aircraft maintenance events performed by the lessee either through reimbursement of maintenance deposit rents held under lease contracts with maintenance reserve provisions, or through a lessor contribution to the lessee. For leases with EOL maintenance provisions, upon lease termination, Chorus recognizes receipt of EOL cash compensation as lease revenue to the extent those receipts exceed the EOL maintenance intangibles, and Chorus recognizes operating expense when the EOL maintenance intangible exceeds the EOL cash received.

o) 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)

p) Leases

At inception of a contract, Chorus assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This includes the identification of embedded leases in service contracts. Chorus' lease arrangements relate to aircraft, engines and facilities. Chorus typically is the lessee in facility leases and is either the lessor or intermediate lessor in aircraft and engine leases.

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

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

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

Aircraft and engines – As a lessee and intermediate lessor

Chorus leases aircraft and engines from third parties to provide charter and contract flying services to Air Canada and third parties. Under the CPA, Chorus has determined that it is subleasing aircraft to Air Canada.

When Chorus is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Upon subleasing a right-of-use asset that is classified as a finance sublease, a lease receivable is recognized and the underlying asset that is leased from the head lessor is derecognized. Interest income is recognized on the lease receivable balance.

Aircraft and engines – As a lessor

Chorus leases owned aircraft and engines to Air Canada and third parties in its Regional Aviation Services segment, and leases owned aircraft to third parties in its Regional Aircraft Leasing segment. As a lessor, Chorus determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, Chorus makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, Chorus considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, Chorus applies IFRS 15 to allocate the consideration in the contract. Chorus recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of operating revenue.

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

Facilities

A majority of Chorus' leased facilities are designated spaces at airports, for which it makes fixed monthly payments. Shared spaces for which Chorus' capacity portion does not represent substantially all of the capacity of the asset are not identified assets under IFRS 16 and therefore no lease exists.

Chorus recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and adjusted for certain remeasurements of the lease liability. Chorus presents right-of-use assets in property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease payments included in the measurement of the lease liability comprise of fixed payments, variable lease payments that depend on an index or a rate, lease payments in a renewal period if Chorus is reasonably certain to renew, and penalties for early termination unless Chorus is reasonably certain not to terminate early. Chorus' leases do not provide an implicit rate, Chorus uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments and if there is a change in Chorus' assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Chorus has elected not to recognize right-of-use assets and lease liabilities for facility leases that have a lease term of 12 months or less and for leases of low-value assets. Leases with reciprocal termination rights with no more than an insignificant penalty, subject to a notice period of less than 12 months, are considered short-term leases. Chorus recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

q) Contract assets

Chorus recognized contract assets on the application of IFRS 16, for work performed related to leasehold improvements on contract combination aircraft. As a lease no longer exists for these aircraft, the work is viewed as services provided to Air Canada that are accounted for under IFRS 15.

Contract assets are also recognized when costs are incurred to obtain a contract with a customer that would otherwise not have been incurred. In March 2021, Chorus recorded a contract asset of $20,000 in connection with the transfer and integration of the Embraer 175 aircraft into the covered aircraft fleet. Chorus is amortizing the balance over the remaining life of the CPA contract and has recorded amortization expense of $1,333 for the year ended December 31, 2022 (2021 - $1,333).

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

r) 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 initial recognition of intangible assets acquired that require critical accounting estimates are customer relationships, management contracts and trade name. To determine the fair value of these 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.

s) 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. ("CAC") and its wholly-owned subsidiaries whose functional currency is the US dollar (with the exception of certain subsidiaries whose functional currency is the Euro and Jazz Leasing Inc. ("JLI") whose functional currency is the Canadian dollar).

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

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

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

t) 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.

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

u) 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.

v) 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, de-icing fluid, used aircraft expendables and rotables that are being held for sale.

w) 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.

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. Provisions are established where appropriate based on amounts expected to be paid to the tax authorities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

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

x) 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 stock options or RSUs issued is reduced by the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares) based on the fair value of the stock-based compensation to determine the number of dilutive shares outstanding.

y) Dividends

Dividends payable by Chorus to its common and preferred shareholders are recorded when declared. Dividends on common shares are determined at the discretion of the Board of Directors. Dividends on the series 1 preferred shares carry a dividend entitlement of 8.75% per annum in cash or 9.5% per annum in kind, payable quarterly in the month following the quarter. The dividend rate increases each year by 1% per annum in cash, 1.5% per annum in kind, starting on the sixth anniversary of the issuance up to a cap of 14.75% per annum in cash and 15.5% per annum in kind. The series 1 Preferred shares are subject to a 2% per annum dividend rate increase in the event of a continuing event of default.

z) Government grants and assistance

Chorus recognizes government grants when there is reasonable assurance that it will comply with the conditions required to qualify for the grant, and that the grant will be received. Chorus recognizes government grants as a reduction to the related expense that the grant is intended to offset. In response to the economic impact of COVID-19 in 2020, the Government of Canada put in place the Canada Emergency Wage Subsidy. Chorus recognized this subsidy, as an offset against salaries, wages and benefits expense, of $nil for the year ended December 31, 2022 (2021 - $69,416) and $nil related to the Canada Emergency Rent Subsidy offset against other expense for the year ended December 31, 2022 (2021 - $1,260).

Where forgivable loans are provided by governments with forgiveness contingent on meeting certain criteria, the forgivable loan is recorded as an offset to property and equipment and certain expenses when Chorus has met the terms for forgiveness of the loan. Chorus had a forgivable loan from the Northern Ontario Heritage Fund Corporation, for which forgiveness was contingent on meeting certain average employment levels over a three year period commencing from March 1, 2019 to March 1, 2021. These average employment levels were met, and during the year ended December 31, 2022, Chorus recorded a credit to property and equipment in the amount of $nil (2021 - $2,523) and a credit of $nil (2021 - $23) to operating expense.

4 Business acquisition

On May 3, 2022, Chorus completed, through wholly-owned subsidiaries, the Falko Acquisition. The total enterprise value for the Falko Acquisition on May 3, 2022 was US $810,548 comprised of US $405,048 of cash consideration and US $405,500 of existing indebtedness which remained with the relevant target entities. Subsequent to May 3, 2022, Chorus also completed the acquisition of the beneficial interest in certain trusts holding an additional five aircraft (the “Trust Interests”) for aggregate consideration of US $33,128, bringing the total consideration for Falko to US $843,676.

Chorus partially financed the transaction through a private placement transaction with BSI Dragonfly Holdings LP, an affiliate of Brookfield Special Investments Fund L.P. ("Brookfield"), pursuant to which Brookfield (i) subscribed for US $300,000 of preferred shares for consideration of US $291,000 in cash and (ii) subscribed for 25,400,000 common shares and was issued 18,642,772 common share purchase warrants with an exercise price of CAD $4.60 per common share in exchange for US $74,000 of cash (the "Private Placement").

Chorus uses the acquisition method to account for business combinations. As such, the results of operations include revenue and expenses of Falko since May 3, 2022. Revenue of $121,989 and net income of $40,492 was included in the consolidated statement of income since the acquisition date for the year ended December 31, 2022. If Falko had been part of the Chorus consolidated group since January 1, 2022, the consolidated revenue and net income would have been $1,634,560 and $67,957, respectively for the year ended December 31, 2022.

Chorus recorded acquisition costs of $8,524 in the statement of income for the year ended December 31, 2022 mainly due to professional fees related to the closing of the acquisition.

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

4 Business acquisition (continued)

The purchase price has been allocated to the assets acquired and the liabilities assumed based on their estimated fair values as follows:

As at the acquisition date (May 3, 2022)	**USD** $	**CAD** $
Purchase price		
Cash consideration	405,048	520,852
Fair value of the identifiable assets acquired and liabilities assumed		
Assets		
Cash	19,394	24,939
Restricted cash	57,183	73,531
Accounts receivable – trade and other	6,856	8,816
Inventories	95	122
Prepaid expenses and deposits	587	755
Property and equipment	786,196	1,010,970
Intangibles	14,652	18,843
Goodwill	1,373	1,766
Investment	15,043	19,344
Deferred income tax asset	5,799	7,458
Other long-term assets	28,280	36,364
	935,458	1,202,908
Liabilities		
Accounts payable and accrued liabilities	37,477	48,192
Income tax payable	28	36
Lease liabilities	1,279	1,644
Long-term debt	395,820	508,985
Deferred income tax liability	9,708	12,484
Other long-term liabilities	17,935	23,064
	462,247	594,405
Total identifiable net assets acquired	473,211	608,503
Non-controlling interest	(68,163)	(87,651)
Attributable to shareholders	405,048	520,852

4 Business acquisition (continued)

The purchase of the Falko Acquisition was transacted in US dollars and has been converted to Canadian currency at an exchange rate of 1.2859 on the date of acquisition.

Chorus finalized the purchase price allocation upon completion of the review of the final determination of the fair value of the tangible and intangible assets acquired. The fair values of the property and equipment and long-term debt were determined with internal expertise. The fair value of the intangible assets was determined with the assistance of third-party valuation professionals. Intangible assets attributable to the acquisition arise mainly from the asset management platform. Goodwill recognized is attributed to the Falko assembled workforce at the time of acquisition.

In assessing the fair value of property and equipment, Chorus made significant estimates and assumptions about the expected useful lives and the expected residual value of aircraft, supported by estimates received from independent appraisers, for the same or similar aircraft types, and considers contractual cash flows, the creditworthiness of its lessees and Chorus' anticipated utilization of the aircraft. In determining the residual value of the aircraft, Chorus also applies a future inflation rate assumption of 2.0%. The May 3, 2022 fair value is estimated by taking the present value of future cash flows obtainable as a result of an asset's continued use, including those from its ultimate disposition, discounted at 8.70%.

5 Segmented information

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

Chorus has two reportable operating segments:

- The Regional Aviation Services segment includes contract flying, charter operations and maintenance, repair and overhaul services that are carried on by both Jazz and Voyageur. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment as it is an important part of the CPA. Aircraft leasing under the CPA currently includes 34 Dash 8-400s and 14 CRJ900s as well as five engines which are owned by Chorus.
- The Regional Aircraft Leasing segment leases aircraft to third parties through CAC. On May 3, 2022, Chorus completed the Falko Acquisition. Falko earns asset management fees for managing aircraft on behalf of fund investors and other third-party aircraft investors and/or owners, lease income and incentives related to the performance fund investment targets. RAL's portfolio of wholly or majority-owned and managed aircraft increased to 218 aircraft with the Falko Acquisition from 62 (December 31, 2022: 212).

In the fourth quarter of 2022, Chorus began disclosing corporate head-office expenses ("Corporate") separate from the Regional Aviation Services segment enabling the Chief Executive Officer and Chief Financial Officer to better assess its operating performance. Corporate head-office expenses include various debt instruments, such as interest on the 6.00% Debentures, the Series A Debentures, the Series B Debentures, the Series C Debentures, unsecured credit facility, unsecured revolving operating credit facility and operating credit facility, executive and stock-based compensation and professional fees. As well, Corporate leases space in its head-office building to third parties.

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

5 Segmented information (continued)

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

Chorus revised its definition of Adjusted EBT and Adjusted EBITDA in the second quarter of 2022 to include expected credit loss provision related to anticipated aircraft repossessions ("restructuring expected credit loss provision") to facilitate comparability of its results.

Chorus revised its definition of Adjusted EBITDA in the fourth quarter of 2022 to include the gain (loss) on the fair value of investments related to fund investments as this is a key operating item for Chorus.

Adjusted EBT and EBITDA should not be used as exclusive measures of cash flow because these measures do not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements.

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

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

A significant customer is one that represents 10% or more of each segment revenue earned during the period. For the years ended December 31, 2022 and December 31, 2021, the Regional Aviation Services segment reported revenue from one significant customer. See note 22 "Economic dependence" for a discussion of transactions between Chorus and Air Canada, and its subsidiary (Air Canada Capital Ltd.). For the year ended December 31, 2022, there was one customer (2021 - six) that represented 10% or more of the Regional Aircraft Leasing segment revenue.

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

5 Segmented information (continued)

Information regarding the year-to-date financial results of each reportable operating segment is as follows:

	For the year ended December 31, 2022				For the year ended December 31, 2021			
	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total
	$	$	$	$	$	$	$	$
Operating revenue	1,332,732	262,121	951	1,595,804	892,024	130,126	1,125	1,023,275
Operating expenses	1,171,609	198,947	36,982	1,407,538	821,978	112,285	18,033	952,296
Operating income (loss)	161,123	63,174	(36,031)	188,266	70,046	17,841	(16,908)	70,979
Net interest expense	(18,026)	(51,175)	(31,642)	(100,843)	(21,004)	(43,630)	(31,699)	(96,333)
Foreign exchange (loss) gain	(27,590)	(6,683)	20,661	(13,612)	7,421	(8,707)	(3,309)	(4,595)
Gain on disposal of property and equipment	45	127	—	172	1,725	—	—	1,725
Loss on fair value of investments	—	(133)	—	(133)	—	—	—	—
Other	—	—	—	—	344	—	—	344
Earnings (loss) before income tax	**115,552**	**5,310**	**(47,012)**	**73,850**	**58,532**	**(34,496)**	**(51,916)**	**(27,880)**
Income tax (expense) recovery	(35,384)	760	12,691	(21,933)	(10,761)	4,104	14,052	7,395
Net income (loss)	**80,168**	**6,070**	**(34,321)**	**51,917**	**47,771**	**(30,392)**	**(37,864)**	**(20,485)**
Net income attributable to non-controlling interest	—	3,027	—	3,027	—	—	—	—
Net income (loss) attributable to shareholders	80,168	3,043	(34,321)	48,890	47,771	(30,392)	(37,864)	(20,485)

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

5 Segmented information (continued)

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

	For the year ended December 31, 2022		For the year ended December 31, 2021	
	Regional Aviation Services $	Regional Aircraft Leasing $	Regional Aviation Services $	Regional Aircraft Leasing $
Operating income - as reported above	**161,123**	**—**	**70,046**	**—**
Depreciation and amortization excluding impairment(1)	86,200	—	80,176	—
Impairment provisions(1)	—	—	36,163	—
Inventory provision(1)	—	—	10,090	—
Employee separation program(1)(2)	1,449	—	26,685	—
Defined benefit pension curtailment(1)	—	—	8,868	—
Integration costs(1)	—	—	2,000	—
Signing bonuses(1)	—	—	722	—
Adjusted EBITDA(3)	**248,772**	**—**	**234,750**	**—**
Income (loss) before income tax	**—**	**5,310**	**—**	**(34,496)**
Unrealized foreign exchange loss	—	5,765	—	8,154
Impairment provisions(1)	—	20,499	—	18,426
Restructuring expected credit loss provision(1)(4)	—	10,353	—	—
Employee separation program(1)	—	847	—	—
Lease repossession costs(1)(5)	—	28,059	—	8,970
Adjusted EBT(3)	**—**	**70,833**	**—**	**1,054**

(1) Included in operating expenses.
(2) Includes $26,300 related to the pilot early retirement program costs as a part of the 2021 CPA Amendments.
(3) These are non-GAAP financial measures.
(4) Restructuring expected credit loss provision related to anticipated aircraft repossessions.
(5) Lease repossession costs are net of security packages realized.

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

5 Segmented information (continued)

Selected assets and liability information by reportable operating segment and corporate:

	As at December 31, 2022				As at December 31, 2021			
	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total
	$	$	$	$	$	$	$	$
Additions to property and equipment, net of deposits applied[1]	40,930	21,350	—	62,280	50,659	24,048	—	74,707
Property and equipment	1,122,326	2,153,794	5,888	3,282,008	1,183,666	1,399,764	5,657	2,589,087
Long-term debt (excluding lease liabilities)	518,181	1,159,234	341,552	2,018,967	586,846	838,162	478,669	1,903,677

(1) Excludes non-cash foreign currency adjustments of $113,399 (December 31, 2021 - $42,676).

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

	Year ended December 31,			
	2022		2021	
	$	%	$	%
Canada	1,336,453	83.7%	893,149	87.3%
Other	259,351	16.3%	130,126	12.7%
	1,595,804	100.0%	1,023,275	100.0%

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

	As at December 31, 2022		As at December 31, 2021	
	$	%	$	%
Canada	1,156,836	35.2%	1,189,323	45.9%
Other[1]	2,125,172	64.8%	1,399,764	54.1%
	3,282,008	100.0%	2,589,087	100.0%

(1) There are no countries included in other that represent more than 10% of total assets (2021 - one country).

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

6 Capital management

Chorus' capital structure consists primarily of shares and debt consisting of the 6.00% Debentures, Series A Debentures, Series B Debentures, Series C Debentures, senior secured amortizing facilities, revolving loan facilities and lease liabilities. On December 31, 2021, Chorus redeemed $85,000 principal amount of the 6.00% Debentures and on December 31, 2022 the remaining $115,000 aggregate principal amount was redeemed.

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

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

Chorus' capital structure was as follows as at December 31, 2022 and December 31, 2021.

	2022 $	2021 $
Equity		
Capital	788,698	356,611
Contributed surplus	1,037,801	1,039,832
Deficit	(702,412)	(707,908)
Exchange differences on foreign operations	28,437	(5,243)
Equity component of convertible units/debentures	2,683	5,664
Warrants	24,366	1,513
	1,179,573	690,469
Long-term debt	2,018,967	1,903,677
Lease liabilities	11,309	10,137
Total capital	3,209,849	2,604,283

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

7 Revenue from contracts with customers

a) Revenue

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes other sources of revenue relating to lease income (including any rights to use specified aircraft that have been identified as lease revenues embedded in the CPA and contract flying service agreements) of $404,338 for the year ended December 31, 2022 (for the year ended December 31, 2021 - $283,552). Revenue is disaggregated primarily by nature and category in the underlying contract.

	Year ended December 31,	
	2022	2021
	$	$
Controllable cost revenue	805,288	461,047
Fixed margin(1)	66,320	65,720
Incentive revenue(2)	2,109	2,372
CPA pass-through revenue	209,611	133,912
Other(3)	108,138	76,672
	1,191,466	739,723

(1) Jazz earned a fixed margin based on the number of covered aircraft operated by Jazz under the CPA. The fixed margin does not vary based on flight activity.
(2) Incentive revenue earned under the CPA.
(3) For the year ended December 31, 2022, other includes net gain on sale of assets of $13,096 related to the sale of aircraft (2021 - $nil).

b) Transaction price allocated to the remaining performance obligations

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

As of December 31, 2022, the aggregate amount of remaining performance obligations was approximately $632,697 of which on average $56,277 is expected to be recognized from 2023 to 2027 and $43,914 recognized evenly per year until the end of 2035.

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

8 Finance lease receivables

Chorus has the following finance lease receivables related to aircraft:

	2022 $	2021 $
No later than one year	8,663	2,936
Later than one year and no later than five years	23,091	3,879
Later than five years(1)	44,316	—
Total minimum finance lease receivables	76,070	6,815
Less: Amount representing interest (at weighted average rate of 10.21% (2021 - 8.95%))	(29,116)	(689)
Present value of net minimum finance lease receivables	46,954	6,126
Less: Current portion	4,157	2,485
Finance lease receivables	42,797	3,641

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

	2022 $	2021 $
No later than one year	4,157	2,485
Later than one year and no later than five years	7,453	3,641
Later than five years(1)	35,344	—
	46,954	6,126

(1) Later than five years includes the purchase obligation by a lessee for five aircraft in 2030.

A significant portion of the minimum finance lease receivables for aircraft are receivable in US dollars and have been converted to Canadian dollars at 1.3544, which was the exchange rate in effect at the end of day closing on December 31, 2022 (2021 - 1.2678). Interest of $2,871 for the year ended December 31, 2022 (2021 - $639) relating to finance lease receivables has been included in revenue.

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

9 Property and equipment

	Flight equipment $	Facilities $	Equipment $	Leaseholds $	Right-of-use assets $	Deposits on aircraft $	Total $
Year ended December 31, 2021							
Opening net book value	2,714,352	32,759	7,166	7,321	3,268	7,128	2,771,994
Additions	83,439	(1,911)	423	(116)	—	—	81,835
Right-of-use assets	—	—	—	—	2,247	—	2,247
Deposits applied	—	—	—	—	—	(7,128)	(7,128)
Disposals	(8,427)	—	—	—	—	—	(8,427)
Impairment	(63,589)	—	—	—	—	—	(63,589)
Foreign currency adjustment	(42,672)	—	—	—	(4)	—	(42,676)
Depreciation	(138,118)	(1,680)	(3,302)	(366)	(1,703)	—	(145,169)
Closing net book value	2,544,985	29,168	4,287	6,839	3,808	—	2,589,087
Year ended December 31, 2022							
Opening net book value	2,544,985	29,168	4,287	6,839	3,808	—	2,589,087
Additions	58,713	379	3,132	56	—	—	62,280
Right-of-use assets	—	—	—	—	3,307	—	3,307
Disposals	(284,039)	—	—	(4,135)	—	—	(288,174)
Impairment	(30,704)	—	—	—	—	—	(30,704)
Falko Acquisition	1,008,860	—	796	—	1,314	—	1,010,970
Foreign currency adjustment	113,188	—	37	—	174	—	113,399
Depreciation	(171,982)	(1,621)	(2,188)	(188)	(2,178)	—	(178,157)
Closing net book value	3,239,021	27,926	6,064	2,572	6,425	—	3,282,008

	Flight equipment $	Facilities $	Equipment $	Leaseholds $	Right-of-use assets $	Deposits on aircraft $	Total $
At December 31, 2021							
Cost	3,394,028	47,172	81,519	20,025	8,414	—	3,551,158
Accumulated depreciation	(849,043)	(18,004)	(77,232)	(13,186)	(4,606)	—	(962,071)
Net book value	2,544,985	29,168	4,287	6,839	3,808	—	2,589,087
At December 31, 2022							
Cost	4,146,620	47,317	86,217	14,405	11,370	—	4,305,929
Accumulated depreciation	(907,599)	(19,391)	(80,153)	(11,833)	(4,945)	—	(1,023,921)
Net book value	3,239,021	27,926	6,064	2,572	6,425	—	3,282,008

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

9 Property and equipment (continued)

The property and equipment acquired through the Falko Acquisition are included in the above table with a purchase price allocation of $1,010,970 and included maintenance intangibles of $91,251.

For the year ended December 31, 2022, Chorus recorded an impairment provision of $20,499, net of $10,205 recovered from security packages (2021 - $54,589, net of $9,000 recovered from Air Canada) to income. For any aircraft for which an indicator of impairment is present, management estimates the recoverable amount which is the greater of fair value less cost of disposal and value in use. An impairment charge is recorded if the estimated recoverable amount is less than the carrying amount of the assets being tested.

For the year ended December 31, 2022, Chorus reclassified flight equipment with a net book value of $17,987 (2021 - $6,887) from property and equipment to assets held for resale on the statement of financial position.

During the year ended December 31, 2022, Chorus sold 12 aircraft to a third party for proceeds of $271,136, net of security deposits of $2,066. The net book value of the aircraft removed from property and equipment was $270,187 generating a gain on disposal of $3,015 which is recorded in revenue as mid-life aircraft sales are a key element of the Regional Aircraft Leasing's business model. In addition, Chorus also recorded revenue of $7,905 related to the release of maintenance reserves on the sale of these aircraft.

10 Goodwill and intangibles

Intangibles

As a result of the purchase price allocation related to the Falko Acquisition on May 3, 2022, Chorus recorded management contracts of $18,843. Management contracts are amortized on a straight- line basis over five years.

In relation to the acquisition of Voyageur on May 1, 2015, Chorus recorded $1,681 with respect to the trade name which is an indefinite life asset.

	As at December 31, 2022				As at December 31, 2021			
	Cost $	Accumulated amortization $	Foreign currency adjustment $	**Carrying value** $	Cost $	Accumulated amortization $	Foreign currency adjustment $	**Carrying value** $
Management contracts	18,843	(2,579)	935	17,199	—	—	—	—
Trade name	1,681	—	—	1,681	1,681	—	—	1,681
	20,524	(2,579)	935	18,880	1,681	—	—	1,681

Goodwill

Goodwill is allocated to the following cash-generating units ("CGUs"):

	December 31, 2022 **$**	**December 31, 2021** **$**
Falko(1)	1,860	—
Jazz	6,693	6,693
Voyageur	457	457
	9,010	7,150

(1) Includes foreign currency adjustment of $94.

10 Goodwill and intangibles (continued)

As a result of the purchase price allocation related to the Falko Acquisition on May 3, 2022, Chorus recorded goodwill of $1,766.

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 the year ended December 31, 2022 or the year ended December 31, 2021.

11 Credit facilities

Operating credit facility

On October 14, 2021, Chorus entered into a three-year committed operating credit facility with a maturity date of October 14, 2024. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of up to $75,000, subject to a borrowing base calculation, plus a $25,000 uncommitted accordion. Chorus has also provided letters of credit totaling $10,338 that reduce the amount available under this facility. As at December 31, 2022, Chorus had not drawn on the facility.

In March 2022, Chorus exercised the accordion feature under the committed operating credit facility, thereby increasing the limit from $75,000 to $100,000. In January 2023, Chorus amended the operating credit facility (refer to subsequent event note for details).

The facility bears interest for Canadian dollar advances at Canadian Prime plus 1.50% - 2.50% or BA Borrowing plus 2.50% - 3.50%, and for US dollar advances at Base Rate plus 1.50% - 2.50% or secured overnight financing rate ("SOFR") plus 2.50% - 3.50%.

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

Unsecured revolving operating credit facility

On May 2, 2022, Chorus entered into a US $30,000 unsecured revolving operating credit facility with a nine-month term, maturing February 2023. This facility contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio, and is cross-defaulted to any default under the operating credit facility. As at December 31, 2022, Chorus had not drawn on the facility.

The facility bears interest for Canadian dollar advances at Canadian Prime plus 3.00% - 4.00% or BA Borrowing plus 4.00% - 5.00%, and for US dollar advances at Base Rate plus 3.00% - 4.00% or SOFR plus 4.00% - 5.00%.

As at December 31, 2022, Chorus was in compliance with all covenants under this facility.

11 Credit facilities (continued)

Warehouse credit facility

In December 2020, Chorus amended the terms of this facility to, among other things, cancel the remaining available credit under the facility and eliminate the associated commitment fees.

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

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

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

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

Unsecured credit facility

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

As at December 31, 2022, Chorus was in compliance with these financial covenants.

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

12 Lease liabilities

Chorus has the following lease liabilities related to aircraft and facilities:

	2022 $	2021 $
No later than one year	5,520	4,370
Later than one year and no later than five years	5,175	6,117
Later than five years	1,751	750
Total minimum lease payments	12,446	11,237
Less: Amount representing interest (at weighted average rate of 5.66% (2021 - 6.88%))	1,137	1,100
Present value of net minimum lease liability payments	11,309	10,137
Less: Current portion	5,041	3,801
Lease liabilities	6,268	6,336

The present value of net minimum lease liabilities is as follows:

	2022 $	2021 $
No later than one year	5,041	3,801
Later than one year and no later than five years	4,679	5,688
Later than five years	1,589	648
	11,309	10,137

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian dollars at 1.3544, which was the exchange rate in effect at the end of day closing on December 31, 2022 (2021 - 1.2678). Interest of $603 for the year ended December 31, 2022 (2021 - $791) relating to lease liabilities has been included in aircraft rent.

Chorus has elected not to recognize a lease liability for short-term leases (leases of expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liabilities is as follows:

	2022 $	2021 $
Short-term leases(1)	7,948	3,605
Leases of low-value	935	1,126

(1) Included in the short-term lease expense are amounts for short-term engine leases which have both a fixed and a variable payment component.

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

13 Long-term debt

Long-term debt consists of the following:

	As at December 31. 2022 $	2021 $
Secured long-term debt and credit facilities		
Amortizing term loans		
Secured by aircraft[1a]	1,293,761	1,334,143
Secured by engines[1b]	4,507	5,542
Warehouse credit facility[1c]	85,847	91,950
Nova Scotia Jobs Fund loan - secured by office building[2]	5,000	6,000
Asset backed securitization[3]	309,665	—
6.00% Debentures[4]	—	115,000
	1,698,780	1,552,635
Unsecured long-term debt		
Series A Debentures[5]	86,250	86,250
Series B Debentures[6]	72,500	72,500
Series C Debentures[7]	85,000	85,000
Unsecured credit facility[8]	101,580	126,780
	2,044,110	1,923,165
Less:		
Deferred financing fees	(12,816)	(16,247)
Accretion discount on amortizing term loans and asset backed securitization	(10,348)	—
Accretion discount on convertible units and debentures	(1,979)	(3,241)
	2,018,967	1,903,677
Less: Current portion	340,308	226,509
	1,678,659	1,677,168

The current portion of long-term debt in the above table includes deferred financing fees of $1,526 and interest accretion of $3,907 for the year ended December 31, 2022 (December 31, 2021 - $1,256 and $nil, respectively). The majority of long-term debt is payable in US dollars and has been converted to Canadian currency at 1.3544 which was the exchange rate in effect at closing on December 31, 2022 (December 31, 2021 - 1.2678).

13 Long-term debt (continued)

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in instalments, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.87%, maturing between May 2023 and February 2033, each secured primarily by its respective aircraft and engines. The net book value of property and equipment pledged as collateral under these term loans was $2,122,837 (December 31, 2021 - $2,079,773).

   CAC's amortizing term loans for aircraft require the principal amount to be repaid prior to maturity if the aircraft comes off-lease and is not re-leased in accordance with the loan's requirements within a prescribed remarketing period ranging from six to 24 months (depending on the loan). CACIL currently has one aircraft that is off-lease, which has a loan with remarketing period exemptions provided that Chorus continues to make the regularly scheduled principal and interest payments and otherwise comply with the loan terms.

b) Secured by engines - Individual term loans, repayable in instalments, bearing fixed and floating interest at a weighted average rate of 4.29%, maturing between December 2024 and May 2028, each secured primarily by one PW150A engine. As at December 31, 2022, the net book value of property and equipment pledged as collateral under Dash 8-400 engine financing was $8,434 (December 31, 2021 - $11,054).

c) Warehouse credit facility - Individual term loans, repayable in instalments, bearing floating interest at a weighted average rate of 7.35%, amortizing to January 2025, each secured primarily by the aircraft financed by the loans and a security assignment of the leases in respect thereof. The floating interest rates have been fixed via swap agreements on a portfolio basis related to these loans at a weighted average rate of 5.07%. As at December 31, 2022, the net book value of property and equipment pledged as collateral under these term loans was $166,833 (December 31, 2021 - $164,331).

Financial Covenants under amortizing term loans

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

The principal financial covenants are as follows:

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

- The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreements with the lender also contain a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Dash 8-400s, Dash 8-400 spare engines, and CRJ900s.

13 Long-term debt (continued)

- Subsidiaries of CAC have entered into financing agreements in connection with the acquisition of aircraft. CAC, CACIL and/or JLI have guaranteed the indebtedness under a substantial number of these financing agreements. Under the terms of those financing agreements, the guarantors and/or the borrowers are required to maintain a minimum tangible net worth, observe a maximum consolidated total debt to tangible net worth ratio, observe debt-to-equity covenants, maintain a minimum cash balance, maintain minimum lease rent coverage ratios and/or refrain from paying dividends or other distributions if the debt covenants are breached. Furthermore, the indebtedness under certain of these financing agreements is cross-defaulted to payment defaults by JLI under facilities under which JLI is the borrower.
- Falko has certain loans that are required to maintain a maximum loan to value ratio and a minimum debt service coverage ratio.

As at December 31, 2022, Chorus (or as applicable, certain subsidiaries) was in compliance with all of these financial covenants.

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

(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.

(3) Asset Backed Securitization

As part of the Falko Acquisition completed on May 3, 2022, Chorus indirectly acquired a majority interest in the equity note issued by Regional 2021-1 Limited to Regional 2021-1 E Holding Limited (the "E Note") in connection with an asset-backed securitization of 39 regional aircraft which closed in April 2021 (the "Regional 2021-1 ABS"). In addition to issuing the equity note, Regional 2021-1 Limited and its wholly-owned subsidiary, Regional 2021-1 LLC (collectively, the "ABS Borrowers"), co-borrowed US $255,000 of Series A Loans (the "Series A Loans"). Chorus has an interest in the aircraft owned by the Co-Borrowers and their subsidiaries by virtue of its indirect interest in the E Note.

These Series A Loans amortize on a straight-line basis based on the aircraft type that ranges from eight to 11 years, bear interest at 5.75% and are secured by 39 regional aircraft. As at December 31, 2022, the net book value of property and equipment pledged as collateral under asset backed securitization was $549,124.

The Series A Loans are subject to priority of payment provisions and financial tests that could result in, among other things, requirements to replenish a liquidity facility, requirements to replenish maintenance reserve and security deposit accounts as well as tests that could result in the restriction of cash, accelerated amortization, and/or cash sweeps.

For the year ended December 31, 2022, the total interest expense on amortizing term loans, asset backed securitization and the Nova Scotia Jobs Fund loan was $68,657 (for the year ended December 31, 2021 - $63,636) which included interest accretion of $2,732 (for the year ended December 31, 2021 - $nil).

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

13 Long-term debt (continued)

(4) 6.00% Debentures

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 units. In March 2017, Chorus received the funds from the investment, with the net proceeds after deduction of expenses being approximately $195,972.

Each convertible unit comprised a $1.0 senior debenture and 121.21212121 warrants (the “Warrants”). The 6.00% Debentures, were due to mature on December 31, 2024, bore interest at a rate of 6.00% per annum and were secured by certain Dash 8-100s and Dash 8-300s and real estate property owned by Chorus (the “Collateral Security”), and were 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 would be required to make an offer to repurchase all of the 6.00% Debentures) or the exercise of the Warrants.

On December 31, 2021, Chorus redeemed $85,000 principal amount of the 6.00% Debentures and on December 29, 2022, the remaining $115,000 aggregate principal amount was redeemed. Following the redemption, the Collateral Security held by the 6.00% Debentures was released and the Warrants expired.

As a result of the redemption, $2,981 of the equity component of the Debentures has been reclassified to contributed surplus in the statement of changes in equity.

The following table illustrates the allocation of the convertible units between debt and equity as at December 31, 2022.

Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity component of convertible units $	Total $
Balance - December 31, 2021	6.0	113,208	2,981	116,189
Accretion expense		1,792	—	1,792
Redemption		(115,000)	(2,981)	(117,981)
Balance - December 31, 2022		—	—	—

Transaction costs were capitalized and offset against the debt and equity portions of the 6.00% Debentures and amortized over the life of the 6.00% Debentures using the effective interest rate. For the year ended December 31, 2022, the total interest expense on the 6.00% Debentures was $8,553 (for the year ended December 31, 2021 - $14,253) which included interest accretion of $1,792 (for the year ended December 31, 2021 - $2,253).

13 Long-term debt (continued)

(5) Series A Debentures

In December 2019, Chorus issued $86,250 aggregate principal amount 5.75% unsecured debentures ("Series A Debentures"). Series A Debentures bear interest at a rate of 5.75% per annum, are unsecured, and mature on December 31, 2024.

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

Chorus received proceeds of $82,372 net of $3,878 in transaction costs associated with the offering. Transaction costs are capitalized and offset against the Series A Debentures and amortized over the life of the debentures using the effective interest rate.

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

For the year ended December 31, 2022, the total interest expense on the Series A Debentures was $5,723 (for the year ended December 31, 2021 - $5,672) which included interest accretion of $764 (for the year ended December 31, 2021 - $713).

(6) Series B Debentures

On April 6, 2021, Chorus issued $72,500 aggregate principal amount of 6.00% unsecured convertible debentures ("Series B Debentures") which bear interest at a rate of 6.00% per annum, and mature on June 30, 2026. Subject to adjustment in certain circumstances, the Series B Debentures are convertible at the holder's option into 157.4803 common shares per $1.0 principal amount of such debentures, initially representing a conversion price of $6.35 per share (subject to certain adjustments).

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

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

Chorus received proceeds of $69,507 net of $2,993 in transaction costs associated with the Series B Debentures. Transaction costs are capitalized and offset against the debt and equity portions of the Series B Debentures and amortized over the life of the Series B Debentures using the effective interest rate.

For the year ended December 31, 2022, the total interest expense on the Series B Debentures was $5,317 (for the year ended December 31, 2021 - $3,867) which included interest accretion of $966 (for the year ended December 31, 2021 - $665).

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

13 Long-term debt (continued)

The following table illustrates the allocation of the Series B Debentures between debt and equity as at December 31, 2022. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity component of convertible debentures $	Total $
Balance - December 31, 2021	6.0	67,489	2,683	70,172
Accretion expense		966	—	966
Balance - December 31, 2022		**68,455**	**2,683**	**71,138**

(7) Series C Debentures

On September 27 2021, Chorus issued $85,000 aggregate principal amount 5.75% unsecured debentures ("Series C Debentures") which bear interest at a rate of 5.75% per annum, are unsecured, and mature on June 30, 2027. The Series C Debentures are not convertible by the holders thereof into common shares at any time.

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

Chorus received proceeds of $81,249, net of $3,751 in transaction costs associated with the offering. Transaction costs are capitalized and offset against the Series C Debentures and amortized over the life of the debentures using the effective interest rate.

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

For the year ended December 31, 2022, the total interest expense on the Series C Debentures was $5,449 (for the year ended December 31, 2021 - $1,477) which included interest accretion of $562 (for the year ended December 31, 2021 - $146).

(8) Unsecured credit facility

On April 28, 2020, Chorus obtained a US $100,000 unsecured revolving credit facility for general corporate purposes. Effective April 28, 2022, this facility automatically converted to a fixed, amortizing debt facility, and the indebtedness thereunder is required to be repaid over eight quarterly instalments of US $12,500 principal plus interest starting in July 2022 and ending in April 2024. The facility bears interest at a rate of US dollar LIBOR rate plus 5.00%.

For the year ended December 31, 2022, the total interest expense on the unsecured credit facility was $8,249 (for the year ended December 31, 2021 - $6,566).

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

13 Long-term debt (continued)

The majority of the following future repayments of long-term debt are payable in US dollars and Euros and have been converted to Canadian dollars at closing rates on December 31, 2022. The timing of future principal payments, excluding unamortized deferred financing fees and interest accretion, is as follows:

	$
No later than one year	345,741
Later than one year and no later than five years	1,385,000
Later than five years	313,369
	2,044,110

14 Income taxes

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

	Year ended December 31,	
	2022	2021
	$	$
Income (loss) before income tax	73,850	(27,880)
Income tax expense (recovery) at the Canadian statutory tax rate(1)	19,570	(7,388)
Recognition of previously unrecognized cumulative eligible capital	(5,385)	(5,806)
Net impact of capital items(2)	3,408	(837)
Impact of the Canadian statutory tax rate on entities with other tax rates	596	4,434
Non-deductible expenses and other	3,744	2,202
Income tax expense (recovery)	21,933	(7,395)
Effective tax rate	29.7%	26.5%

(1) Chorus has modified the presentation of the tax rate reconciliation to calculate the tax impact of the statutory rate based on the Canadian average rate as opposed to an average blended rate of all jurisdictions, which had been used in the past. The impact of rate differentials from foreign jurisdictions is shown as a separate reconciling line item. Chorus uses an average Canadian statutory tax rate of 26.5%.

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

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

14 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 $265,019 as at December 31, 2022, related to capital cost allowance on eligible capital property. In accordance with the initial recognition exemption, as outlined in IAS 12 *Income taxes*, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the years ended December 31, 2022 and December 31 2021, Chorus utilized a total of $19,948 ($5,385 tax effected) and $21,449 ($5,806 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

Deferred tax

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

	December 31, 2021 $	Recognized in Net Income $	Recognized in OCI $	Recognized in Equity $	Acquired on Acquisition $	December 31, 2022 $
Deferred income tax liability						
Pension and Other Employee Benefits	(9,306)	286	10,504	—	—	1,484
Property and equipment	(266,722)	(8,713)	—	—	(8,518)	(283,953)
Deferred income tax asset						
Loss carryforwards	81,892	21,084	—	—	4,383	107,359
Other long-term debt	4,801	1,588	(1,376)	4,653	—	9,666
Net deferred income tax	(189,335)	14,245	9,128	4,653	(4,135)	(165,444)

	As at December 31,	
	2022	2021
Balance sheet presentation	$	$
Deferred income tax asset	22,240	6,661
Deferred income tax liability	(187,684)	(195,996)
Net deferred income tax liability	(165,444)	(189,335)

15 Pension and Other Future Employee Benefits

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

On August 4, 2021, Jazz entered into an annuity purchase transaction with a third party insurer for its registered defined benefit pension plan for pilots in the amount of $67,348 for all pensioners of the plan as of January 1, 2021 thereby reducing the pension assets and liabilities by $67,348 or approximately 10%. This transaction reduces the future pension liability growth and the funding volatility risk.

The registered defined benefit cost for the fiscal year ended December 31, 2021 includes a non cash defined benefit pension plan curtailment provision included in past service costs of $8,868 related to early retirement programs offered during the year as part of the 2021 CPA Amendments.

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.

The total expense for Chorus' defined contribution plans for which Chorus is obligated to make defined contributions only, for the year ended December 31, 2022 was $18,074 and for the year ended December 31, 2021 was $12,463.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2023 are $14,200. Expected contributions to the defined contribution pension plans for the year ending December 31, 2023 are $20,600. Expected benefit payments for Other Future Employee Benefits for the year ending December 31, 2023 are $3,491.

Jazz is the legal administrator of the Canadian plans and is responsible for its overall management of these plans. Falko is the legal administrator of the United Kingdom and Ireland defined contribution pension 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, 2022 and the next funding valuations will be as of January 1, 2023.

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

15 Pension and Other Future Employee Benefits (continued)

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

	Pension Benefits		Other Future Employee Benefits	
	2022	**2021**	**2022**	**2021**
	$	**$**	**$**	**$**
Change in benefit obligation				
Benefit obligation, beginning of year	495,508	609,048	24,742	25,469
Current service cost	19,665	26,693	2,657	2,029
Past service cost	—	8,868	—	—
Loss on annuity settlement	—	32	—	—
Interest cost	15,741	14,940	649	481
Plan participants' contributions	4,369	4,772	—	—
Benefits paid	(40,168)	(54,923)	(1,943)	(3,304)
Annuity settlement	—	(67,348)	—	—
Loss (gain) from change in demographic assumptions	4,640	7,967	(187)	87
Gain from change in financial assumptions	(128,076)	(61,345)	(3,739)	(1,405)
Experience losses	6,966	6,804	104	1,385
Benefit obligation, end of year	378,645	495,508	22,283	24,742
Change in plan assets				
Fair market value of plan assets, beginning of year	580,483	692,920	—	—
Interest income	17,734	16,111	—	—
Employer contribution	16,590	24,334	1,943	3,304
Plan participants' contributions	4,369	4,772	—	—
Benefits paid	(40,168)	(54,923)	(1,943)	(3,304)
Annuity settlement	—	(67,348)	—	—
Administrative expenses	(500)	(500)	—	—
Loss on plan assets (excluding interest income)	(159,664)	(34,883)	—	—
Fair market value of plan assets, end of year	418,844	580,483	—	—
Funded (unfunded) status, end of year	40,199	84,975	(22,283)	(24,742)
Effect of asset ceiling	(23,418)	(25,850)	—	—
Net defined benefit asset (liability)	16,781	59,125	(22,283)	(24,742)

The amount of the net defined benefit pension asset that can be recognized (the asset ceiling) is determined as the difference between (i) the present value of future service costs and (ii) the present value of contributions required to be made to the plan taking into consideration pension contribution reductions or holidays available to Chorus at the balance sheet date.

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

15 Pension and Other Future Employee Benefits (continued)

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

	December 31, 2022 $	December 31, 2021 $
Assets		
Defined benefit pension	16,781	59,125
Liabilities		
Other future employee benefits	22,283	24,742

Defined benefit pension plan assets are comprised as follows:

	December 31, 2022	December 31, 2021
Canadian Equity	1%	1%
Long Bonds	66%	71%
International Equity	11%	14%
Short-term and Other	4%	4%
Real Estate	18%	10%
	100%	100%

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

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

15 Pension and Other Future Employee Benefits (continued)

Weighted average assumptions used to determine the accrued benefit liability:

	Pension Benefits		Other Future Employee Benefits	
	2022	**2021**	**2022**	**2021**
Discount rate to determine accrued benefit obligations	5.3%	3.1%	5.2%	2.8%
Discount rate to determine the pension and benefit cost	3.1%	2.5%	2.8%	2.0%
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	5.2%	5.3%
Health care inflation - Select to determine pension and benefit cost	n/a	n/a	5.3%	5.4%

The health care inflation assumption remained at 4.0% per annum in and after 2040.

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

	2022	**2021**
Retiring at the end of the reporting period		
Male	22.0	21.9
Female	24.3	24.3
Retiring 20 years after the end of the reporting period		
Male	23.0	22.9
Female	25.3	25.2

15 Pension and Other Future Employee Benefits (continued)

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

Asset volatility

For a defined benefit pension plan, fluctuations in the value of plan assets are assessed in the context of fluctuations in the plan liabilities. The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields. As discount rates change, the value of the plan liabilities will fluctuate. If the growth of plan liabilities exceeds that of plan assets a deficit will result. The plan currently holds approximately 12% of assets in equities and 18% 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.

Interest rate risk

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

Salary risk

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

Life expectancy

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

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

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

15 Pension and Other Future Employee Benefits (continued)

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

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 2.0%	Increase by 2.1%
Compensation increase rate	0.25%	Increase by 0.7%	Decrease by 0.7%
Life expectancy	1 year	Decrease by 0.6%	Increase by 0.5%

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 1.4%	Increase by 1.4%
Compensation increase rate	0.25%	Increase by 0.7%	Decrease by 0.7%
Health care cost trend rate	0.25%	Increase by 0.8%	Decrease by 0.8%

The weighted average duration of the pension plans and Other Future Employee Benefits is 8 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	27,897	32,887	101,921	161,963	324,668
Other Future Employee Benefits	3,491	3,262	8,393	9,615	24,761
	31,388	36,149	110,314	171,578	349,429

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

15 Pension and Other Future Employee Benefits (continued)

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

	Pension		Other Future Employee Benefits	
	2022 $	2021 $	2022 $	2021 $
Components of cost under IAS 19				
Amounts recognized in profit or loss:				
Current service cost	19,665	26,693	2,657	2,029
Past service cost	—	8,868	—	—
Loss on annuity settlement	—	32	—	—
Interest cost on benefit obligation	15,741	14,940	649	481
Interest expense on effect of asset ceiling	801	—	—	—
Administrative expenses	500	500	—	—
Interest income on plan assets	(17,734)	(16,111)	—	—
Costs arising in the period	18,973	34,922	3,306	2,510
Remeasurements recognized in the consolidated statements of income	—	—	(2,774)	666
	18,973	34,922	532	3,176
Remeasurements recognized in other comprehensive income				
Loss on demographic assumptions	4,639	7,967	356	—
Gain from financial assumptions	(128,076)	(61,345)	(1,404)	(599)
Experience losses	6,966	6,804	—	—
Return on plan assets (excluding interest income)	159,664	34,883	—	—
Effect of asset ceiling	(3,233)	25,850	—	—
Loss (gain) recognized in the statement of other comprehensive income for the period	39,960	14,159	(1,048)	(599)
Tax (recovery) expense	(10,787)	(3,833)	283	162
Net loss (gain) recognized in the statement of other comprehensive income for the period[1]	29,173	10,326	(765)	(437)

(1) Total net loss of $28,408 for the year ended December 31, 2022 (2021 - net loss of $9,889) was recognized in the statement of other comprehensive income.

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

15 Pension and Other Future Employee Benefits (continued)

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

	Year ended December 31, 2022 $	2021 $
Net defined benefit pension and Other Future Employee Benefits expense recorded in the consolidated statements of income		
Wages, salaries and benefits	19,505	38,098
Employee benefit funding by Chorus		
Defined benefit pension	16,590	24,334
Other Future Employee Benefits	1,943	3,304
	18,533	27,638
Employee benefit funding lower than expense	(972)	(10,460)

16 Dividends

Chorus does not currently pay a dividend on its common shares. Dividends are subject to the discretion of Chorus' Board of Directors.

On May 3, 2022, Chorus issued preferred shares to Brookfield. The preferred shares carry a dividend entitlement of 8.75% per annum in cash, payable quarterly or 9.5% per annum in kind, accrued quarterly. The preferred share dividends are declared monthly and paid in cash quarterly in US dollars in the month following quarter end.

During the year ended December 31, 2022, Chorus declared $22,902 in preferred share dividends. During the year ended December 31, 2022, Chorus paid $14,616 in preferred share dividends. The preferred dividend payable on the statement of financial position has been converted to Canadian currency at 1.3544 which was the exchange rate in effect at closing on December 31, 2022. Preferred dividends recorded in equity are converted to Canadian currency at the foreign exchange rate in effect on the day of the transaction.

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

17 Capital stock

a) Common shares

Authorized:

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

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

Issued and outstanding:

	Number of Shares	$
Shares issued and outstanding December 31, 2020	**161,867,388**	**288,475**
Shares issued through public offering	15,783,500	68,135
Shares issued through exercise of warrants	100	1
Shares issued and outstanding December 31, 2021	**177,650,988**	**356,611**
Shares issued through private placement	25,400,000	70,093
Shares repurchased and cancelled	(1,718,972)	(3,612)
Share repurchase commitment under the automatic share purchase plan	—	(9,611)
Shares issued and outstanding December 31, 2022	**201,332,016**	**413,481**

On November 9, 2022, Chorus announced that it had received approval from the Toronto Stock Exchange to implement a normal course issuer bid ("NCIB") to purchase up to 15,928,236 common shares during the period November 14, 2022 to no later than November 13, 2023. From November 14, 2022 to December 31, 2022, Chorus purchased and cancelled 1,718,972 common shares under its NCIB at an aggregate cost of $5,463. Common share capital was reduced by $3,612 and the remaining $1,851 was accounted for as a reduction of contributed surplus.

In connection with the NCIB, Chorus has established an automatic securities purchase plan (the "Plan") with a designated broker to allow for the purchase of common shares. Chorus' designated broker may purchase common shares under the Plan on any trading day during the NCIB during pre-determined trading blackout periods, subject to certain parameters as to price and number of common shares. The Plan will terminate when the NCIB terminates, unless terminated earlier in accordance with the terms of the Plan. Chorus may vary, suspend or terminate the Plan only if it does not have material non-public information, and the decision to vary, suspend or terminate the Plan is not taken during a pre-determined trading blackout period. The Plan constitutes an "automatic plan" for purposes of applicable Canadian securities legislation and has been reviewed by the TSX. Chorus recorded a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and the Plan. As at December 31, 2022 a maximum obligation to purchase $14,536 of common shares was recognized under the Plan in accounts payable and accrued liabilities on the consolidated statements of financial position. Common share capital was reduced by $9,611 and the remaining $4,925 was accounted for as a reduction of contributed surplus.

17 Capital stock (continued)

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

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

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

Private Placement

On May 3, 2022 and in connection with the Falko Acquisition, Chorus entered into a subscription agreement with Brookfield pursuant to which it (i) subscribed for US $300,000 of preferred equity in exchange for US $291,000 in cash, and (ii) subscribed for 25,400,000 common shares and was issued 18,642,772 share purchase warrants with an exercise price of CAD $4.60 per common share in exchange for US $74,000 in cash. The preferred equity is non-convertible and will initially pay a dividend of 8.75% in cash or 9.50% in kind at Chorus' option with step ups after the sixth anniversary. The net proceeds received for the common shares was $94,459, net of transaction costs and income tax. The net value allocated to the common shares issued and the common share purchase warrants was $70,093 and $24,366, respectively.

Public offering

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

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

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

17 Capital stock (continued)

b) Warrants

	Number of warrants	$
Outstanding, December 31, 2020	24,242,424	—
Warrants issued pursuant to public offering	7,891,750	1,578
Less: warrant transaction costs	—	(64)
Warrants exercised(1)	(100)	(1)
Outstanding, December 31, 2021	32,134,074	1,513
Warrants issued through private placement	18,642,772	24,627
Less: warrant transaction costs	—	(261)
Warrants expired(2)	(32,134,074)	(1,513)
Outstanding, December 31, 2022	18,642,772	24,366

(1) During the three months ended December 31, 2021, 100 warrants were exercised for a total of $1.
(2) During the year ended December 31, 2022, warrants of 7,891,650 expired on April 6, 2022 and warrants of 24,242,424 expired on December 29, 2022, following the redemption of the 6.00% Debentures.

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

Number of warrants	Exercise Price(1)	Expiry Date
18,642,772	4.60	May 3, 2029

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

c) Preferred shares

Authorized:

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

On May 3, 2022 and in connection with the Falko Acquisition, Chorus entered into a subscription agreement with Brookfield for US $300,000 of preferred equity in exchange for US $291,000 in cash. The preferred equity is non-convertible and will initially pay a dividend of 8.75% in cash or 9.50% in kind at Chorus' option with step ups after the sixth anniversary. The net proceeds received for the Preferred Shares was $375,217, net of transaction costs and income tax.

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

17 Capital stock (continued)

Issued and outstanding:

	Number of Shares	$
Shares issued and outstanding December 31, 2021	—	—
Shares issued through private placement	300,000	375,217
Shares issued and outstanding December 31, 2022	300,000	375,217

d) Earnings per share

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

	Year ended December 31, 2022 $	Year ended December 31, 2021 $
Numerator		
Net income (loss)	51,917	(20,485)
Less:		
Net income attributable to non-controlling interest	(3,027)	—
Preferred share dividends declared	(22,902)	—
Earnings (loss) attributable to common shareholders	25,988	(20,485)
Denominator		
Weighted average number of shares	194,440,593	173,542,862
Weighted average dilutive shares	4,606,566	2,578,476
Weighted average number of diluted shares	199,047,159	176,121,338

For the year ended December 31, 2021, the calculation of the diluted earnings per share excluded 2,578,476 shares related to stock-based compensation as they were anti-dilutive.

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

17 Capital stock (continued)

e) RSUs

Chorus awards RSUs to certain key employees under the LTIP plan.

The table below shows the movement of RSUs throughout the year.

Long-term incentive plan	**2022 Number of units**	**2021 Number of units**
RSUs outstanding beginning of the year	2,943,678	2,366,851
Total RSUs granted during the year	3,185,537	1,330,968
RSUs redeemed during the year	(826,909)	(684,209)
RSUs forfeited during the year	(250,177)	(69,932)
RSUs outstanding	5,052,129	2,943,678
RSUs vested	3,899,816	2,487,594

The value of total RSUs granted during the year ended December 31, 2022 was $12,573 (2021 - $6,399).

f) DSUs

Deferred share unit plan	**2022 Number of units**	**2021 Number of units**
DSUs outstanding beginning of the year	1,201,888	1,258,764
Total DSUs granted during the year	192,547	206,905
DSUs redeemed during the year	(391,233)	(263,781)
DSUs outstanding	1,003,202	1,201,888

Fair value of total DSUs granted during the year ended December 31, 2022 was $632 (2021 - $833).

g) Employee Share Purchase Plan

The ESOP employer match was suspended for contributions made after May 31, 2020; except where governed by collective agreement provisions. Eligible employees can participate in the ESOP under which certain employees can invest between 2% and 6% of their base salary for the purchase of shares on the secondary market. For 2021 contributions, Chorus matched 30% of contributions made between January 1, 2021 and December 31, 2021. Employee contributions deducted from an employee’s pay between January 1, 2021 and December 31, 2021 were matched as scheduled on April 1, 2022 at 30%; provided that on March 31, 2022 the shares an employee purchased were still in the employee’s Computershare account.

Employee contributions deducted from an employee’s pay between January 1, 2020 and May 31, 2020 were matched as scheduled on April 1, 2021 at 25%; provided that on March 31, 2021 the shares an employee purchased were still in the employee’s Computershare account.

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

17 Capital stock (continued)

h) Stock-based Compensation Expense

	2022 $	2021 $
Stock Options	251	—
RSUs	9,116	2,494
DSUs	699	1,051
ESOP	1,140	—
	11,206	3,545

18 Future lease receivables under operating leases

Chorus has the following future minimum lease receivables under operating leases.

	December 31, 2022 $
2023	373,265
2024	355,894
2025	292,193
2026	261,683
2027	212,271
2028 and onward	501,028

A significant portion of the minimum lease payments for aircraft are receivable from the lessee in US dollars and Euro and have been converted to Canadian currency at 1.3544 and 1.4527, respectively, which were the exchange rates in effect at the end of day closing on December 31, 2022.

19 Financial instruments and fair values

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, long-term receivables included in other assets, finance lease receivables, investments, total return swap, accounts payable and accrued liabilities, interest rate swaps, long-term debt and lease liabilities.

Fair value of financial instruments

As explained in note 3(k), 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, long-term receivables included in other assets and accounts payable and accrued liabilities 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.

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

19 Financial instruments and fair values (continued)

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

	As at December 31, 2022			As at December 31, 2021		
	Fair value	Carrying value	Deferred financing fees(1)	Fair value	Carrying value	Deferred financing fees(1)
	$	$	$	$	$	$
Finance lease receivables(2)	46,871	46,954	—	6,513	6,126	—
Investments						
Held for trading(3)	85	85	—	—	—	—
Third party(4)	374	374	—	—	—	—
Fund investment(4)	25,549	25,549	—	—	—	—
Other long-term assets						
Interest rate swaps(5)	6,065	6,065	—	—	—	—
Long-term debt						
Amortizing term loans(6)	1,290,955	1,389,128	6,017	1,426,650	1,437,635	6,627
Asset backed securitization(6)	292,972	299,304	—	—	—	—
6.00% Debentures(7)	—	—	—	119,484	114,222	1,014
Series A Debentures(8)	81,722	86,250	1,690	85,344	86,250	2,454
Series B Debentures(8)	67,715	70,521	2,066	71,630	70,037	2,548
Series C Debentures(8)	71,825	85,000	3,043	77,341	85,000	3,604
Unsecured credit facility(9)	99,657	101,580	—	124,954	126,780	—
Other long-term liabilities						
Interest rate swaps(5)	—	—	—	3,976	3,976	—
Total return swap(5)	3,813	3,813	—	3,242	3,242	—

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

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

19 Financial instruments and fair values (continued)

Fair value hierarchy

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs.

The fair value of Level 3 financial instruments are determined using valuation techniques. In determining the fair value, Chorus considers a number of relevant factors including but not limited to, the trading and general financial condition of the investments, and other inputs such as future rental cash inflows, discount rates, residual value of the aircrafts held by these investments to compute for their discounted cash flows.

A 1% change in any of the assumptions would not have a material impact on net income for the year ended December 31, 2022.

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:

	2022 $	2021 $
Level 2		
Interest rate swap assets (liabilities)	6,065	(3,976)
Total return swap liability	(3,813)	(3,242)
Level 3		
Third party	374	—
Fund investment	25,549	—

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

19 Financial instruments and fair values (continued)

The following table presents the changes in level 3 instruments by class of asset for the years ended December 31, 2022 and 2021:

	2022 $	2021 $
Start of year	—	282
Business acquisition	19,344	—
Investment in funds	5,731	—
Payments received	(1,109)	(634)
Foreign currency adjustments	1,022	—
Foreign exchange gain	—	8
Gain recognized in statement of income	935	344
	25,923	—

Financial risk factors

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

Interest rate risk

The majority of Chorus' debt is not subject to interest rate volatility as it bears interest at fixed rates or at floating rates that are fixed via interest rate swaps. Excluding revolving debt facilities, as at December 31, 2022, 90.8% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 9.2% was floating rate debt.

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

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

	Year ended December 31,	
	2022 $	2021 $
Other comprehensive income		
Gain on changes in fair value of effective interest rate swaps, net of tax expense of $1,131 (2021 - $792)	7,916	6,841
Income statement		
Gain (loss) on ineffective interest rate swap	2,043	(1,676)

19 Financial instruments and fair values (continued)

In July 2017 the U.K. Financial Conduct Authority announced that the LIBOR will be phased out by the end of 2021. At present, USD LIBOR rates will continue to be published until June 2023. Chorus' exposure to changes in LIBOR rates is confined to those loans, credit facilities, and derivative agreements that have floating rates that reference USD LIBOR and that did not mature before December 31, 2021. As at December 31, 2022, Chorus had 18 loans which totaled $337,204 and nine derivative agreements which referenced notional amounts totaling $152,269 that will be impacted by the transition from USD LIBOR to alternative reference rates as they mature after December 31, 2022. Chorus is in the process of implementing a planned transition to alternative reference rates and does not anticipate any material impacts on its financial results.

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

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

Credit risk

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

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

CAC has entered into lease deferral arrangements with certain of its lessees which will reduce Chorus' cash flow over the period of deferrals. In connection with the rent relief arrangements, certain of which include lease term extensions, the repayment of the deferred amounts typically coincide with the lease term extensions. These deferral arrangements could also increase Chorus' receivable risk due to the weakened financial state of its lessees. In addition, Chorus' liquidity could be put under stress where CAC is required to service principal and interest payments under its loans during the term of the deferral arrangements. If COVID-19 and associated government restrictions continue for a prolonged period of time the risks associated with the payment of deferred and future rent payments increase which could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. At December 31, 2022, CAC had total receivables of $141,862 (December 31, 2021 - $84,006), inclusive of the accrued straight-line rent receivable of $32,641 (December 31, 2021 - $34,428).

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

19 Financial instruments and fair values (continued)

	As at December 31, 2022			As at December 31, 2021		
	Regional Aviation Services	**Regional Aircraft Leasing**	**Total**	**Regional Aviation Services**	**Regional Aircraft Leasing**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Trade receivables	21,763	16,845	38,608	20,201	10,865	31,066
Deferred rent receivable	—	7,831	7,831	—	5,375	5,375
Air Canada trade receivable	140,805	—	140,805	103,968	—	103,968
Subtotal	162,568	24,676	187,244	124,169	16,240	140,409
Allowance for expected credit loss ("ECL")	(329)	(1,285)	(1,614)	(218)	(2,559)	(2,777)
Net trade receivables	162,239	23,391	185,630	123,951	13,681	137,632
Accrued straight-line rent receivable(1)(2)	—	1,055	1,055	—	756	756
Long-term accrued straight-line rent receivable(1)(3)	—	31,586	31,586	—	33,672	33,672
Long-term receivables(3)(4)	9,237	84,545	93,782	13,522	33,338	46,860
Subtotal	171,476	140,577	312,053	137,473	81,447	218,920
Long-term allowance for ECL	—	(25,724)	(25,724)	—	(4,653)	(4,653)
Total net receivables	171,476	114,853	286,329	137,473	76,794	214,267
Total gross receivables	171,805	141,862	313,667	137,691	84,006	221,697

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

Chorus has no financial assets past due, except for trade receivables. At December 31, 2022, the total amount of net trade receivables was $185,630 (December 31, 2021 - $137,632), inclusive of allowance for ECL of $1,614 (2021 - $2,777) which has been estimated by management based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Significant judgements were made in determining these factors.

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

	2022	**2021**
	$	**$**
Past due		
60 - 90 days	2,921	722
Over 90 days	16,072	10,072
	18,993	10,794

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

19 Financial instruments and fair values (continued)

Equity Price Risk

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

Chorus recorded losses on the total return swap as follows:

	Year ended December 31, 2022 $	2021 $
Income statement		
Loss on total return swap	293	1,707

Liquidity risk

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

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

As of December 31, 2022, Chorus had $100,027 in cash and $130,294 of available room on its operating credit facility and unsecured revolving operating credit facility, inclusive of letters of credit totaling $10,338 that reduce the amount available under the operating credit facility. The operating credit facility is subject to a borrowing base calculation. (As of December 31, 2021 - $123,573 in cash; $64,950 of available room on its operating credit facility inclusive of letters of credit totaling $10,050).

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

19 Financial instruments and fair values (continued)

The tables below analyze Chorus' non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The analysis is based on the foreign exchange rate 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 and lease liabilities.

	December 31, 2022			
	Less than 3 months $	3 months to 1 year $	2 - 5 years $	Over 5 years $
Principal				
Trade payables and accrued liabilities[1]	312,810	—	—	—
Lease liabilities	1,414	3,627	4,679	1,589
Long-term debt	76,792	268,949	1,385,000	313,369
Long-term incentive plan	2,821	—	10,690	—
	393,837	272,576	1,400,369	314,958
Interest				
Lease liabilities	156	323	496	162
Long-term debt	23,051	64,812	165,822	21,509
	23,207	65,135	166,318	21,671

	December 31, 2022			
	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]	312,810	—	—	—
Lease liabilities	1,570	3,950	5,175	1,751
Long-term debt	99,843	333,761	1,550,822	334,878
Long-term incentive plan	2,821	—	10,690	—
	417,044	337,711	1,566,687	336,629

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

19 Financial instruments and fair values (continued)

Currency risk

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

Chorus mitigates the currency risk associated with its Regional Aircraft Leasing division by borrowing in the same currencies of the related lease revenues.

The amount of US dollar denominated financial assets was $69,298 and US denominated financial liabilities was $541,959 at December 31, 2022. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $4,727. A 1¢ change in the Euro versus Canadian dollar exchange rate would not have a material impact on unrealized gains or losses for the year ended December 31, 2022.

20 Contingencies

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

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

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

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

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

20 Contingencies (continued)

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

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

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

21 Related parties

Compensation of key management

Key management includes Chorus' Directors, President and Chief Executive Officer, Executive Vice President and Chief Strategy Officer, Chief Operating Officer, Chief Financial Officer, Senior Vice President, Chief Legal Officer and Corporate Secretary and Chief Executive Officer of Falko. Compensation awarded to key management is summarized as follows:

	Year ended December 31, 2022 $	2021 $
Salaries and other benefits	8,462	7,150
Other post-employment benefits[1]	(3,001)	(2,023)
Stock-based compensation	6,740	4,177
	12,201	9,304

(1) Discount rates increased substantially during 2022, resulting in negative non-compensatory values related to the SERP.

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

22 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, 2022 $	Year ended December 31, 2021 $
Operating revenue		
Air Canada	1,238,579	809,708
Operating expenses		
Air Canada	2,600	1,669

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

	As at December 31, 2022 $	As at December 31, 2021 $
Accounts receivable		
Air Canada	140,805	103,968
Finance lease receivables		
Air Canada	3,870	6.126
Contract asset		
Air Canada	18,277	20,862
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees		
Air Canada	1,884	804
Other long-term receivables		
Air Canada	9,236	13,521
Accounts payable and accrued liabilities		
Air Canada	3,200	7,309
Air Canada Capital Ltd.	2,667	5,124

22 Economic dependence (continued)

Capacity Purchase Agreement with Air Canada

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

Chorus is party to the CPA with Air Canada, under which Air Canada purchases the capacity of covered aircraft operated by Jazz under the Air Canada Express brand on routes determined by Air Canada. Under the CPA, Chorus is required to provide Air Canada with the capacity of covered aircraft, all crews and applicable personnel, aircraft maintenance, some airport, flight operations and general overhead support for such flights. Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada bears all of the commercial risk, retains all revenue derived from the sale of seats to passengers and cargo services, and pays Chorus for the capacity provided.

The CPA between Chorus and Air Canada was most recently amended on March 1, 2021 (the "2021 CPA Amendments"). The 2021 CPA Amendments included (i) the addition of 25 Embraer 175 aircraft to the covered aircraft fleet, which increased the fixed fee margin, (ii) Jazz as the exclusive Air Canada Express operator of 70-78 seat regional capacity until 2025, (iii) Dash 8-300 aircraft exited the covered aircraft fleet and (iv) controllable cost guardrail receivable capped at $20,000 for the first three quarters with the exception of the controllable cost guardrail of $2,000. The annual reconciliation is completed subsequent to the fourth quarter at which time the controllable cost guardrail receivable is paid in full. All other material components of the CPA are unchanged. The 2021 CPA Amendments became effective on a retroactive basis to January 1, 2021.

On February 4, 2019, the CPA between Chorus and Air Canada was amended and extended for an additional 10 years ending December 31, 2035 (the "2019 CPA Amendments"). The 2019 CPA Amendments include changes to the aircraft fleet operated by Chorus under the CPA (the "Covered Aircraft") for a total fleet of 105 Covered Aircraft for the period from January 1, 2019 to December 31, 2025. Following 2025, Air Canada will determine the composition of the Covered Aircraft fleet on the condition that the fleet must have a minimum of 80 aircraft with 75 to 78 seats for the remainder of the extended term of the CPA. The 2019 CPA Amendments also include changes to Chorus' compensation under the CPA which include (i) removal of the infrastructure fee, (ii) reductions in the fixed margin fee and the available performance incentive payments, (iii) changes to the flight crew and cabin crew block hour rates, (iv) reclassification of certain overhead costs into newly-established rate categories, (v) treatment of capital expenditures relating to certain airports or hangar facilities as pass-through costs, (vi) provisions setting out Air Canada's commitment to reimburse Chorus for certain wage costs, and (vii) provisions which limit Chorus' respective exposures to $2,000 annually for variances between the revenue Chorus receives from Air Canada to cover controllable costs and Chorus' actual controllable costs.

Under the CPA, Chorus is paid controllable cost 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.

22 Economic dependence (continued)

Chorus and Air Canada negotiate rates (controllable cost revenue) for the controllable costs Chorus expects to incur which are estimated based on certain variables to operate Air Canada Express services under the CPA. Chorus' exposure to variances between the controllable cost revenue Chorus receives from Air Canada to cover annually negotiated controllable costs and Chorus' actual controllable costs incurred in performing its services for Air Canada is limited to $2,000 annually (referred to as the "Controllable Cost Guardrail"). If Chorus' controllable costs exceed the revenue received from Air Canada by more than $2,000, Air Canada will pay to Chorus an amount equal to the excess over $2,000. Conversely, if the controllable cost revenue paid by Air Canada to Chorus exceeds Chorus' actual controllable costs by more than $2,000, Chorus will pay to Air Canada an amount equal to the excess over $2,000.

Controllable cost revenue rates are set annually, and Chorus and Air Canada complete a quarterly reconciliation and payment is made once the variance, if any, between the controllable cost revenue paid by Air Canada and Chorus' actual controllable costs is greater than $20,000 for the first three quarters with the exception of the $2,000 Controllable Cost Guardrail. The annual reconciliation is completed subsequent to the fourth quarter at which time the Controllable Cost Guardrail receivable is paid in full.

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

Chorus earns a fixed margin based on the number of covered aircraft under the CPA and does not vary based on flight activity.

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, third-party ground handling, certain wages and benefits, certain aircraft maintenance, materials and supplies, aircraft parking, interrupted trips and baggage delivery, station supplies for processing passengers, certain third-party facilities, certain voluntary employee separation program costs and capital expenditures incurred by Jazz at certain airports and hangar facilities. Services provided by Air Canada are provided at no cost to Chorus. These include aircraft fuel, food and beverage, Air Canada ground handling and facilities leased from Air Canada.

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

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

23 Statement of cash flows - supplementary information

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

	Year ended December 31, 2022 $	2021 $
Increase in accounts receivable – trade and other	(44,622)	(30,015)
(Increase) decrease in inventories	(19,505)	1,634
Increase in prepaid expenses	(6,214)	(1,251)
(Increase) decrease in income tax receivable	(1,071)	8,795
Decrease (increase) in other long-term assets	16,054	(33,217)
Increase in accounts payable and accrued liabilities	63,717	55,782
Increase (decrease) in current portion long-term incentive plan	1,909	(1,309)
Increase in income tax payable	26,641	2,523
Decrease in other long-term liabilities	(8,136)	(6,260)
	28,773	(3,318)

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

b) Other

	Year ended December 31, 2022 $	2021 $
Cash payments of interest	102,493	88,003
Cash receipts of interest	2,275	1,481
Cash payments (receipts) of tax	10,518	(4,484)

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

23 Statement of cash flows - supplementary information (continued)

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

	Amortizing term loans[1]	6.00% Debentures	Series A Debentures	Series B Debentures	Series C Debentures	Credit facilities[2]	Total long-term debt	Lease liabilities
	$	$	$	$	$	$	$	$
Balance - December 31, 2021	1,431,009	113,208	83,796	67,489	81,395	126,780	1,903,677	10,137
Long-term borrowings, net of financing costs	(570)	—	—	—	—	60,009	59,439	—
Repayment of long-term borrowings	(355,382)	(115,000)	—	—	—	(94,709)	(565,091)	—
Repayment of lease liabilities	—	—	—	—	—	—	—	(4,333)
Total financing cash flow activities	(355,952)	(115,000)	—	—	—	(34,700)	(505,652)	(4,333)
New lease liabilities	—	—	—	—	—	—	—	2,482
Debt assumed on business acquisition	508,985	—	—	—	—	—	508,985	1,644
Interest expense	2,689	1,792	764	966	562	—	6,773	—
Deferred financing fee amortization	1,408	—	—	—	—	—	1,408	—
Unrealized foreign exchange loss	25,226	—	—	—	—	9,500	34,726	480
Realized foreign exchange loss	10,885	—	—	—	—	—	10,885	—
Foreign currency adjustments	58,165	—	—	—	—	—	58,165	213
Total financing non-cash activities	607,358	1,792	764	966	562	9,500	620,942	4,819
Balance - December 31, 2022	1,682,415	—	84,560	68,455	81,957	101,580	2,018,967	10,623

(1) Includes amortizing term loans and asset backed securitization.
(2) Includes the operating credit facility and the unsecured credit facility.

d) Restricted cash

Cash encumbered in support of issued letters of credit and leasing arrangements have been classified as restricted cash and shown separately in the consolidated statement of financial position (December 31, 2022 - $67,884; December 31, 2021 - $54,873).

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

24 Additional information

a) Assets

	As at December 31, 2022 $	As at December 31, 2021 $
Accounts receivable		
Trade receivables	46,439	36,441
Allowance for ECL	(1,614)	(2,777)
Commodity taxes	9,209	1,875
Other receivables	2,525	584
	56,559	36,123
Trade amounts due from Air Canada and its subsidiary (refer to note 22 - Economic dependence)	140,805	103,968
	197,364	140,091
Inventories[(1)]		
Aircraft expendables	54,914	29,896
Used aircraft expendables and rotables for resale	55,202	43,622
Supplies	3,548	2,647
De-icing fluid	156	70
	113,820	76,235

(1) For the year ended December 31, 2022, the cost of aircraft expendables and supplies recognized as a maintenance expense was $29,576 (2021 - $15,151). For the year ended December 31, 2022 inventory write-downs to net realizable value of $1,693 were recognized as a maintenance expense (2021 - $11,298).

	As at December 31, 2022 $	As at December 31, 2021 $
Prepaid expenses and deposits		
Airport, navigation, insurance and software fees	12,444	7,982
Inventory	2,440	2,559
Accrued straight line rent receivable	1,055	756
Other	3,329	862
	19,268	12,159

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

24 Additional information (continued)

	As at December 31, 2022 $	As at December 31, 2021 $
Other long-term assets		
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees	1,884	804
Accrued defined pension benefit asset (note 15)	16,781	59,125
Accrued transaction fees, net of accumulated amortization	4,552	5,571
Contract asset(1)	18,277	20,862
Fair value of interest rate swaps	6,065	—
Long-term receivables(2)	93,782	46,860
Long-term accrued straight line rent	31,586	33,672
Long-term allowance for ECL	(25,724)	(4,653)
Other	4,015	483
	151,218	162,724

(1) Includes the contract asset recorded in connection with the transfer and integration of the Embraer 175 aircraft into the covered aircraft fleet related to the 2021 CPA Amendments.
(2) Includes long-term portion of deferred lease receivables.

b) Liabilities

	As at December 31, 2022 $	As at December 31, 2021 $
Accounts payable and accrued liabilities		
Trade payables and accrued liabilities	306,943	182,072
Deferred rent	—	10,708
Security deposits and maintenance reserves	18,156	—
Commodity taxes	15,330	12,591
	340,429	205,371
Trade payables and accrued liabilities due to Air Canada and its subsidiary (refer to note 22 - Economic dependence)	5,867	12,433
	346,296	217,804

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

24 Additional information (continued)

	As at December 31, 2022 $	2021 $
Other long-term liabilities		
Accrued other future employee benefits liability (note 15)	22,283	24,742
Long-term incentive plan	10,690	4,869
DSU liability	3,250	3,998
Security deposits and maintenance reserves	136,509	100,042
Interest rate swaps	—	3,976
Total return swap	3,813	3,242
Other	5,641	18,004
	182,186	158,873

25 Subsequent event

On January 27, 2023, Chorus amended the terms of its existing operating credit facility to extend the maturity date to January 27, 2026 and added a $50,000 uncommitted accordion feature.