



chorus 

Consolidated Financial Statements

December 31, 2023 and 2022

Chorus Aviation Inc.



February 22, 2024

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 as issued by the International Accounting Standards Board ("IFRS Accounting Standards") 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) "Colin Copp"
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, 2023 and 2022, 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 Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information 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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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. 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

Impairment assessment of aircraft in the Regional Aircraft Leasing segment

Refer to note 3 – Material accounting policies, judgments 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, 2023 amounted to \$1.88 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 \$30.59 million in 2023 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

How our audit addressed the key audit matter

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, as applicable, which included the following:
 - Tested the appropriateness of the method 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:
 - estimated future cash flows by considering current lease contracts;
 - creditworthiness of the lessees by considering recent payment history, and credit rating, as applicable;
 - expected residual values of the aircraft by using third party market data to develop an independent point estimate; and
 - discount rates with the assistance of professionals with specialized skill and knowledge in the field of valuation.
- Tested how management determined the fair value less cost to dispose of aircraft in the Regional Aircraft Leasing segment, which included the following:
 - assessed the appropriateness of the method used;



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 judgment 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 and the discount rate.

- compared the fair value determined by management to third party market data or comparable transactions and assessed the sources of the data.

We considered this a key audit matter due to (i) the significant judgment 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.

Other information

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

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

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 Accounting Standards, and for such internal control as management



determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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



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

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

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

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

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 Gordon Ashe.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Halifax, Nova Scotia
February 22, 2024

Chorus Aviation Inc.**Consolidated Statements of Financial Position**

(expressed in thousands of Canadian dollars)

	As at December 31,	
	2023	2022
	\$	\$
Assets		
Current assets		
Cash	85,985	100,027
Restricted cash (note 23)	90,432	67,884
Accounts receivable – trade and other (note 24)	222,279	197,364
Inventories (note 24)	206,533	113,820
Prepaid expenses and deposits (note 24)	22,334	19,268
Current portion of finance lease receivables (note 8)	2,278	4,157
Income tax receivable	970	1,228
	630,811	503,748
Finance lease receivables (note 8)	39,492	42,797
Property and equipment (note 9)	2,966,563	3,282,008
Intangibles (note 10)	14,600	18,880
Goodwill (note 10)	8,966	9,010
Investments (note 19)	24,823	26,008
Deferred income tax asset (note 14)	18,286	22,240
Other long-term assets (note 24)	147,326	151,218
	3,850,867	4,055,909
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 24)	346,599	346,296
Current portion of lease liabilities (note 12)	3,309	5,041
Current portion of long-term incentive plan	2,877	2,821
Current portion of long-term debt (note 13)	430,082	340,308
Preferred shares dividend payable (note 16)	8,680	8,888
Income tax payable	10,915	29,335
	802,462	732,689
Lease liabilities (note 12)	7,267	6,268
Long-term debt (note 13)	1,314,922	1,678,659
Deferred income tax liability (note 14)	212,919	187,684
Other long-term liabilities (note 24)	232,828	182,186
	2,570,398	2,787,486
Equity attributable to shareholders	1,193,884	1,179,573
Equity attributable to non-controlling interest	86,585	88,850
Equity	1,280,469	1,268,423
	3,850,867	4,055,909
Contingencies (note 20)		
Economic dependence (note 22)		
Subsequent events (note 25)		

*The accompanying notes are an integral part of these consolidated financial statements.***Approved by the Board of Directors**By: (signed) "Karen Cramm"
DirectorBy: (signed) "Paul Rivett"
Director

Chorus Aviation Inc.
Consolidated Statements of Changes in Equity



(expressed in thousands of Canadian dollars)

	Equity Attributable to Shareholders						Equity attributable to non-controlling interest \$	Total \$
	Capital \$	Deficit \$	Exchange differences on foreign operations \$	Contributed surplus \$	Warrants \$	Equity component of convertible units/debentures \$		
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
Net income for the year	—	101,353	—	—	—	—	4,753	106,106
Other comprehensive loss for the year (net of tax)	—	(12,897)	(28,112)	—	—	—	(2,039)	(43,048)
Comprehensive income (loss) for the year	—	88,456	(28,112)	—	—	—	2,714	63,058
Preferred share dividends declared	—	(35,426)	—	—	—	—	—	(35,426)
Repurchase of shares under normal course issuer bid	(16,611)	—	—	(8,925)	—	—	—	(25,536)
Share repurchase commitment under the automatic share purchase plan	9,611	—	—	4,925	—	—	—	14,536
Expense related to stock-based compensation plans	—	—	—	393	—	—	—	393
Non-controlling interest:								
Distributions	—	—	—	—	—	—	(4,979)	(4,979)
Balance - December 31, 2023	781,698	(649,382)	325	1,034,194	24,366	2,683	86,585	1,280,469

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

Chorus Aviation Inc.

Consolidated Statements of Income

For the years ended December 31, 2023 and 2022



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

	2023	2022
	\$	\$
Operating revenue (notes 7 and 22)	1,681,075	1,595,804
Operating expenses (note 22)		
Salaries, wages and benefits	523,363	500,670
Depreciation, amortization and impairment (note 5)	238,005	202,613
Aircraft maintenance materials, supplies and services	312,148	289,237
Airport and navigation fees	143,890	166,290
Terminal handling services	22,067	13,597
Other (note 24)	209,836	235,131
	1,449,309	1,407,538
Operating income	231,766	188,266
Non-operating (expenses) income		
Interest revenue	6,096	4,047
Interest expense	(104,594)	(104,890)
Gain on disposal of property and equipment	13	172
Gain (loss) on fair value of investments	3,555	(133)
Foreign exchange gain (loss)	23,091	(13,612)
	(71,839)	(114,416)
Income before income taxes	159,927	73,850
Income tax (expense) recovery (note 14)		
Current income tax	(21,295)	(36,178)
Deferred income tax	(32,526)	14,245
	(53,821)	(21,933)
Net income	106,106	51,917
Net income attributable to non-controlling interest	4,753	3,027
Net income attributable to shareholders	101,353	48,890
Preferred share dividends declared	(35,426)	(22,902)
Earnings attributable to common shareholders	65,927	25,988
Earnings attributable to common shareholders, per share, basic (note 17)	0.34	0.13
Earnings attributable to common shareholders, per share, diluted	0.33	0.13

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

Chorus Aviation Inc.

Consolidated Statements of Comprehensive Income For the years ended December 31, 2023 and 2022



(expressed in thousands of Canadian dollars)

	2023	2022
	\$	\$
Net income	106,106	51,917
Other comprehensive income (loss)		
<i>Items that will not be subsequently reclassified to the statements of income</i>		
Actuarial loss on employee benefit liabilities, net of tax recovery of \$3,370 (2022 - \$10,504) (note 7)	(9,046)	(28,408)
<i>Items that will be subsequently reclassified to the statements of income</i>		
Change in fair value of financial assets and liabilities, net of tax recovery (expense) of \$287 (2022 - (\$1,131))	(3,851)	7,916
Exchange differences on translation of foreign operations	(30,151)	38,286
Comprehensive income	63,058	69,711
Comprehensive income attributable to non-controlling interest	2,714	7,633
Comprehensive income attributable to shareholders	60,344	62,078

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, 2023 and 2022



(expressed in thousands of Canadian dollars)

	2023 \$	2022 \$
Cash provided by (used in)		
Operating activities		
Net income	106,106	51,917
Charges (credits) to operations not involving cash		
Depreciation, amortization and impairment	238,005	202,613
Amortization of accrued transaction and financing fees	2,437	2,075
Gain on disposal of property and equipment	(13)	(3,185)
(Gain) loss on fair value of investments	(3,555)	133
Unrealized foreign exchange (gain) loss	(5,768)	7,356
Realized foreign exchange (gain) loss	(13,080)	11,513
Effect of foreign exchange rate changes on cash	786	(4,829)
Deferred income tax expense (recovery)	32,526	(14,245)
Other	4,286	(2,609)
	361,730	250,739
Net changes in non-cash balances related to operations (note 23)	(62,055)	28,773
	299,675	279,512
Financing activities		
Repayment of lease liabilities	(5,370)	(4,333)
Repayment of long-term borrowings	(341,234)	(390,091)
Repayment of 6.00% Debentures	—	(115,000)
Long-term borrowings, net of financing fees	(291)	(561)
Operating credit facility	86,984	—
Issuance of shares and warrants, net of transaction costs	—	465,038
Repurchase of shares under normal course issuer bid	(25,536)	(5,463)
Preferred dividends	(35,124)	(14,616)
Distribution to non-controlling interests	(4,979)	(6,433)
	(325,550)	(71,459)
Investing activities		
Business and aircraft acquisition, net of cash acquired	—	(464,831)
Increase in security deposits and maintenance reserves	71,540	23,510
Additions to property and equipment	(43,163)	(62,280)
Investment in funds	(1,613)	(5,816)
Payments received on finance lease receivables	4,164	4,342
Proceeds on return of investments	5,896	2,399
Proceeds on disposal of property and equipment	733	271,307
	37,557	(231,369)
Effect of foreign exchange rate changes on cash	(3,176)	12,781
Net change in cash during the years	8,506	(10,535)
Cash and restricted cash (note 23) – Beginning of years	167,911	178,446
Cash and restricted cash (note 23) – End of years	176,417	167,911

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

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(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 and pilot training.

Contract 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.

Chorus formally launched Cygnet Aviation Academy LP ("Cygnet") on March 28, 2023, a pilot academy in Canada, that together with CAE Inc., enables cadets to achieve their Integrated Airline Transport Pilot License and acquire an airline specific type rating.

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 ("Falko"), together with equity interests in certain entities and aircraft which are managed by Falko and its affiliates (the "Falko Acquisition"). Chorus subsequently rebranded its leasing business from "Chorus Aviation Capital" to "Falko Regional Aircraft".

Through its subsidiaries in the Regional Aircraft Leasing ("RAL") segment, 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. In addition, Chorus makes equity investments in aircraft investment funds managed by Falko and its affiliates, from which it earns co-investment returns. The RAL segment includes Falko, Falko (Ireland) Limited (formerly Chorus Aviation Capital (Ireland) Limited), and their respective affiliates.

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 as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

These financial statements have been authorized for issuance by Chorus' Board of Directors on February 22, 2024.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

3 Material 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 \$7,680 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 International Accounting Standards ("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, anticipated utilization and maintenance condition of the aircraft, and the creditworthiness of its lessees among other factors in assessing possible indicators of impairment.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

3 Material 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, 2023, Chorus recorded an impairment provision of \$30,591 (2022 - \$20,499, net of recoveries of \$10,205) (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 and maintenance condition of the aircraft. In determining the residual value of the aircraft, Chorus also applies a future inflation rate assumption of 2.0%. The September 30, 2023 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% (December 31, 2023 - 6.29%; December 31, 2022 - 7.20%).

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, 2023, Chorus recorded a recovery related to the allowance for expected credit loss of trade and other receivables of \$4,066 (2022 expense - \$15,786), which is included in operating expense.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

3 Material 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.

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

Services provided under the CPA

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

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

- A variable amount of controllable 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 Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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.

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.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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 - Leases.

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.
- 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.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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

- The measurement date of each of the plans' assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement. The obligations relating to other employee benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).
- Chorus also maintains several defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable.

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.

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.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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

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 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.

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.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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

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.

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 financial 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.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

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

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 unsupported, 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) 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.

Chorus Aviation Inc.

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

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

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.

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 Aviation Inc.

Notes to the Consolidated Financial Statements

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

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

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.

p) 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, 2023 (2022 - \$1,333).

q) 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.

r) 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.

Chorus Aviation Inc.

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

s) 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.

t) 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.

u) 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.

Chorus Aviation Inc.

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For the years ended December 31, 2023 and 2022

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

New accounting standards adopted during the year

Amendments to IAS 1 - Presentation of Financial Statements - Disclosure of Accounting Policies

The International Accounting Standards Board (“IASB”) issued amendments to IAS 1 that require entities to disclose material accounting policy information instead of significant accounting policies. The amendments also provide guidance on the application of materiality to the disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the consolidated financial statements. These amendments are effective for annual periods beginning on or after January 1, 2023.

Although adoption of the amendments did not result in any changes to accounting policies, they impacted the accounting policy information disclosed in the financial statements. Management reviewed the accounting policies and made updates to the information disclosed in note 3 Material Accounting Policies (2022- Significant Accounting Policies) in certain instances in line with the amendments.

Amendments to IAS 8 - Changes in estimates vs changes in accounting policies

The IASB issued narrow-scope amendments to IAS 8 – accounting policies, changes in accounting estimates and errors. The amendments to IAS 8 clarify how companies distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retroactively to past transactions and other past events. The amendments are effective for annual periods beginning on or after January 1, 2023. The adoption of the amendments had no impact on the consolidated financial statements.

Amendments to IAS 12 - Deferred Tax on Assets and Liabilities Arising from Leases

The IASB issued narrow-scope amendments to IAS 12, “Income Taxes”. Amendments to IAS 12 provide clarifications in accounting for deferred tax on certain transactions such as leases. The amendments clarify that the initial recognition exemption does not apply to transactions such as leases. As a result, entities may need to recognize both a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of leases. The amendments are effective for annual periods beginning on or after January 1, 2023. The adoption of the amendment had no impact on the consolidated financial statements as Chorus did not apply the initial recognition exemption to leases.

Amendments to IAS 12 - International Tax Reform

The IASB issued amendments to IAS 12, “Incomes Taxes”. The Organization for Economic Co-operation and Development (“OECD”) has a framework to implement a global minimum corporate tax of 15% for companies with global revenues and profits above certain thresholds (referred to as “Pillar Two”), with certain aspects of Pillar Two effective January 1, 2024 and other aspects effective January 1, 2025. In Canada, the government released draft legislation on Pillar Two in August 2023; however, it is uncertain when Canada will enact legislation to adopt Pillar Two.

All Chorus entities have an effective tax rate that exceeds 15%, except for the subsidiaries which operate in Ireland. For the period ended December 31, 2023, Chorus has applied the exemption to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Chorus Aviation Inc.

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

Due to the complexities in applying the legislation and calculating global anti-base erosion income (“GloBE”), the quantitative impact of the enacted or substantively enacted legislation is not yet reasonably estimable. There might still be Pillar Two tax implications even for those entities within Chorus that have an accounting effective tax rate above 15%. Chorus has engaged tax specialists to assist it with applying the legislation.

Accounting standards issued but not yet applied

Amendments to IAS 1 - Non-current Liabilities with Covenants

The IASB issued amendments to IAS 1 – Presentation of Financial Statements, which specifies that covenants whose compliance is assessed after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The amendments require disclosure of information about these covenants in the notes to the financial statements. Chorus is currently evaluating these amendments and not does expect any material impact on the consolidated financial statements.

Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback

The IASB issued amendments to IFRS 16 relating to sale leaseback transactions for seller-lessees which are effective for annual reporting periods beginning on or after January 1, 2024. The amendment adds a requirement that measuring lease payments or revised lease payments shall not result in the recognition of a gain or loss that relates to the right-of-use asset retained by the seller-lessee. Chorus is currently evaluating these amendments and not does expect any material impact on the consolidated financial statements.

Amendments to IAS 21 - Lack of Exchangeability

The IASB issued amendments to IAS 21 – The effects of changes in foreign exchange rates in relation to the lack of exchangeability which are effective for annual reporting periods beginning on or after January 1, 2025, with early adoption permitted. The amendments require entities to apply a consistent approach in assessing whether a currency can be exchanged into another currency, and in determining the exchange rate to use and the disclosures to provide when it cannot. Chorus does not expect any impact of these amendments on the consolidated financial statements.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

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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 included 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 period 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.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

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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

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

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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.

In December 2022, 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 arose mainly from the asset management platform. Goodwill recognized was 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 applied a future inflation rate assumption of 2.0%. The May 3, 2022 fair value was 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, as well as pilot training provided by Cygnet. 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. RAL 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 fund performance investment targets. RAL's portfolio of wholly or majority-owned and managed aircraft was 222 as at December 31, 2023 (December 31, 2022 - 212).

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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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 standardized meanings and should not be considered a substitute for or superior to GAAP results.

Chorus revised its definition of Adjusted EBT and Adjusted EBITDA in the third quarter of 2023 to exclude the defined benefit pension revenue related to Air Canada's agreement to reimburse Jazz for the impact of the new pilot wage scales on the defined benefit pension plan for pilots to facilitate comparability of its results. Adjusted EBT and Adjusted 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 provisions, defined benefit pension revenue, 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, employee separation program costs, strategic advisory fees, impairment provisions, lease repossession costs net of security packages realized, restructuring expected credit loss provision, defined benefit pension revenue 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, 2023 and December 31, 2022, 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, 2023, there was one customer (2022 - one) that represented 10% or more of the Regional Aircraft Leasing segment revenue.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

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5 Segmented information (continued)

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

	For the year ended December 31, 2023				For the year ended December 31, 2022			
	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Operating revenue	1,398,857	281,464	754	1,681,075	1,332,732	262,121	951	1,595,804
Operating expenses	1,212,120	208,228	28,961	1,449,309	1,171,609	198,947	36,982	1,407,538
Operating income (loss)	186,737	73,236	(28,207)	231,766	161,123	63,174	(36,031)	188,266
Net interest expense	(15,113)	(57,845)	(25,540)	(98,498)	(18,026)	(51,175)	(31,642)	(100,843)
Foreign exchange gain (loss)	13,481	3,937	5,673	23,091	(27,590)	(6,683)	20,661	(13,612)
Gain on disposal of property and equipment	13	—	—	13	45	127	—	172
Gain (loss) on fair value of investments	—	3,555	—	3,555	—	(133)	—	(133)
Earnings (loss) before income tax	185,118	22,883	(48,074)	159,927	115,552	5,310	(47,012)	73,850
Income tax (expense) recovery	(48,391)	(18,407)	12,977	(53,821)	(35,384)	760	12,691	(21,933)
Net income (loss)	136,727	4,476	(35,097)	106,106	80,168	6,070	(34,321)	51,917
Net income attributable to non-controlling interest	—	4,753	—	4,753	—	3,027	—	3,027
Net income (loss) attributable to shareholders	136,727	(277)	(35,097)	101,353	80,168	3,043	(34,321)	48,890

Chorus Aviation Inc.

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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:

	<u>For the year ended</u> <u>December 31, 2023</u>		<u>For the year ended</u> <u>December 31, 2022</u>	
	Regional Aviation Services \$	Regional Aircraft Leasing \$	Regional Aviation Services \$	Regional Aircraft Leasing \$
Operating income - as reported above	186,737	—	161,123	—
Depreciation and amortization excluding impairment ⁽¹⁾	91,017	—	86,200	—
Defined benefit pension revenue ⁽²⁾	(29,916)	—	—	—
Employee separation program ⁽¹⁾	1,442	—	1,449	—
Adjusted EBITDA⁽³⁾	249,280	—	248,772	—
Income before income tax	—	22,883	—	5,310
Unrealized foreign exchange (gain) loss	—	(3,354)	—	5,765
Impairment provisions ⁽¹⁾	—	30,591	—	20,499
Restructuring expected credit loss provision ⁽¹⁾⁽⁴⁾	—	—	—	10,353
Employee separation program ⁽¹⁾	—	—	—	847
Lease repossession costs ⁽¹⁾⁽⁵⁾	—	13,800	—	28,059
Adjusted EBT⁽³⁾	—	63,920	—	70,833

(1) Included in operating expenses.

(2) Defined benefit pension revenue relates to Air Canada's agreement to reimburse Jazz for the impact of the new pilot wage scales on the defined benefit pension plan for pilots. The accounts receivable will be repaid in 60 equal monthly payments with the first payment due on December 1, 2023. In accordance with IFRS Accounting Standards, the associated impact of the wage scale pension assumption change in the pension liability was charged to other comprehensive income.

(3) These are non-GAAP financial measures.

(4) Expected credit loss provision related to aircraft repossessions.

(5) Lease repossession costs are net of security packages realized.

Chorus Aviation Inc.

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5 Segmented information (continued)

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

	As at December 31, 2023				As at December 31, 2022			
	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total	Regional Aviation Services	Regional Aircraft Leasing	Corporate	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Additions to property and equipment	42,149	876	138	43,163	40,930	21,350	—	62,280
Property and equipment ⁽¹⁾	1,076,962	1,882,021	7,580	2,966,563	1,122,326	2,153,794	5,888	3,282,008
Long-term debt (excluding lease liabilities)	400,631	982,874	361,499	1,745,004	518,181	1,159,234	341,552	2,018,967

(1) Chorus reclassified flight equipment in the RAL segment with a net book value of \$86,050 from property and equipment to inventory under assets held for sale on the statement of financial position.

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

	Year ended December 31,			
	2023		2022	
	\$	%	\$	%
Canada	1,403,814	83.5%	1,336,453	83.7%
Other ⁽¹⁾	277,261	16.5%	259,351	16.3%
	1,681,075	100.0%	1,595,804	100.0%

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

	As at December 31, 2023		As at December 31, 2022	
	\$	%	\$	%
	Canada	1,110,774	37.4%	1,156,836
Other ⁽¹⁾	1,855,789	62.6%	2,125,172	64.8%
	2,966,563	100.0%	3,282,008	100.0%

(1) There are no countries included in other that represent more than 10% of revenue or total assets (2022 - nil).

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

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6 Capital management

Chorus' capital structure consists primarily of common shares, preferred shares and debt consisting of the Series A Debentures, Series B Debentures, Series C Debentures, senior secured amortizing facilities, revolving loan facilities, operating credit facility, bi-lateral credit facilities, lease liabilities and loans under the Regional 2021-1 ABS.

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, 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 from cash or proceeds from the sale of surplus assets.

Chorus' capital structure was as follows as at December 31, 2023 and December 31, 2022.

	2023 \$	2022 \$
Equity		
Capital	781,698	788,698
Contributed surplus	1,034,194	1,037,801
Deficit	(649,382)	(702,412)
Exchange differences on foreign operations	325	28,437
Equity component of convertible units/debentures	2,683	2,683
Warrants	24,366	24,366
	1,193,884	1,179,573
Long-term debt	1,745,004	2,018,967
Lease liabilities	10,576	11,309
Total capital	2,949,464	3,209,849

Chorus Aviation Inc.

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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 \$429,463 for the year ended December 31, 2023 (for the year ended December 31, 2022 - \$404,338). Revenue is disaggregated primarily by nature and category in the underlying contract.

	Year ended December 31,	
	2023	2022
	\$	\$
Controllable cost revenue	835,249	805,288
Defined benefit pension revenue ⁽¹⁾	29,916	—
Fixed margin ⁽²⁾	63,280	66,320
Incentive revenue ⁽³⁾	1,431	2,109
CPA pass-through revenue	214,625	209,611
Other	107,111	108,138
	1,251,612	1,191,466

(1) Defined benefit pension revenue relates to Air Canada's agreement to reimburse Jazz for the impact of the new pilot wage scales on the defined benefit pension plan for pilots. The accounts receivable will be repaid in 60 equal monthly payments with the first payment due on December 1, 2023. In accordance with IFRS Accounting Standards, the associated impact of the wage scale pension assumption change in the pension liability was charged to other comprehensive income.

(2) 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.

(3) Incentive revenue earned under the CPA.

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, 2023, the aggregate amount of remaining performance obligations was approximately \$568,082 of which on average \$52,137 is expected to be recognized from 2024 to 2028 and \$43,914 recognized evenly per year until the end of 2035.

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8 Finance lease receivables

Chorus has the following finance lease receivables related to aircraft:

	2023	2022
	\$	\$
No later than one year	6,339	8,663
Later than one year and no later than five years	21,585	23,091
Later than five years ⁽¹⁾	37,879	44,316
Total minimum finance lease receivables	65,803	76,070
Less: Amount representing interest (at weighted average rate of 10.29% (2022 - 10.21%))	(24,033)	(29,116)
Present value of net minimum finance lease receivables	41,770	46,954
Less: Current portion	2,278	4,157
Finance lease receivables	39,492	42,797

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

	2023	2022
	\$	\$
No later than one year	2,278	4,157
Later than one year and no later than five years	6,999	7,453
Later than five years ⁽¹⁾	32,493	35,344
	41,770	46,954

(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 1.3226, which was the exchange rate in effect at the end of day closing on December 31, 2023 (2022 - 1.3544). Interest of \$4,468 for the year ended December 31, 2023 (2022 - \$2,871) relating to finance lease receivables has been included in operating revenue.

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9 Property and equipment

	Flight equipment ⁽¹⁾	Facilities	Equipment	Leaseholds	Right-of-use assets	Total
	\$	\$	\$	\$	\$	\$
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

Year ended December 31, 2023						
Opening net book value	3,239,021	27,926	6,064	2,572	6,425	3,282,008
Additions	34,752	649	6,593	155	1,014	43,163
Right-of-use assets	—	—	—	—	7,093	7,093
Disposals and transfers to assets held for sale	(95,842)	—	—	—	(1,752)	(97,594)
Impairment	(30,591)	—	—	—	—	(30,591)
Foreign currency adjustment	(35,311)	—	(16)	5	(114)	(35,436)
Depreciation	(194,517)	(1,660)	(2,646)	(469)	(2,788)	(202,080)
Closing net book value	2,917,512	26,915	9,995	2,263	9,878	2,966,563

	Flight equipment ⁽¹⁾	Facilities	Equipment	Leaseholds	Right-of-use assets	Total
	\$	\$	\$	\$	\$	\$
At December 31, 2022						
Cost	4,146,620	47,317	86,217	14,405	11,370	4,305,929
Accumulated depreciation and impairment	(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
At December 31, 2023						
Cost	4,018,667	47,953	92,526	14,376	14,600	4,188,122
Accumulated depreciation and impairment	(1,101,155)	(21,038)	(82,531)	(12,113)	(4,722)	(1,221,559)
Net book value	2,917,512	26,915	9,995	2,263	9,878	2,966,563

(1) Includes maintenance intangibles of \$85,099 at December 31, 2023 (2022 - \$96,112).

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

9 Property and equipment (continued)

For the year ended December 31, 2023, Chorus recorded an impairment provision of \$30,591 (2022 - \$20,499, net of \$10,205 recovered from security packages) to income.

For the year ended December 31, 2023, Chorus released maintenance intangibles of \$8,766 (2022 - \$nil). 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. Chorus received \$19,210 in EOL compensation, representing \$10,444 over the maintenance intangibles. Chorus setup a maintenance reserve liability of \$6,361 and recorded the remaining amount of \$4,083 to income.

During the year ended December 31, 2023, Chorus reclassified flight equipment with a net book value of \$86,356 (2022 - \$17,987) 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 gross 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 was recorded in revenue as mid-life aircraft sales are a key element of RAL'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.

The property and equipment acquired through the Falko Acquisition in May 2022 are included in the above table with a purchase price allocation of \$1,010,970 and included maintenance intangibles of \$91,251.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2023 and 2022

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

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.

	<u>As at December 31, 2023</u>				<u>As at December 31, 2022</u>			
	Cost	Accumulated amortization	Foreign currency adjustment	Carrying value	Cost	Accumulated amortization	Foreign currency adjustment	Carrying value
	\$	\$	\$	\$	\$	\$	\$	\$
Management contracts	18,843	(6,534)	610	12,919	18,843	(2,579)	935	17,199
Trade name	1,681	—	—	1,681	1,681	—	—	1,681
	20,524	(6,534)	610	14,600	20,524	(2,579)	935	18,880

Goodwill

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
	\$	\$
Falko ⁽¹⁾	1,816	1,860
Jazz	6,693	6,693
Voyageur	457	457
	8,966	9,010

(1) Includes foreign currency adjustment of \$50 and \$94 as at December 31, 2023 and December 31, 2022, respectively.

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 CGUs 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 CGUs. 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, 2023 or the year ended December 31, 2022.

Chorus Aviation Inc.

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11 Credit facilities

Operating credit facility

On January 27, 2023, Chorus amended the terms of its existing \$100,000 operating credit facility to extend the maturity date to January 27, 2026 and added a \$50,000 uncommitted accordion feature. In March 2023, Chorus partially exercised the accordion feature under the committed operating credit facility, thereby increasing the limit from \$100,000 to \$125,000.

On May 5, 2023, Chorus exercised the remaining \$25,000 accordion feature under the committed operating credit facility, thereby increasing the limit from \$125,000 to \$150,000.

As at December 31, 2023, Chorus had drawn \$87,000 on the facility and had also provided letters of credit totaling \$8,734 that reduce the amount available under this facility.

The facility bears interest for Canadian dollar advances at Canadian Prime plus 1.50% - 2.50% or Canadian Dollar Offered Rate ("CDOR") 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 a credit spread adjustment plus 2.50% - 3.50%.

The operating credit facility is secured by all present and after-acquired personal property of Chorus and certain designated subsidiaries including Chorus Aviation Capital Corp. ("CACC"), Jazz and Voyageur (collectively, the "Credit Parties"), excluding certain specified assets such as aircraft and engines and the equity securities of certain specified entities including CACC and its subsidiaries (which comprise substantially all of the entities in the RAL segment). Any outstanding balance under this facility is immediately repayable if Chorus undergoes a change in control without the lender's consent. It contains customary representations, warranties and covenants, including a covenant to maintain a minimum consolidated interest coverage ratio. As at December 31, 2023, Chorus was in compliance with all covenants under this facility.

Warehouse credit facility

Falko (Ireland) Limited ("FIL") and certain of its subsidiaries are parties to a warehouse credit facility. 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 SOFR plus a credit spread adjustment plus 3.25% until January 2024 and SOFR plus a credit spread adjustment plus 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 FIL.

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, 2023, Chorus was in compliance with these covenants.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

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11 Credit facilities (continued)

Unsecured credit facility

On April 28, 2020, Chorus obtained a US \$100,000 unsecured revolving credit facility for general corporate purposes. For the period ended December 31, 2023, the facility bears interest at the SOFR 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.

Bi-Lateral Credit Facilities

On November 1, 2023, Chorus entered into two credit facilities with The Bank of Nova Scotia. The first facility provides Chorus with an unsecured revolving loan facility in an amount up to \$30,000 and matures on November 1, 2024. Borrowings under this facility are unsecured and bear interest for Canadian dollar advances at Canadian Prime plus 3.50% or the Canadian Overnight Repo Rate Average ("CORRA") plus a credit spread adjustment plus 4.50%, and for US dollar advances at Base Rate plus 3.50% or SOFR plus a credit spread adjustment plus 4.50%. This facility may be used for general corporate purposes but can only be drawn after Chorus has fully drawn under the operating credit facility. Indebtedness under this facility ranks at least pari passu in right of payment with all other senior, unsecured and unsubordinated indebtedness of Chorus. The loan agreement contains customary representations, warranties, covenants and events of default, and is cross-defaulted to any event of default under the operating credit facility.

The second facility provides Chorus with a revolving loan in an amount up to the lesser of (a) 50% of the current market value of certain unencumbered aircraft pledged as security for the loan, and (b) \$50,000. The facility matures on December 31, 2025. Borrowings bear interest for Canadian dollar advances at Canadian Prime plus 2.50% or CORRA plus a credit spread adjustment plus 3.50%, and for US dollar advances at Base Rate plus 2.50% or SOFR plus a credit spread adjustment plus 3.50%, and are secured by the aircraft pledged as security together with the related leases and insurance proceeds. The loan agreement contains customary representations, warranties, covenants and events of default, and is cross-defaulted to any event of default under the operating credit facility. The use of proceeds under this facility is currently limited to the repayment of the Series A Debentures.

As at December 31, 2023, Chorus was in compliance with these financial covenants.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2023 and 2022

(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:

	2023	2022
	\$	\$
No later than one year	3,828	5,520
Later than one year and no later than five years	6,339	5,175
Later than five years	2,146	1,751
Total minimum lease payments	12,313	12,446
Less: Amount representing interest (at weighted average rate of 5.89% (2022 - 5.66%))	1,737	1,137
Present value of net minimum lease liability payments	10,576	11,309
Less: Current portion	3,309	5,041
Lease liabilities	7,267	6,268

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

	2023	2022
	\$	\$
No later than one year	3,309	5,041
Later than one year and no later than five years	5,406	4,679
Later than five years	1,861	1,589
	10,576	11,309

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian dollars at 1.3226, which was the exchange rate in effect at the end of day closing on December 31, 2023 (2022 - 1.3544). Interest of \$500 for the year ended December 31, 2023 (2022 - \$603) 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:

	2023	2022
	\$	\$
Short-term leases ⁽¹⁾	7,818	7,948
Leases of low-value	787	935

(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.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

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(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,	
	2023	2022
	\$	\$
Secured long-term debt and credit facilities		
Amortizing term loans		
Secured by aircraft ^(1a)	1,075,129	1,293,761
Secured by engines ^(1b)	3,082	4,507
Warehouse credit facility ^(1c)	66,357	85,847
Nova Scotia Jobs Fund loan - secured by office building ⁽²⁾	4,000	5,000
Asset-backed securitization ⁽³⁾	249,907	309,665
Operating credit facility ⁽⁴⁾ (note 11)	87,000	—
	1,485,475	1,698,780
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⁾ (note 11)	33,065	101,580
	1,762,290	2,044,110
Less:		
Deferred financing fees	(9,535)	(12,816)
Accretion discount on amortizing term loans and asset-backed securitization	(6,289)	(10,348)
Accretion discount on convertible units and debentures	(1,462)	(1,979)
	1,745,004	2,018,967
Less: Current portion	430,082	340,308
	1,314,922	1,678,659

The current portion of long-term debt in the above table includes deferred financing fees of \$1,177 and interest accretion of \$3,516, respectively for the year ended December 31, 2023 (December 31, 2022 - \$1,526 and \$3,907, respectively). The majority of long-term debt is payable in US dollars and has been converted to Canadian currency at 1.3226 which was the exchange rate in effect at closing on December 31, 2023 (December 31, 2022 - 1.3544).

Chorus Aviation Inc.

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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 4.37%, maturing between February 2024 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 \$1,833,435 (December 31, 2022 - \$2,122,837).

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). FIL currently has five aircraft that are 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 4.19%, maturing between December 2024 and May 2028, each secured primarily by one PW150A engine. As at December 31, 2023, the net book value of property and equipment pledged as collateral under Dash 8-400 engine financing was \$7,917 (December 31, 2022 - \$8,434).
- c) Warehouse credit facility - Individual term loans, repayable in instalments, bearing floating interest at a weighted average rate of 8.72%, 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 5.04%. As at December 31, 2023, the net book value of property and equipment pledged as collateral under these term loans was \$153,139 (December 31, 2022 - \$166,833).

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.

Chorus Aviation Inc.

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13 Long-term debt (continued)

- Subsidiaries of CAC have entered into financing agreements in connection with the acquisition of aircraft. CAC, FIL 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, 2023, 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, 2023, the net book value of property and equipment pledged as collateral under asset-backed securitization was \$506,238.

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, 2023, the total interest expense on amortizing term loans, asset-backed securitization and the Nova Scotia Jobs Fund loan was \$73,206 (for the year ended December 31, 2022 - \$68,657) which included interest accretion of \$3,893 (for the year ended December 31, 2022 - \$2,732).

Chorus Aviation Inc.
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13 Long-term debt (continued)

(4) Operating credit facility

As at December 31, 2023, Chorus had drawn \$87,000 on the facility and had also provided letters of credit totaling \$8,734 that reduce the amount available under this facility. For the year ended December 31, 2023, the total interest expense on the operating credit facility was \$6,039.

(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 and can be redeemed any time after December 31, 2023 at the principal amount plus accrued and unpaid interest.

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 are listed for trading on the TSX under the symbol CHR.DB.A.

For the year ended December 31, 2023, the total interest expense on the Series A Debentures was \$5,776 (for the year ended December 31, 2022 - \$5,723) which included interest accretion of \$816 (for the year ended December 31, 2022 - \$764).

(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 and can be redeemed any time after June 30, 2025 at the principal amount plus accrued and unpaid interest. 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 any required regulatory approvals and provided no event of default has occurred and is continuing at such time under the indenture governing the Series B Debentures, Chorus may 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 satisfy its obligation to pay interest on the Series B Debentures by delivering common shares to the trustee under the indenture governing the Series B Debentures for sale, with the proceeds used to satisfy the interest payment obligation.

The Series B Debentures are listed for trading 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.

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13 Long-term debt (continued)

For the year ended December 31, 2023, the total interest expense on the Series B Debentures was \$5,395 (for the year ended December 31, 2022 - \$5,317) which included interest accretion of \$1,045 (for the year ended December 31, 2022 - \$966).

The following table illustrates the allocation of the Series B Debentures between debt and equity as at December 31, 2023. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt \$	Equity component of convertible debentures \$	Total \$
Balance - December 31, 2022	6.0	68,455	2,683	71,138
Accretion expense		1,045	—	1,045
Balance - December 31, 2023		69,500	2,683	72,183

(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 and can be redeemed any time after March 31, 2026 at the principal amount plus accrued and unpaid interest. The Series C Debentures are not convertible by the holders thereof into common shares at any time.

Subject to any required regulatory approvals 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 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 are listed for trading on the TSX under the symbol CHR.DB.C.

For the year ended December 31, 2023, the total interest expense on the Series C Debentures was \$5,487 (for the year ended December 31, 2022 - \$5,449) which included interest accretion of \$600 (for the year ended December 31, 2022 - \$562).

(8) Unsecured credit facility

For the year ended December 31, 2023, the total interest expense on the unsecured credit facility was \$6,538 (for the year ended December 31, 2022 - \$8,249).

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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, 2023. The timing of future principal payments, excluding unamortized deferred financing fees and interest accretion, is as follows:

	\$
No later than one year	434,775
Later than one year and no later than five years	1,141,138
Later than five years	<u>186,377</u>
	<u><u>1,762,290</u></u>

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,	
	2023	2022
	\$	\$
Income before income tax	159,927	73,850
Income tax expense at the Canadian statutory tax rate ⁽¹⁾	42,381	19,570
Recognition of previously unrecognized cumulative eligible capital	(5,036)	(5,385)
Net impact of capital items ⁽²⁾	(4,667)	3,408
Impact of the Canadian statutory tax rate on entities with other tax rates	3,697	596
Non-deductible expenses	4,793	3,744
Other	6,562	—
Allowance against deferred tax assets	6,091	—
Income tax expense	53,821	21,933
Effective tax rate	33.7%	29.7%

(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. 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.

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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 \$246,468 as at December 31, 2023, 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, 2023 and December 31, 2022, Chorus utilized a total of \$18,551 (\$5,036 tax effected) and \$19,948 (\$5,385 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, 2022	Recognized in Net Income	Recognized in Other Comprehensive Income	December 31, 2023
	\$	\$	\$	\$
Deferred income tax liability				
Pension and Other Employee Benefits	1,484	(7,218)	3,370	(2,364)
Property and equipment	(283,953)	(17,885)	—	(301,838)
Deferred income tax asset				
Loss carryforwards	107,359	(8,459)	—	98,900
Other long-term debt	9,666	1,036	(33)	10,669
Net deferred income tax liability	(165,444)	(32,526)	3,337	(194,633)

	As at December 31,	
	2023	2022
Balance sheet presentation	\$	\$
Deferred income tax asset	18,286	22,240
Deferred income tax liability	(212,919)	(187,684)
Net deferred income tax liability	(194,633)	(165,444)

Chorus Aviation Inc.

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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 December 18, 2023, 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 \$42,101 for 66 pensioners of the plan thereby reducing the pension assets and liabilities by \$42,101 or approximately 11%. This transaction reduces the future pension liability growth and the funding volatility risk.

Jazz and Jazz pilots represented by the Air Line Pilots Association ratified modification to their collective agreement on August 28, 2023, with an effective date of September 1, 2023. The modification includes a material wage increase for pilots. The impact of these changes has been reflection in the Jazz Registered Pension Plan ("RPP") obligation at December 31, 2023 and in the experience adjustment component of other comprehensive income.

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, 2023 was \$19,212 and for the year ended December 31, 2022 was \$18,074.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2024 are \$16,300. Expected contributions to the defined contribution pension plans for the year ending December 31, 2024 are \$19,600. Expected benefit payments for Other Future Employee Benefits for the year ending December 31, 2024 are \$3,880.

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, 2023 and the next funding valuations will be as of January 1, 2024.

Chorus Aviation Inc.

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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	
	2023	2022	2023	2022
	\$	\$	\$	\$
Change in benefit obligation				
Benefit obligation, beginning of year	378,645	495,508	22,283	24,742
Current service cost	13,470	19,665	2,444	2,657
Loss on annuity settlement	201	—	—	—
Interest cost	20,279	15,741	1,068	649
Plan participants' contributions	4,315	4,369	—	—
Benefits paid	(20,804)	(40,168)	(1,962)	(1,943)
Annuity settlement	(42,101)	—	—	—
Loss (gain) from change in demographic assumptions	—	4,640	1,022	(187)
Loss (gain) from change in financial assumptions	20,953	(128,076)	1,810	(3,739)
Experience losses (gains)	37,540	6,966	(653)	104
Benefit obligation, end of year	412,498	378,645	26,012	22,283
Change in plan assets				
Fair market value of plan assets, beginning of year	418,844	580,483	—	—
Interest income	21,771	17,734	—	—
Employer contribution	12,117	16,590	1,962	1,943
Plan participants' contributions	4,315	4,369	—	—
Benefits paid	(20,804)	(40,168)	(1,962)	(1,943)
Annuity settlement	(42,101)	—	—	—
Administrative expenses	(600)	(500)	—	—
Return (loss) on plan assets (excluding interest income)	23,799	(159,664)	—	—
Fair market value of plan assets, end of year	417,341	418,844	—	—
Funded (unfunded) status, end of year	4,843	40,199	(26,012)	(22,283)
Effect of asset ceiling	—	(23,418)	—	—
Net defined benefit asset (liability) ⁽¹⁾	4,843	16,781	(26,012)	(22,283)

(1) SERP of \$6,496 is included in other long-term assets and RPP of \$1,653 is included in other long-term liabilities.

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.

Chorus Aviation Inc.

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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,	
	2023	2022
	\$	\$
Assets		
Defined benefit pension	6,496	16,781
Liabilities		
Other future employee benefits	26,012	22,283
Defined benefit pension	1,653	—

Defined benefit pension plan assets are comprised as follows:

	December 31,	
	2023	2022
Canadian Equity	1%	1%
Long Bonds	61%	66%
International Equity	12%	11%
Short-term and Other	4%	4%
Real Estate	22%	18%
	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.

Weighted average assumptions used to determine the accrued benefit liability:

	Pension Benefits		Other Future Employee Benefits	
	2023	2022	2023	2022
Discount rate to determine accrued benefit obligations	4.7%	5.3%	4.6%	5.2%
Discount rate to determine the pension and benefit cost	5.3%	3.1%	5.2%	2.8%
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%	5.2%
Health care inflation - Select to determine pension and benefit cost	n/a	n/a	5.2%	5.3%

Chorus Aviation Inc.
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15 Pension and Other Future Employee Benefits (continued)

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:

	2023	2022
Retiring at the end of the reporting period		
Male	22.1	22.0
Female	24.4	24.3
Retiring 20 years after the end of the reporting period		
Male	23.1	23.0
Female	25.4	25.3

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 13% of assets in equities and 22% 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.

Chorus Aviation Inc.

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15 Pension and Other Future Employee Benefits (continued)

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.

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

	Change in assumption	Impact on defined benefit obligation	
		Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 2.1%	Increase by 2.2%
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:

	Change in assumption	Impact on defined benefit obligation	
		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 0.5%	Decrease by 0.5%
Health care cost trend rate	0.25%	Increase by 0.7%	Decrease by 0.7%

The weighted average duration of the pension plans and Other Future Employee Benefits is 9 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	34,936	37,591	111,950	183,742	368,219
Other Future Employee Benefits	3,880	3,514	8,941	10,435	26,770
	38,816	41,105	120,891	194,177	394,989

Chorus Aviation Inc.

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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	
	2023 \$	2022 \$	2023 \$	2022 \$
Components of cost under IAS 19				
Amounts recognized in profit or loss:				
Current service cost	13,470	19,665	2,444	2,657
Past service cost	—	—	—	—
Loss on annuity settlement	201	—	—	—
Interest cost on benefit obligation	20,279	15,741	1,068	649
Interest expense on effect of asset ceiling	999	801	—	—
Administrative expenses	600	500	—	—
Interest income on plan assets	(21,771)	(17,734)	—	—
Costs arising in the period	13,778	18,973	3,512	3,306
Remeasurements recognized in the consolidated statements of income	—	—	41	(2,774)
	13,778	18,973	3,553	532
Remeasurements recognized in other comprehensive income				
Loss on demographic assumptions	—	4,639	—	356
Loss (gain) from financial assumptions	20,953	(128,076)	1,223	(1,404)
Experience losses	37,540	6,966	916	—
(Return) loss on plan assets (excluding interest income)	(23,799)	159,664	—	—
Effect of asset ceiling	(24,417)	(3,233)	—	—
Loss (gain) recognized in the statement of other comprehensive income for the period	10,277	39,960	2,139	(1,048)
Tax (recovery) expense	(2,790)	(10,787)	(580)	283
Net loss (gain) recognized in the statement of other comprehensive income for the period ⁽¹⁾	7,487	29,173	1,559	(765)

(1) Total net loss of \$9,046 for the year ended December 31, 2023 (2022 - net loss of \$28,408) was recognized in the statement of other comprehensive income.

Chorus Aviation Inc.

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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,	
	2023	2022
	\$	\$
Net defined benefit pension and Other Future Employee Benefits expense recorded in the consolidated statements of income		
Wages, salaries and benefits	17,331	19,505
Employee benefit funding by Chorus		
Defined benefit pension	12,117	16,590
Other Future Employee Benefits	1,962	1,943
	14,079	18,533
Employee benefit funding lower than expense	(3,252)	(972)

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 BSI Dragonfly Holdings LP, an affiliate of Brookfield Special Investments Fund L.P. ("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 quarterly and paid in cash in US dollars in the following month.

During the year ended December 31, 2023, Chorus declared \$35,426 in preferred share dividends (\$22,902 for the year ended December 31, 2022).

During the year ended December 31, 2023, Chorus paid \$35,124 in preferred share dividends (\$14,616 for the year ended December 31, 2022). The preferred share dividend payable on the statement of financial position has been converted to Canadian currency at 1.3226 which was the exchange rate in effect at closing on December 31, 2023. Preferred share dividends recorded in equity are converted to Canadian currency at the foreign exchange rate in effect on the day of the transaction.

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

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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, 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
Shares repurchased and cancelled	(7,904,479)	(16,611)
Share repurchase commitment under the automatic share purchase plan	—	9,611
Shares issued and outstanding December 31, 2023	193,427,537	406,481

On November 8, 2023, Chorus announced that it had received approval from the Toronto Stock Exchange to implement a normal course issuer bid ("NCIB") to purchase up to 15,160,372 common shares during the period November 14, 2023 to no later than November 13, 2024. For the year ended December 31, 2023, Chorus purchased and cancelled 445,667 common shares, respectively, under its renewal NCIB for total consideration of \$1,000. Common share capital was reduced by a net amount of \$937 and the remaining \$63 was accounted for as a reduction of contributed surplus.

On November 9, 2022, Chorus announced that it had received approval from the Toronto Stock Exchange to implement a NCIB to purchase up to 15,928,236 common shares during the period November 14, 2022 to no later than November 13, 2023. For the year ended December 31, 2023, Chorus purchased and cancelled 7,458,812 common shares under its NCIB for total consideration of \$24,536. The net reduction to equity, after applying the accounts payable accrual at December 31, 2022 of \$14,536, was \$10,000. Common share capital was reduced by a net amount of \$6,063 and the remaining \$3,937 was accounted for as a reduction of contributed surplus.

Chorus Aviation Inc.

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17 Capital stock (continued)

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, 2023, a maximum obligation to purchase \$nil (December 31, 2022 - \$14,536) of common shares was recognized under the Plan in accounts payable and accrued liabilities on the consolidated statements of financial position. At December 31, 2022 common share capital was reduced by \$9,611 and the remaining \$4,925 was accounted for as a reduction of contributed surplus.

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.

Chorus Aviation Inc.

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17 Capital stock (continued)

b) Warrants

	Number of warrants	\$
Outstanding, December 31, 2021	32,134,074	1,513
Warrants issued pursuant to private placement	18,642,772	24,627
Less: warrant transaction costs	—	(261)
Warrants expired ⁽¹⁾	(32,134,074)	(1,513)
Outstanding, December 31, 2022	18,642,772	24,366
Outstanding, December 31, 2023	18,642,772	24,366

(1) 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, 2023, 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.

On May 3, 2022 and in connection with the Falko Acquisition, Chorus entered into a subscription agreement with Brookfield for US \$300,000 Series 1 Preferred Shares ("Preferred Shares") 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.

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
Shares issued and outstanding December 31, 2023	300,000	375,217

Chorus Aviation Inc.

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17 Capital stock (continued)

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,	
	2023	2022
	\$	\$
Numerator		
Net income	106,106	51,917
Less:		
Net income attributable to non-controlling interest	(4,753)	(3,027)
Preferred share dividends declared	(35,426)	(22,902)
Earnings attributable to common shareholders	65,927	25,988
Denominator		
Weighted average number of shares	195,338,123	194,440,593
Weighted average dilutive shares in respect of stock-based compensation plans	5,900,841	4,606,566
Weighted average number of diluted shares	201,238,964	199,047,159

e) RSUs

Chorus awards RSUs to certain key employees under the long-term incentive plan.

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

Long-term incentive plan	2023	2022
	Number of units	Number of units
RSUs outstanding beginning of the year	5,052,129	2,943,678
Total RSUs granted during the year	2,874,725	3,185,537
RSUs redeemed during the year	(621,938)	(826,909)
RSUs forfeited during the year	(487,034)	(250,177)
RSUs outstanding	6,817,882	5,052,129
RSUs vested	5,782,658	3,899,816

The value of total RSUs granted during the year ended December 31, 2023 was \$9,515 (2022 - \$12,573).

Chorus Aviation Inc.

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17 Capital stock (continued)

f) Deferred share units

Deferred share unit plan	2023	2022
	Number of units	Number of units
DSUs outstanding beginning of the year	1,003,202	1,201,888
Total DSUs granted during the year	285,396	192,547
DSUs redeemed during the year	(385,770)	(391,233)
DSUs outstanding	902,828	1,003,202

Fair value of total DSUs granted during the year ended December 31, 2023 was \$768 (2022 - \$632).

g) Employee Share Ownership 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.

h) Stock-based compensation expense

	2023	2022
	\$	\$
Stock Options	393	251
RSUs	7,157	9,116
DSUs	802	699
ESOP	704	1,140
	9,056	11,206

Chorus Aviation Inc.

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18 Future lease receivables under operating leases

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

	December 31, 2023 \$
2024	361,706
2025	294,735
2026	257,304
2027	200,802
2028	151,917
2029 and onward	323,391

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 1.3226 and 1.4599, respectively, which were the exchange rates in effect at the end of day closing on December 31, 2023.

19 Financial instruments and fair values

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, long-term defined benefit pension receivable, long-term lease and deferral receivables, finance lease receivables, investments, total return swap, accounts payable and accrued liabilities, long-term incentive plan liability, 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.

Chorus Aviation Inc.

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19 Financial instruments and fair values (continued)

The carrying amounts reported in the statement of financial position for cash, restricted cash, accounts receivable, long-term lease and deferral receivables 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.

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

	As at December 31, 2023			As at December 31, 2022		
	Fair value	Carrying value	Deferred financing fees ⁽¹⁾	Fair value	Carrying value	Deferred financing fees ⁽¹⁾
	\$	\$	\$	\$	\$	\$
Finance lease receivables⁽²⁾	35,088	41,770	—	46,871	46,954	—
Investments						
Held for trading ⁽³⁾	—	—	—	85	85	—
Third party ⁽⁴⁾	449	449	—	374	374	—
Fund investment ⁽⁴⁾	24,374	24,374	—	25,549	25,549	—
Other long-term assets						
Defined benefit pension receivable ^(2,5)	24,377	24,377	—	—	—	—
Interest rate swaps ⁽⁶⁾	1,967	1,967	—	6,065	6,065	—
Long-term debt						
Amortizing term loans ⁽⁷⁾	1,089,848	1,148,582	4,680	1,290,955	1,389,128	6,017
Asset-backed securitization ⁽⁷⁾	236,916	243,604	—	292,972	299,304	—
Series A Debentures ⁽⁸⁾	84,525	86,250	874	81,722	86,250	1,690
Series B Debentures ⁽⁸⁾	66,345	71,038	1,538	67,715	70,521	2,066
Series C Debentures ⁽⁸⁾	71,825	85,000	2,443	71,825	85,000	3,043
Operating credit facility ⁽⁹⁾	87,000	87,000	—	—	—	—
Unsecured credit facility ⁽⁹⁾	33,005	33,065	—	99,657	101,580	—
Other long-term liabilities						
Total return swap ⁽⁶⁾	4,391	4,391	—	3,813	3,813	—

(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) Current portion of defined pension benefit receivable of \$5,480 is included in accounts receivable.

(6) Fair value is estimated using valuation models that utilize market based observable inputs and is classified as Level 2.

(7) 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.

(8) Fair value is calculated based on quoted prices observed in active markets and is classified as Level 1.

(9) Fair value is calculated by discounting the future cash flow of the credit facility at a relevant market interest rate.

Chorus Aviation Inc.

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For the years ended December 31, 2023 and 2022

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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, 2023.

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:

	2023 \$	2022 \$
Level 2		
Interest rate swap assets	1,967	6,065
Total return swap liability	(4,391)	(3,813)
Level 3		
Third party	449	374
Fund investment	24,374	25,549

Chorus Aviation Inc.

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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, 2023 and 2022:

	2023	2022
	\$	\$
Start of year	25,923	—
Business acquisition	—	19,344
Change in fair value hierarchy ⁽¹⁾	85	—
Investment in funds	1,613	5,731
Payments received	(5,896)	(1,109)
Foreign currency adjustments	(457)	1,022
Gain recognized in statement of income	3,555	935
	24,823	25,923

(1) During 2023, an investment in a third party was previously classified as a Level 1 instrument but changed to a Level 3 instrument as it is no longer listed on active markets.

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, 2023, 92.0% of Chorus' term debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 8.0% 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. There is an economic relationship between the hedged item and cash flow hedge, as notional amounts match and the fair value of the hedged item and cash flow hedge move in response to the same risk. The hedge ratio is determined by dividing the notional amount of the interest rate swap contract by the notional amount used to calculate the actual interest payments.

Chorus uses the hypothetical derivative method to assess hedge ineffectiveness. Under the hypothetical derivative method the critical terms of the hypothetical derivative will exactly match those of the hedged item. Hedge ineffectiveness can arise due to credit risk in the fair value of the cash flow hedge not being replicated in the hedged item and changes to the forecasted amount of cash flow of hedged items and hedging instruments.

Changes in the fair value of effective interest rate swaps are recorded in other comprehensive (loss) income 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 Aviation Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2023 and 2022

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19 Financial instruments and fair values (continued)

As at December 31, 2023, Chorus had seven (December 31, 2022 - ten) interest rate swap agreements with notional amounts totaling \$115,587 (December 31, 2022 - \$169,170). The fair value of interest rate swaps was as follows:

	As at December 31, 2023	As at December 31, 2022
	\$	\$
Other long-term assets		
Interest rate swaps	1,967	6,065

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

	Year ended December 31,	
	2023	2022
	\$	\$
Other comprehensive (loss) income		
Change in fair value of financial assets and liabilities, net of tax recovery (expense) of \$287 (2022 - (\$1,131))	(3,851)	7,916
Income statement		
Gain on ineffective interest rate swap ⁽¹⁾	533	2,043

(1) The year ended December 31, 2023 includes the recognition of a gain of \$1,844 in interest expense related to the discontinuance of hedge accounting on an interest rate swap recycled from other comprehensive income.

In April 2023, the Financial Conduct Authority announced that following the official discontinuation of USD LIBOR on June 30, 2023 a synthetic USD LIBOR reference rate would continue to be published until September 2024. 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 do not mature before September 2024. As at December 31, 2023, Chorus had six loans which totaled \$75,906 and four derivative agreements which referenced notional amounts totaling \$16,638 that will be impacted by the transition from synthetic USD LIBOR to alternative reference rates. In addition, the CDOR will cease to be published on June 28, 2024, and the Canadian Overnight Repo Rate Average ("CORRA") will be the alternative risk-free rate used as replacement benchmark. 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 as a result of this transition.

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.

An interest rate change of 25 basis points would not have a material impact on annual net income as a result of Chorus' exposure to interest rate fluctuations on its floating rate debt.

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.

Chorus Aviation Inc.

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19 Financial instruments and fair values (continued)

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.

Chorus has entered into lease deferral arrangements with certain of its lessees in the RAL segment 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 entities in the RAL segment are required to service principal and interest payments under its loans during the term of the deferral arrangements. The risks associated with the payment of deferred and future rent payments could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. At December 31, 2023, the RAL segment had total receivables of \$143,139 (December 31, 2022 - \$141,862), inclusive of the accrued straight-line rent receivable of \$31,075 (December 31, 2022 - \$32,641).

	As at December 31, 2023			As at December 31, 2022		
	Regional Aviation Services \$	Regional Aircraft Leasing \$	Total \$	Regional Aviation Services \$	Regional Aircraft Leasing \$	Total \$
Trade receivables	16,655	30,055	46,710	21,763	16,845	38,608
Deferred rent receivable	—	18,850	18,850	—	7,831	7,831
Air Canada trade receivable	149,144	—	149,144	140,805	—	140,805
Subtotal	165,799	48,905	214,704	162,568	24,676	187,244
Allowance for expected credit loss ("ECL")	(315)	(6,323)	(6,638)	(329)	(1,285)	(1,614)
Net trade receivables	165,484	42,582	208,066	162,239	23,391	185,630
Accrued straight-line rent receivable ⁽¹⁾⁽²⁾	—	5,819	5,819	—	1,055	1,055
Long-term accrued straight-line rent receivable ⁽¹⁾⁽³⁾	—	25,256	25,256	—	31,586	31,586
Long-term receivables ⁽³⁾⁽⁴⁾⁽⁵⁾	29,579	63,159	92,738	9,237	84,545	93,782
Subtotal	195,063	136,816	331,879	171,476	140,577	312,053
Long-term allowance for ECL	—	(12,951)	(12,951)	—	(25,724)	(25,724)
Total net receivables	195,063	123,865	318,928	171,476	114,853	286,329
Total gross receivables	195,378	143,139	338,517	171,805	141,862	313,667

(1) These receivables were assessed under IAS 36 for impairment (refer to note 3 - Material accounting policies).

(2) Included in prepaid expenses and deposits.

(3) Included in other long-term assets.

(4) Includes \$24,377 defined benefit pension receivable, including interest accretion, relating to Air Canada's agreement to reimburse Jazz for the impact of the new pilot wage scales on the defined benefit pension plan for pilots. The accounts receivable will be repaid in 60 equal monthly payments with the first payment due on December 1, 2023. In accordance with IFRS Accounting Standards, the associated impact of the wage scale pension assumption change in the pension liability was charged to other comprehensive income.

(5) Long-term receivables (excluding defined benefit pension receivable) were assessed for ECL allowance under IFRS 9.

Chorus Aviation Inc.

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19 Financial instruments and fair values (continued)

Chorus has no financial assets past due, except for trade receivables. At December 31, 2023, the total amount of net trade receivables was \$208,066 (December 31, 2022 - \$185,630), inclusive of allowance for ECL of \$6,638 (December 31, 2022 - \$1,614) 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, 2023, the breakdown of past-due trade receivables were as follows:

	2023 \$	2022 \$
Past due		
60 - 90 days	4,430	2,921
Over 90 days	22,640	16,072
	27,070	18,993

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. The current swap is for 7.3 million common shares priced at \$3.16 per common share and matures in March 2024. 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) - Material accounting policies.

Chorus recorded losses on the total return swap as follows:

	Year ended December 31,	
	2023 \$	2022 \$
Income statement		
Loss on total return swap	(4,904)	(293)

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, 2023, Chorus had \$85,985 in cash and \$84,266 of available room on its operating credit facility and one of its bi-lateral credit facilities, inclusive of letters of credit totaling \$8,734 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, 2022 - \$100,027 in cash; \$130,294 of available room on its operating credit facility inclusive of letters of credit totaling \$10,338).

Chorus Aviation Inc.

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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, 2023			
	Less than 3 months \$	3 months to 1 year \$	2 - 5 years \$	Over 5 years \$
Principal				
Trade payables and accrued liabilities ⁽¹⁾	298,060	—	—	—
Lease liabilities	1,371	1,938	5,406	1,861
Long-term debt	130,749	304,026	1,141,138	186,377
Long-term incentive plan	2,877	—	11,659	—
	433,057	305,964	1,158,203	188,238
Interest				
Lease liabilities	167	352	933	285
Long-term debt	18,809	52,154	98,109	10,651
	18,976	52,506	99,042	10,936
Total principal and interest				
Trade payables and accrued liabilities ⁽¹⁾	298,060	—	—	—
Lease liabilities	1,538	2,290	6,339	2,146
Long-term debt	149,558	356,180	1,239,247	197,028
Long-term incentive plan	2,877	—	11,659	—
	452,033	358,470	1,257,245	199,174

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

Chorus Aviation Inc.

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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 \$76,282 and US denominated financial liabilities was \$415,080 at December 31, 2023. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately \$3,388. 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, 2023.

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.

Chorus Aviation Inc.

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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 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,	
	2023	2022
	\$	\$
Salaries and other benefits	7,966	8,462
Other post-employment benefits	1,444	(3,001)
Stock-based compensation	4,449	7,158
	13,859	12,619

Chorus Aviation Inc.

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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,	
	2023	2022
	\$	\$
Operating revenue	1,300,188	1,238,579
Operating expenses	2,664	2,600

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

	December 31,	December 31,
	2023	2022
	\$	\$
Accounts receivable	149,144	140,805
Finance lease receivables	924	3,870
Contract asset	17,101	18,277
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees	2,237	1,884
Other long-term receivables ⁽¹⁾	29,579	9,236
Accounts payable and accrued liabilities	1,784	5,867

- (1) Includes defined benefit pension receivable of \$24,377, including interest accretion, relating to Air Canada's agreement to reimburse Jazz for the impact of the new pilot wage scales on the defined benefit pension plan for pilots. The accounts receivable will be repaid in 60 equal monthly payments with the first payment due on December 1, 2023. In accordance with IFRS Accounting Standards, the associated impact of the wage scale pension assumption change in the pension liability was charged to other comprehensive income.

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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.

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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.

Chorus Aviation Inc.

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23 Statement of cash flows - supplementary information

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

	Year ended December 31,	
	2023	2022
	\$	\$
Increase in accounts receivable – trade and other	(22,990)	(44,622)
Increase in inventories	(6,877)	(19,505)
Increase in prepaid expenses	(3,358)	(6,214)
Decrease (increase) in income tax receivable	258	(1,071)
(Increase) decrease in other long-term assets	(12,358)	16,054
Increase in accounts payable and accrued liabilities	662	63,717
Increase in current portion long-term incentive plan	56	1,909
(Decrease) increase in income tax payable	(18,325)	26,641
Increase (decrease) in other long-term liabilities	877	(8,136)
	(62,055)	28,773

The above table excludes non-cash foreign currency adjustments.

b) Other

	Year ended December 31,	
	2023	2022
	\$	\$
Cash payments of interest	99,645	102,493
Cash receipts of interest	2,625	2,275
Cash payments of tax	38,795	10,518

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(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⁾	Series A Debentures	Series B Debentures	Series C Debentures	Credit facilities ⁽²⁾	Total long-term debt	Lease liabilities
	\$	\$	\$	\$	\$	\$	\$
Balance - December 31, 2022	1,682,415	84,560	68,455	81,957	101,580	2,018,967	11,309
Long-term borrowings, net of financing costs	(291)	—	—	—	86,984	86,693	—
Repayment of long-term borrowings	(273,754)	—	—	—	(67,480)	(341,234)	—
Repayment of lease liabilities	—	—	—	—	—	—	(5,370)
Total financing cash flow activities	(274,045)	—	—	—	19,504	(254,541)	(5,370)
New lease liabilities	—	—	—	—	—	—	6,670
Lease liability disposal	—	—	—	—	—	—	(1,887)
Interest expense	3,894	816	1,045	600	—	6,355	—
Deferred financing fee amortization	1,580	—	—	—	—	1,580	—
Unrealized foreign exchange gain	(23,698)	—	—	—	(995)	(24,693)	(53)
Realized foreign exchange loss (gain)	13,656	—	—	—	(24)	13,632	—
Foreign currency adjustments	(16,296)	—	—	—	—	(16,296)	(93)
Total financing non-cash activities	(20,864)	816	1,045	600	(1,019)	(19,422)	4,637
Balance - December 31, 2023	1,387,506	85,376	69,500	82,557	120,065	1,745,004	10,576

(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, 2023 - \$90,432; December 31, 2022 - \$67,884).

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

24 Additional information

a) Assets

	December 31, 2023 \$	As at December 31, 2022 \$
Accounts receivable		
Trade receivables	65,560	46,439
Allowance for ECL	(6,638)	(1,614)
Commodity taxes	10,030	9,209
Other receivables	4,183	2,525
	73,135	56,559
Trade amounts due from Air Canada and its subsidiary (refer to note 22 - Economic dependence)	149,144	140,805
	222,279	197,364
Inventories⁽¹⁾		
Aircraft held for sale	86,743	—
Aircraft expendables	54,856	54,914
Used aircraft expendables and rotables for resale	61,004	55,202
Supplies	3,790	3,548
De-icing fluid	140	156
	206,533	113,820

(1) For the period ended December 31, 2023, the cost of aircraft expendables and supplies recognized as a maintenance expense was \$42,157 (December 31, 2022 - \$29,576). For the period ended December 31, 2023 inventory write-downs to net realizable value of \$2,548 were recognized as a maintenance expense (December 31, 2022 - \$1,693).

	As at December 31, 2023 \$	2022 \$
Prepaid expenses and deposits		
Airport, navigation, insurance and software fees	12,040	12,444
Inventory	1,634	2,440
Accrued straight line rent receivable	5,819	1,055
Other	2,841	3,329
	22,334	19,268

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

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

24 Additional information (continued)

	As at	
	December 31, 2023	December 31, 2022
	\$	\$
Other long-term assets		
Accrued Air Canada receivable - Deferred lease inducements, prepaid aircraft rent and related fees	2,237	1,884
Accrued defined pension benefit asset (note 15)	6,496	16,781
Accrued transaction fees, net of accumulated amortization	4,677	4,552
Contract asset ⁽¹⁾	17,101	18,277
Fair value of interest rate swaps	1,967	6,065
Long-term receivables ⁽²⁾⁽³⁾	92,738	93,782
Long-term accrued straight line rent	25,256	31,586
Long-term allowance for ECL	(12,951)	(25,724)
Other	9,805	4,015
	147,326	151,218

(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.

(3) Includes \$24,377 defined benefit pension receivable, including interest accretion, relating to Air Canada's agreement to reimburse Jazz for the impact of the new pilot wage scales on the defined benefit pension plan for pilots. The accounts receivable will be repaid in 60 equal monthly payments with the first payment due on December 1, 2023. In accordance with IFRS Accounting Standards, the associated impact of the wage scale pension assumption change in the pension liability was charged to other comprehensive income.

b) Liabilities

	As at December 31,	
	2023	2022
	\$	\$
Accounts payable and accrued liabilities		
Trade payables and accrued liabilities	296,276	306,943
Security deposits and maintenance reserves	24,151	18,156
Commodity taxes	24,388	15,330
	344,815	340,429
Trade payables and accrued liabilities due to Air Canada and its subsidiary (refer to note 22 - Economic dependence)	1,784	5,867
	346,599	346,296

Chorus Aviation Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2023 and 2022

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

24 Additional information (continued)

	As at December 31,	
	2023	2022
	\$	\$
Other long-term liabilities		
Accrued other future employee benefits liability (note 15)	26,012	22,283
Accrued defined pension benefit liability (note 15)	1,653	—
Long-term incentive plan	11,659	10,690
DSU liability	2,311	3,250
Security deposits and maintenance reserves	184,136	136,509
Total return swap	4,391	3,813
Other	2,666	5,641
	232,828	182,186

c) Other expenses

	2023	2022
	\$	\$
Other expenses		
Travel, training and uniforms	104,019	93,616
Lease repossession costs	13,800	28,059
ECL	(4,066)	15,786
Other	96,083	97,670
	209,836	235,131

25 Subsequent events

airBaltic sale

On January 23, 2024 Chorus sold two held for sale A220-300's on lease with airBaltic. The book value of the aircraft held for sale was \$86,743. In addition, Chorus repaid the long-term debt of \$58,008 related to these aircraft.

Insured aircraft under review

On January 18, 2024 one Dash 8-400 on lease was damaged as a result of an airport incident. The aircraft is under review to determine whether it is damaged beyond repair. The net book value of the aircraft is \$23,939 at December 31, 2023 and is covered under insurance.