chorus
aviation inc.

Consolidated Financial Statements

December 31, 2019 and 2018

February 12, 2020

Management's Report

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

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

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

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

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

Independent auditor's report

To the Shareholders of Chorus Aviation Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Chorus Aviation Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants
Halifax, Nova Scotia
February 12, 2020

Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at December 31, 2019 $	As at December 31, 2018 $	As at January 1, 2018 $
		(Restated - Note 3)	(Restated - Note 3)
Assets			
Current assets			
Cash	87,167	92,592	78,007
Accounts receivable – trade and other (note 23)	68,666	77,097	77,397
Inventories (note 23)	61,843	55,691	51,543
Prepaid expenses and deposits (note 23)	11,150	11,486	11,334
Current portion of lease receivables (note 7)	4,558	5,190	4,511
Income tax receivable	1,323	704	2,268
	234,707	242,760	225,060
Restricted cash (note 22)	26,690	20,081	13,625
Lease receivables (note 7)	8,637	13,865	17,522
Property and equipment (note 8)	2,592,327	1,997,552	1,736,927
Intangibles (note 9)	1,799	2,088	2,392
Goodwill (note 9)	7,150	7,150	7,150
Deferred income tax asset (note 13)	2,784	4,295	3,022
Other long-term assets (note 23)	71,600	37,490	28,362
	2,945,694	2,325,281	2,034,060
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 23)	177,575	189,048	213,910
Current portion of lease liabilities (note 11)	5,785	6,720	6,179
Current portion of long-term incentive plan	6,549	4,087	5,844
Current portion of long-term debt (note 12)	164,554	142,652	118,567
Dividends payable	6,487	5,657	5,014
Income tax payable	10,114	930	—
	371,064	349,094	349,514
Lease liabilities (note 11)	10,531	15,910	20,932
Long-term debt (note 12)	1,658,576	1,297,077	1,188,602
Deferred income tax liability (note 13)	192,315	172,262	135,577
Other long-term liabilities (note 23)	108,215	61,131	57,835
	2,340,701	1,895,474	1,752,460
Equity	604,993	429,807	281,600
	2,945,694	2,325,281	2,034,060

Contingencies (note 19)
Economic dependence (note 21)

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

Approved by the Board of Directors

By: (signed) "Karen Cramm"
Director

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

Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Exchange differences on foreign operations $	Contributed surplus $	Equity component of convertible units $	Total $
Balance - December 31, 2017	32,412	(788,918)	(5,279)	1,040,826	2,981	282,022
Adjustment on initial adoption of IFRS 16 (net of tax) (note 3)	—	(422)	—	—	—	(422)
Restated balance - January 1, 2018	32,412	(789,340)	(5,279)	1,040,826	2,981	281,600
Net income for the year	—	67,430	—	—	—	67,430
Other comprehensive income for the year (net of tax)	—	4,796	21,129	—	—	25,925
Comprehensive income for the year	—	72,226	21,129	—	—	93,355
Dividends	—	(66,215)	—	—	—	(66,215)
Issuances of shares, net of transaction costs and related tax	108,498	—	—	—	—	108,498
Dividend reinvestment plan	12,389	(464)	—	—	—	11,925
Stock options exercised	370	—	—	(25)	—	345
Expense related to stock-based compensation plans	—	—	—	299	—	299
Balance - December 31, 2018 (restated - note 3)	153,669	(783,793)	15,850	1,041,100	2,981	429,807
Net income for the year	—	133,160	—	—	—	133,160
Other comprehensive income (loss) for the year (net of tax)	—	11,873	(19,483)	—	—	(7,610)
Comprehensive income (loss) for the year	—	145,033	(19,483)	—	—	125,550
Dividends	—	(76,315)	—	—	—	(76,315)
Issuance of shares	97,260	—	—	—	—	97,260
Dividend reinvestment plan	21,154	(961)	—	—	—	20,193
Stock options exercised	9,674	—	—	(663)	—	9,011
Expense related to stock-based compensation plans	—	—	—	217	—	217
Reclassification of stock-based compensation from equity settled to cash settled liability (note 16c)	92	—	—	(822)	—	(730)
Balance - December 31, 2019	281,849	(716,036)	(3,633)	1,039,832	2,981	604,993

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

Consolidated Statements of Income
For the years ended December 31, 2019 and 2018

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

	2019 $	2018 $ (Restated - Note 3)
Operating revenue (note 21)	1,366,447	1,353,287
Operating expenses (note 21)		
Salaries, wages and benefits	471,118	443,332
Depreciation and amortization	136,948	118,487
Aircraft maintenance materials, supplies and services	207,846	240,744
Airport and navigation fees	170,065	170,180
Terminal handling services	20,493	21,720
Other	159,514	142,115
	1,165,984	1,136,578
Operating income	200,463	216,709
Non-operating (expenses) income		
Interest revenue	3,052	2,924
Interest expense	(74,820)	(59,209)
Loss on disposal of property and equipment	(653)	(164)
Foreign exchange gain (loss)	30,613	(55,986)
Other	(395)	500
	(42,203)	(111,935)
Income before income taxes	158,260	104,774
Income tax expense (note 13)		
Current income tax	(8,416)	(2,133)
Deferred income tax	(16,684)	(35,211)
	(25,100)	(37,344)
Net income	133,160	67,430
Earnings per share, basic	0.85	0.49
Earnings per share, diluted	0.84	0.48

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, 2019 and 2018

(expressed in thousands of Canadian dollars)

	2019 $	2018 $ (Restated - Note 3)
Net income	133,160	67,430
Other comprehensive income		
Items that will not be subsequently reclassified to the statements of income		
Actuarial gains on employee benefit liabilities, net of tax expense of $5,768 (2018 - $1,059)	15,146	2,744
Items that will be subsequently reclassified to the statements of income		
Change in fair value of financial assets and liabilities, net of tax (recovery) expense of ($456) (2018 - $257)	(3,273)	2,052
Exchange differences on translation of foreign operations (note 8)	(19,483)	21,129
Comprehensive income	125,550	93,355

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, 2019 and 2018

(expressed in thousands of Canadian dollars)

	Year ended December 31, 2019 $	2018 $ (Restated - Note 3)
Cash provided by (used in)		
Operating activities		
Net income	133,160	67,430
Charges (credits) to operations not involving cash		
Depreciation and amortization	136,948	118,487
Amortization of accrued transaction and financing fees	3,456	1,391
Loss on disposal of property and equipment	4,060	164
Unrealized foreign exchange (gain) loss	(41,305)	49,482
Realized foreign exchange loss	10,584	8,583
Effect of foreign exchange rate changes on cash	2,715	(3,016)
Deferred income tax expense	16,683	35,211
Other	34	1,111
	266,335	278,843
Net changes in non-cash balances related to operations (note 22)	(4,628)	(39,610)
	261,707	239,233
Financing activities		
Repayment of lease liabilities	(6,554)	(5,025)
Repayment of long-term borrowings	(196,571)	(127,261)
Long-term borrowings, net of financing fees	562,737	167,005
Repayment of consideration payable	—	(4,527)
Issuance of shares, net of transaction costs	97,260	107,084
Unsecured debentures, net of transaction costs	82,000	—
Proceeds on stock options exercised	9,011	344
Dividends	(55,292)	(53,647)
	492,591	83,973
Investing activities		
Increase in security deposits and maintenance reserves	37,836	11,896
Change in fair value of investments	—	957
Additions to property and equipment	(875,701)	(326,712)
Payments received on lease receivables	5,051	2,978
Proceeds on disposal of property and equipment	85,457	395
Increase in restricted cash	(7,672)	(5,267)
	(755,029)	(315,753)
Effect of foreign exchange rate changes on cash	(4,694)	7,132
Net change in cash during the years	(5,425)	14,585
Cash – Beginning of years	92,592	78,007
Cash – End of years	87,167	92,592

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

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

1 General information

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

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

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

Contract flying is currently Chorus' primary business and these flying operations are conducted through both its Jazz Aviation LP ("Jazz") and Voyageur Aviation Corp. ("Voyageur") subsidiaries. Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and transborder network. Jazz and Air Canada are parties to an amended and restated capacity purchase agreement dated January 1, 2015, most recently amended and extended effective 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 21 - 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 also conducts business in regional aircraft leasing and continues to grow this business.

2 Basis of presentation

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

These financial statements have been authorized for issuance by Chorus' Board of Directors on February 12, 2020.

3 Significant accounting policies, judgements and estimation uncertainty

a) Basis of measurement

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

b) Critical accounting estimates and judgements

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

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

Employee benefits

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

Depreciation and amortization of long-lived assets

Management makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current fair value of the assets, Chorus' fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. These adjustments are accounted for on a prospective basis, through depreciation and amortization expense. A 10% reduction to the residual values of aircraft would result in an increase of $6,283 to annual depreciation expense.

Impairment of non-financial assets

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

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

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

For any aircraft for which an indicator of impairment is present, management estimates the recoverable amount which is the greater of fair value less cost of sales and value in use. An impairment charge would be recorded if the recoverable amount is less than the carrying amount of the assets being tested.

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

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

Income taxes

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

Leases

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

c) Principles of consolidation

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

d) Restricted cash

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

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

e) Revenue from contracts with customers

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

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

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

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

Services provided under the CPA

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

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

- A variable amount of controllable revenue based on rates that are reset annually and variables such as block hours, flight hours, cycles, passengers carried, and number of training events, as well as certain aircraft related costs 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 (which prior to 2019, consisted of a fixed margin and infrastructure fee per Covered Aircraft);
- Performance incentives available for achieving established performance targets;
- Payments for aircraft and spare engines that are leased to Air Canada; and
- Reimbursement for the actual amount of costs incurred by Chorus in performing its services under the CPA which are designated as pass-through costs.

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

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

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

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 in other revenue as the services are provided.

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

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

f) Aircraft leasing revenue

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

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

g) Employee benefits

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

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

h) 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 receive 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.

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.

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

i) Financial instruments

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

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

Financial instruments are classified as follows:

- Asset backed commercial paper ("ABCP") 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 and accounts receivable are classified as "Financial Assets Measured at Amortized Cost". After their initial fair value measurement, they are measured at amortized cost using the effective interest method, less a provision for impairment, established on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.
- Accounts payable, dividends payable, long-term debt 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.

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.

Impairment of financial assets

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

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

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

j) Property and equipment

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

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

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

k) Transaction costs

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

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

Transaction costs for operating and 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.

l) Intangible assets

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

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

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

m) Goodwill

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

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

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

n) 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.

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

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

Chorus has elected not to recognize right-of-use assets and lease liabilities for facility leases that have a lease term of 12 months or less and for leases of low-value assets. Chorus recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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 will be recognized and the underlying asset that is leased from the head lessor will be derecognized. Interest income is recognized on the lease receivable balance.

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

Aircraft and engines – As a lessor

Chorus leases owned aircraft and engines to Air Canada and third parties in its Regional Aviation Services segment, as well as 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.

o) Business combination

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

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

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

p) Foreign currency translation

Items included in the financial statements of each of the consolidated entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Chorus and its subsidiaries is the Canadian dollar with the exception of Chorus Aviation Capital Corp. ("CACC") and its wholly owned subsidiaries whose functional currency is the US dollar (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.

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

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.

q) Provisions

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

r) 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.

s) Inventories

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

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

t) Income taxes

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

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

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

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

u) Earnings per share

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

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

v) Dividends

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

w) Government assistance

Non-repayable government assistance is recorded in the period earned as non-operating income. Where forgivable loans are provided by governments with forgiveness contingent on meeting certain criteria, the forgivable loan is recorded as non-operating income when Chorus has met the terms for forgiveness of the loan. Chorus has a forgivable loan from the Province of Nova Scotia. In 2019 and 2018, $nil and $500, respectively, has been recognized as income.

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

New accounting standards adopted during the year

IFRS 16 - *Leases*

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

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

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

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

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

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

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

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

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

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

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

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

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

Impacts on financial statements

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

Consolidated Statements of Financial Position

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

Consolidated Statements of Financial Position

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

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

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

Consolidated Statements of Income

	Year ended December 31, 2018			
	As previously reported	IFRS 16 adoption	Adjustments	As restated
Operating revenue	1,451,194	(97,907)	*(a),(b)*	1,353,287
Depreciation and amortization	120,687	(2,200)	*(a),(b),(c)*	118,487
Aircraft rent[1]	98,023	(94,279)	*(a),(b)*	3,744
Other	139,867	(1,496)	*(c)*	138,371
Foreign exchange (loss) gain	(56,530)	544	*(b)*	(55,986)
Deferred income tax	(35,041)	(170)		(35,211)
Net income	66,988	442		67,430
Earnings per share, basic	0.49	—		0.49
Earnings per share, diluted	0.48	—		0.48

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

Consolidated Statements of Cash Flows

	Year ended December 31, 2018			
	As previously reported	IFRS 16 adoption	Adjustments	As restated
Net income	66,988	442		67,430
Depreciation and amortization	120,687	(2,200)	*(a),(b),(c)*	118,487
Amortization of accrued transaction and financing fees	2,972	(1,581)	*(a)*	1,391
Deferred income tax expense	35,041	170		35,211
Net changes in non-cash balances related to operations	(41,976)	2,366		(39,610)
Net cash from operating activities	240,036	(803)		239,233
Repayment of lease liabilities	(2,850)	(2,175)	*(b),(c)*	(5,025)
Net cash from financing activities	86,148	(2,175)		83,973
Payments received on lease receivables	—	2,978	*(b)*	2,978
Net cash from investing activities	(318,731)	2,978		(315,753)

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

Accounting standards issued but not yet applied

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

4 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 is carried on by both Jazz and Voyageur. This segment also includes corporate expenses, such as interest on convertible units, 5.75% unsecured debentures, executive and stock-based compensation and professional fees. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment as it is an important part of the CPA. Aircraft leasing under the CPA currently includes 34 Dash 8-400s, five CRJ900s, 13 Dash 8-300s which have completed the extended service program, or ESP, as well as five engines which are owned by Chorus.
- The Regional Aircraft Leasing segment leases aircraft to third parties through CACC. Its current portfolio of leased aircraft includes 60 aircraft comprising 22 ATR 72-600s, 24 Dash 8-400s, four CRJ1000s, two CRJ900s, four E190s, two E195s and two Airbus A220-300s. Its customers consist of a diverse group of airlines: Aeromexico Connect, Air Nostrum, airBaltic, Azul Airlines, CityJet, Croatia Airlines, Ethiopian Airlines, Flybe, IndiGo, Jambojet, KLM Cityhopper, Malindo Air, Philippine Airlines, SpiceJet, Virgin Australia and Wings Air.

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

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

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

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

4 Segmented information (continued)

A significant customer is one that represents 10% or more of each segment revenue earned during the period. For the years ended December 31, 2019 and December 31, 2018, the Regional Aviation Services segment reported revenue from one significant customer. See note 21 "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, 2019, there were three leasing customers that represented 10% or more of the Regional Aircraft Leasing segment due to the early life cycle of this segment.

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

	For the year ended December 31, 2019			For the year ended December 31, 2018 (Restated - Note 3)		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Operating revenue	1,239,404	127,043	1,366,447	1,273,447	79,840	1,353,287
Operating expenses	1,102,722	63,262	1,165,984	1,096,824	39,754	1,136,578
Operating income	136,682	63,781	200,463	176,623	40,086	216,709
Net interest expense	(34,108)	(37,660)	(71,768)	(36,569)	(19,716)	(56,285)
Foreign exchange gain (loss)	29,703	910	30,613	(56,579)	593	(55,986)
Loss on disposal of property and equipment	(653)	—	(653)	(164)	—	(164)
Other	—	(395)	(395)	500	—	500
Earnings before income tax	**131,624**	**26,636**	**158,260**	**83,811**	**20,963**	**104,774**
Income tax expense	(22,881)	(2,219)	(25,100)	(34,481)	(2,863)	(37,344)
Net income	**108,743**	**24,417**	**133,160**	**49,330**	**18,100**	**67,430**

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

4 Segmented information (continued)

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

	For the year ended December 31, 2019		For the year ended December 31, 2018 (Restated - Note 3)	
	Regional Aviation Services	Regional Aircraft Leasing	Regional Aviation Services	Regional Aircraft Leasing
	$	$	$	$
Operating income - as reported above	**136,682**	**—**	**176,623**	**—**
Depreciation and amortization[1]	89,344	—	89,627	—
Employee separation program[1]	2,308	—	5,364	—
Signing bonus[1]	2,000	—	—	—
Adjusted EBITDA[2]	**230,334**	**—**	**271,614**	**—**
Earnings before income tax/Adjusted EBT - as reported above[2]	**—**	**26,636**	**—**	**20,963**

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

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

4 Segmented information (continued)

Selected assets and liability information by reportable operating segment:

	As at December 31, 2019			As at December 31, 2018 (Restated - Note 3)		
	Regional Aviation Services	Regional Aircraft Leasing	Total	Regional Aviation Services	Regional Aircraft Leasing	Total
	$	$	$	$	$	$
Additions to property and equipment, net of disposals/deposits applied[1]	61,532	814,169	875,701	95,405	231,307	326,712
Property and equipment	1,102,977	1,489,350	2,592,327	1,138,315	859,237	1,997,552
Long-term debt (excluding lease liabilities)	849,675	973,455	1,823,130	885,467	554,262	1,439,729

(1) Excludes non-cash transactions of foreign currency adjustments of $54,505 (2018 - $53,259). As well, 2018 includes an adjustment related to the acquisition of three Dash 8-400s through the issuance of shares in July 2017 of $621.

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

	Year ended December 31,			
	2019		2018	
	$	%	$	%
			(Restated - Note 3)	
Canada	1,239,404	90.7 %	1,273,447	94.1 %
Other[1]	127,043	9.3 %	79,840	5.9 %
	1,366,447	100.0 %	1,353,287	100.0 %

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

	As at December 31, 2019		As at December 31, 2018	
	$	%	$	%
			(Restated - Note 3)	
Canada	1,102,977	42.5 %	1,138,315	57.0 %
Other[1][2]	1,489,350	57.5 %	859,237	43.0 %
	2,592,327	100.0 %	1,997,552	100.0 %

(1) The other country classification for both revenue and property and equipment is 100% Regional Aircraft Leasing.
(2) One country included in other represents more than 10% of total assets.

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

5 Capital management

Chorus' capital structure consists primarily of a combination of equity consisting of shares and debt, including secured and unsecured debentures, senior secured amortizing facilities and lease liabilities.

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

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

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

	2019 $	2018 $
Equity		
Capital	281,849	153,669
Contributed surplus	1,039,832	1,041,100
Deficit	(716,036)	(783,793)
Exchange differences on foreign operations	(3,633)	15,850
Equity component of convertible units	2,981	2,981
	604,993	429,807
Long-term debt	1,823,130	1,439,729
Lease liabilities	16,316	22,630
Total capital	2,444,439	1,892,166

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

6 Revenue from contracts with customers

a) Revenue

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes 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 $286,640 for the year ended December 31, 2019 (for the year ended December 31, 2018 - $239,447). Revenue is disaggregated primarily by nature and category in the underlying contract.

	Year ended December 31, 2019 $	Year ended December 31, 2018 $ (Restated - Note 3)
Controllable revenue	717,959	706,136
Fixed margin[(1)]	64,431	95,067
Incentive revenue	2,068	14,067
CPA pass-through revenue	212,564	215,347
Other	82,785	83,223
	1,079,807	1,113,840

(1) Jazz earns a fixed margin which is set for 2019 and 2020 as an aggregate amount irrespective of the number of Covered Aircraft and thereafter based on the number of Covered Aircraft operated by Jazz under the CPA. As a result of the CPA amendments that became effective January 1, 2019, the fixed margin per Covered Aircraft was reduced and restructured as described in the preceding sentence, and the infrastructure fee per Covered Aircraft was eliminated, both with effect on January 1, 2019.

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, 2019, the aggregate amount of remaining performance obligations was approximately $786,529 of which on average $64,555 is expected to be recognized from 2020 to 2025 and $39,920 recognized evenly per year until the end of 2035.

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

7 Lease receivables

Chorus has the following lease receivables related to aircraft:

	2019 $	2018 $
No later than one year	5,476	6,461
Later than one year and no later than five years	10,021	15,230
Later than five years	—	1,053
Total minimum lease receivables	15,497	22,744
Less: Amount representing interest (at weighted average rate of 7.98%)	(2,302)	(3,689)
Present value of net minimum lease receivables	13,195	19,055
Less: Current portion	4,558	5,190
Lease receivables	8,637	13,865

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

	2019 $	2018 $
No later than one year	4,558	5,190
Later than one year and no later than five years	8,637	12,831
Later than five years	—	1,034
	13,195	19,055

A significant portion of the minimum lease receivables for aircraft are receivable in US dollars and have been converted to Canadian dollars at $1.2988, which was the exchange rate in effect at the end of day closing on December 31, 2019 (2018 - $1.3642). Interest of $1,234 for the year ended December 31, 2019 (2018 - $1,482) relating to lease receivables has been included in revenue.

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

8 Property and equipment

	Flight equipment	Facilities	Equipment	Leaseholds	Right-of-use assets	Deposits on aircraft	Total
	$	$	$	$	$	$	$
Year ended December 31, 2018 (Restated - Note 3)							
Opening net book value	1,683,431	33,928	11,887	822	4,629	2,230	1,736,927
Additions	281,743	2,875	3,547	780	—	39,163	328,108
Deposits applied	—	—	—	—	—	(1,397)	(1,397)
Disposals	(559)	—	—	—	—	—	(559)
Non-cash Dash 8-400 adjustment	(621)	—	—	—	—	—	(621)
Foreign currency adjustment	53,259	—	—	—	—	—	53,259
Depreciation for the year	(108,652)	(2,056)	(5,768)	(247)	(1,442)	—	(118,165)
Closing net book value	1,908,601	34,747	9,666	1,355	3,187	39,996	1,997,552
Year ended December 31, 2019							
Opening net book value	1,908,601	34,747	9,666	1,355	3,187	39,996	1,997,552
Additions	872,298	938	5,284	4,676	—	32,092	915,288
Right-of-use assets	—	—	—	—	1,072	—	1,072
Deposits applied	—	—	—	—	—	(39,587)	(39,587)
Disposals	(90,859)	—	—	—	—	—	(90,859)
Foreign currency adjustment	(52,746)	—	—	—	—	(1,759)	(54,505)
Depreciation for the period	(128,480)	(1,612)	(4,723)	(338)	(1,481)	—	(136,634)
Closing net book value	2,508,814	34,073	10,227	5,693	2,778	30,742	2,592,327

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

8 Property and equipment (continued)

	Flight equipment	Facilities	Equipment	Leaseholds	Right-of-use assets	Deposits on aircraft	Total
	$	$	$	$	$	$	$
Year ended December 31, 2018 (Restated - Note 3)							
Cost	2,339,613	47,996	76,873	12,868	10,709	39,996	2,528,055
Accumulated depreciation	(431,012)	(13,249)	(67,207)	(11,513)	(7,522)	—	(530,503)
Net book value	1,908,601	34,747	9,666	1,355	3,187	39,996	1,997,552
At December 31, 2019							
Cost	3,027,558	48,934	81,164	17,754	11,785	30,742	3,217,937
Accumulated depreciation	(518,744)	(14,861)	(70,937)	(12,061)	(9,007)	—	(625,610)
Net book value	2,508,814	34,073	10,227	5,693	2,778	30,742	2,592,327

On October 25, 2019, Chorus sold three Dash 8-400s and recorded a loss on the disposal of these aircraft of $3,407 in revenue and also recognized a foreign exchange gain of $1,320, recycled from other comprehensive income, related to windup of the related entities.

9 Goodwill and intangibles

Goodwill

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

	December 31, 2019	December 31, 2018
	$	$
Jazz	6,693	6,693
Voyageur	457	457
	7,150	7,150

The recoverable amount of the CGU's are determined using fair value less costs of disposal. In assessing the goodwill for impairment, Chorus uses a combination of discounted cash flow analysis and market approaches to determine the fair value of each of the CGU's. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment of goodwill was recognized during 2019 or 2018.

Intangibles

As a result of the purchase price allocation related to the acquisition of Voyageur on May 1, 2015, Chorus recorded customer relationships of $1,526 and trade name value of $1,681. The trade name is an indefinite life asset and was reviewed in the fourth quarter of 2019 and 2018 for impairment. The customer relationships are amortized on a straight line basis over five years. During the year ended December 31, 2019 $289 was recorded as amortization expense on the value of the customer relationships (2018 - $306).

10 Credit facilities

Operating credit

Chorus has a three-year committed operating credit facility with a maturity date of August 30, 2022. The facility provides Chorus and certain designated subsidiaries (collectively the "Credit Parties") with a committed limit of $75,000 with the opportunity to borrow up to a further $25,000 on a demand basis.

The facility bears interest for Canadian dollar advances at US dollar LIBOR plus 1.75 - 2.25% and for US dollar advances at LIBOR plus 2.75% - 3.00%. As at December 31, 2019, no amounts were drawn under the facility, however, Chorus has provided letters of credit totaling $9,650 that reduce the amount available under this facility.

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

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

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

Revolving credit facility for aircraft acquisition

Chorus has a US $300,000 committed, revolving credit facility to finance future aircraft acquisitions for its regional aircraft leasing business. The facility provides a revolving period of between 24 and 36 months (depending on the level of utilization in the first 24 months) and a 48-month term-out period. The facility also provides an uncommitted option to expand by US $100,000 to US $400,000.

The revolving portion of the facility ends in January 2021 with an option to convert to an amortizing term loan for a further four years maturing in January 2025. During the revolving period, amortization will be 5% annually. During the term-out period, the loans will amortize based on a 12 year straight-line full payout schedule, adjusted for the age of the aircraft at the time of addition to the facility. The facility may be prepaid in part or in full subject to a US $5,000 minimum prepayment.

The facility bears interest at US dollar LIBOR plus 2.75% during the revolving period and ranging from LIBOR plus 3.0% - 4.75% during the term-out period. As at December 31, 2019, $150,944 (US $116,218) was drawn on the facility.

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

The facility contains covenants that must be met on an ongoing basis. The financial covenants include a minimum amount of cash, tangible net worth, and a maximum debt-to-equity ratio in certain subsidiaries. As at December 31, 2019, Chorus was in compliance with these covenants.

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

11 Lease liabilities

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

	2019 $	2018 $ (Restated - Note 3)
No later than one year	6,797	7,990
Later than one year and no later than five years	11,284	16,779
Later than five years	945	2,024
Total minimum lease payments	19,026	26,793
Less: Amount representing interest (at weighted average rate of 7.23%)	2,710	4,163
Present value of net minimum lease liability payments	16,316	22,630
Less: Current portion	5,785	6,720
Lease liabilities	10,531	15,910

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

	2019 $	2018 $ (Restated - Note 3)
No later than one year	5,785	6,720
Later than one year and no later than five years	9,746	14,208
Later than five years	785	1,702
	16,316	20,928

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian dollars at $1.2988, which was the exchange rate in effect at the end of day closing on December 31, 2019 (2018 - $1.3642). Interest of $1,222 for the year ended December 31, 2019 (2018 - $1,481) 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:

	2019 $	2018 $ (Restated - Note 3)
Short-term leases(1)	8,265	8,146
Leases of low-value	732	601

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

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

12 Long-term debt

Long-term debt consists of the following:

	As at December 31, 2019 $	As at December 31, 2018 $
Secured long-term debt		
Amortizing term loans		
Secured by aircraft(1a)	1,389,286	1,227,716
Secured by engines(1b)	8,900	10,937
Revolving credit facility(1c)	150,944	—
Nova Scotia Jobs Fund loan - secured by office building(2)	8,000	9,000
6.00% Debentures(3)	200,000	200,000
	1,757,130	1,447,653
Unsecured long-term debt		
5.75% debentures(4)	86,250	—
	1,843,380	1,447,653
Less:		
Deferred financing fees	(18,131)	(5,452)
Accretion discount on convertible units	(2,119)	(2,472)
	1,823,130	1,439,729
Less: Current portion	164,554	142,652
	1,658,576	1,297,077

The current portion of long-term debt in the above table includes deferred financing fees of $2,916, for the year ended December 31, 2019 (December 31, 2018 - $299).

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in instalments, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.86%, maturing between June 2021 and December 2031, 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 CAD $1,946,606 (December 31, 2018 - CAD $1,623,929).

b) Secured by engines - Individual term loans, repayable in instalments, bearing fixed and floating interest at a weighted average rate of 4.40%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine. As at December 31, 2019, the net book value of property and equipment pledged as collateral under Dash 8-400 engine financing was CAD $12,410 (December 31, 2018 - CAD $13,019).

12 Long-term debt (continued)

c) Revolving credit facility - Individual term loans, repayable in instalments, bearing floating interest at a weighted average rate of 4.54%, amortizing to January 2025, each secured primarily by its respective aircraft and engines. Floating interest rates have been fixed via swap agreements on a portfolio basis related to these loans at a weighted average rate of 4.63%. As at December 31, 2019, the net book value of property and equipment pledged as collateral under these term loans was CAD $190,721 (December 31, 2018 - CAD $nil).

d) 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 JLI and any entity controlled directly or indirectly by either of them), Voyageur and various subsidiaries of CACC (which hold aircraft acquired for lease to customers outside of Chorus).

- The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreements with the lender also contain a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Dash 8-400s, Dash 8-400 spare engines, and CRJ900s. Furthermore, the loans may become immediately repayable if Jazz undergoes a change of control without the lender's consent (however, a change of control of Chorus is deemed not to be a change of control of Jazz for purposes of these financing agreements so long as Chorus' shares are publicly traded).

- Voyageur is required to maintain prescribed liquidity levels.

- Subsidiaries of CACC have entered into financing agreements in connection with the acquisition of aircraft. CACC, CACIL and/or 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.

As at December 31, 2019, Chorus (or as applicable, certain subsidiaries) was in compliance with all of these financial covenants.

(2) Nova Scotia Jobs Fund loan

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

For the year ended December 31, 2019, the total interest expense on amortizing term loans and the Nova Scotia Jobs Fund loan, inclusive of deferred financing expense amortization, was $60,509 (for the year ended December 31, 2018 - $46,004).

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

12 Long-term debt (continued)

(3) 6.00% Debentures

In December 2016, Chorus entered into a subscription agreement with Fairfax Financial Holdings Limited ("Fairfax") for an investment of $200,000 in Chorus through a private placement of convertible units. In March 2017, Chorus received the funds from the investment, with the net proceeds after deduction of expenses being approximately $195,972.

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

Each Warrant is exercisable by the holder thereof by paying the exercise price in cash or by tendering the 6.00% Debentures. Except in certain circumstances relating to a change of control of Chorus, the Warrants are exercisable up to and including the earlier of the redemption of the 6.00% Debentures by Chorus and the business day immediately preceding the maturity date of the 6.00% Debentures. The Warrants also include customary anti-dilution provisions.

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

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

The following table illustrates the allocation of the convertible units between debt and equity as at December 31, 2019. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity component of Convertible Units $	Total $
Balance - December 31, 2018	6.0	194,294	2,981	197,275
Accretion expense		803	—	803
Balance - December 31, 2019		**195,097**	**2,981**	**198,078**

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

For the year ended December 31, 2019, the total interest expense on the convertible units was $12,803 (for the year ended December 31, 2018 - $12,754) which included interest accretion of $803 (for the year ended December 31, 2018 - $754).

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

12 Long-term debt (continued)

(4) 5.75% Unsecured Debentures

In December 2019, Chorus issued $86,250 aggregate principal amount 5.75% Unsecured Debentures. The 5.75% Unsecured Debentures bear interest at a rate of 5.75% per annum, are unsecured, and mature on December 31, 2024.

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

Chorus received proceeds of $82,000 net of $4,250 in transaction costs associated with the offering. Transaction costs are capitalized and offset against the 5.75% Unsecured Debentures and amortized over the life of the 5.75% Unsecured Debentures using the effective interest rate.

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

For the year ended December 31, 2019, the total interest expense on the Unsecured Debentures was $334 (for the year ended December 31, 2018 - $nil) which included interest accretion of $49 (for the year ended December 31, 2018 - $nil).

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, 2019. The timing of future principal payments, excluding deferred financing fees, is as follows:

	$
No later than one year	167,470
Later than one year and no later than five years	1,057,394
Later than five years	618,516
	1,843,380

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

13 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, 2019 $	2018 $ (Restated - Note 3)
Earnings before income tax	158,260	104,774
Combined statutory tax rate	24.7 %	25.0 %
Income tax expense at the statutory tax rates	39,090	26,194
Recognition of previously unrecognized cumulative eligible capital	(6,485)	(7,429)
Net impact of capital items(1)	(8,163)	15,677
Non-deductible expenses	658	2,902
Income tax expense	25,100	37,344
Effective tax rate	15.9 %	35.6 %

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

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

13 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 $330,745 as at December 31, 2019, 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, 2019 and December 31, 2018, Chorus utilized a total of $23,510 ($6,485 tax effected) and $26,664 ($7,429 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, 2018	Recognized in Net Income	Recognized in OCI	December 31, 2019
	$	$	$	$
Deferred income tax liability				
Deferred partnership income	(6,046)	6,046	—	—
Pension and Other Employee Benefits	(5,435)	(2,941)	(5,768)	(14,144)
Property and equipment	(182,143)	(23,122)	888	(204,377)
Deferred income tax asset				
Loss carryforwards	19,983	1,093	—	21,076
Other long-term debt	5,674	2,240	—	7,914
Deferred income tax liability(1)	(167,967)	(16,684)	(4,880)	(189,531)

(1) Included in the deferred income tax liability are net deferred tax assets of $2,784 and net deferred tax liabilities of $192,315 which cannot be offset against each other and are shown separately.

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

14 Pension and Other Future Employee Benefits

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

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

The total expense for Chorus' defined contribution plans for which Chorus is obligated to make defined contributions only, for the year ended December 31, 2019 was $13,170 and for the year ended December 31, 2018 was $13,229.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2020 are $29,700. Expected contributions to the defined contribution pension plans for the year ending December 31, 2020 are $18,400. Expected benefit payments for Other Future Employee Benefits for the year ending December 31, 2020 are $2,366.

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

The most recent actuarial valuations of the defined benefit pension plans for funding purposes were as of January 1, 2019 and the next funding valuations will be as of January 1, 2020.

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

14 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	
	2019 $	**2018 $**	**2019 $**	**2018 $**
Change in benefit obligation				
Benefit obligation, beginning of year	465,670	455,644	19,811	21,005
Current service cost	22,609	23,773	1,798	1,967
Past service cost	—	1,185	—	—
Interest cost	18,106	16,848	676	639
Plan participants' contributions	5,664	5,642	—	—
Benefits paid	(19,881)	(18,548)	(1,699)	(1,311)
Gain from change in demographic assumptions	—	(2,453)	(738)	(448)
Loss (gain) from change in financial assumptions	65,530	(23,348)	1,006	(545)
Experience (gains) losses	(6,928)	6,927	150	(1,496)
Benefit obligation, end of year	550,770	465,670	21,004	19,811
Change in plan assets				
Fair market value of plan assets, beginning of year	490,969	470,831	—	—
Interest income	18,987	16,850	—	—
Employer contribution	33,956	32,055	1,699	1,311
Plan participants' contributions	5,664	5,642	—	—
Benefits paid	(19,881)	(18,548)	(1,699)	(1,311)
Administrative expenses	(500)	(500)	—	—
Return (loss) on plan assets (excluding interest income)	79,839	(15,361)	—	—
Fair market value of plan assets, end of year	609,034	490,969	—	—
Funded (unfunded) status, end of year	58,264	25,299	(21,004)	(19,811)

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

14 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, 2019 $	December 31, 2018 $
Assets		
Defined benefit pension	58,264	25,299
Liabilities		
Other Future Employee Benefits	21,004	19,811

Defined benefit pension plan assets are comprised as follows:

	December 31, 2019	December 31, 2018
Canadian Equity	1 %	1 %
Long Bonds	72 %	71 %
International Equity	17 %	18 %
Short-term and Other	3 %	3 %
Real Estate	7 %	7 %
	100 %	100 %

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

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

14 Pension and Other Future Employee Benefits (continued)

Weighted average assumptions used to determine the accrued benefit liability:

	Pension Benefits		Other Future Employee Benefits	
	2019	**2018**	**2019**	**2018**
Discount rate to determine accrued benefit obligations	3.1 %	3.8 %	2.9 %	3.6 %
Discount rate to determine the pension and benefit cost	3.8 %	3.5 %	3.6 %	3.2 %
Rate of compensation increase	4.5 %	4.5 %	2.0 %	2.0 %
Health care inflation - Select to determine accrued benefit obligation	n/a	n/a	5.5 %	5.5 %
Health care inflation - Select to determine pension and benefit cost	n/a	n/a	5.5 %	5.8 %

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

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

	2019	**2018**
Retiring at the end of the reporting period		
Male	21.8	21.7
Female	24.2	24.1
Retiring 20 years after the end of the reporting period		
Male	22.8	22.8
Female	25.1	25.1

14 Pension and Other Future Employee Benefits (continued)

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

Asset volatility

For a defined benefit pension plan, fluctuations in the value of plan assets are assessed in the context of fluctuations in the plan liabilities. The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields. As discount rates change, the value of the plan liabilities will fluctuate. If the growth of plan liabilities exceeds that of plan assets a deficit will result. The plan currently holds approximately 18% of assets in equities and 7% in Canadian Real Estate, which are expected to outperform corporate bonds in the long-term but which provide volatility and risk in the short-term. The plan's investment time horizon is a key input in deciding on the proportion of equities held.

Interest rate risk

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

Salary risk

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

Life expectancy

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

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

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

14 Pension and Other Future Employee Benefits (continued)

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

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 2.7%	Increase by 2.8%
Compensation increase rate	0.25%	Increase by 0.9%	Decrease by 0.9%
Life expectancy	1 year	Increase by 2.2%	Decrease by 2.3%

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

		Impact on defined benefit obligation	
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	Decrease by 1.8%	Increase by 1.8%
Compensation increase rate	0.25%	Increase by 1.2%	Decrease by 1.2%
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 11 and 7 years, respectively.

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

	Year 1 **$**	**Year 2** **$**	**3 - 5 years** **$**	**Next 5 years** **$**	**Total** **$**
Defined benefit pension	29,147	34,842	118,966	223,364	406,319
Other Future Employee Benefits	2,366	2,166	6,131	8,996	19,659
	31,513	37,008	125,097	232,360	425,978

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

14 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	
	2019 $	2018 $	2019 $	2018 $
Components of cost under IAS 19				
Amounts recognized in profit or loss:				
Current service cost	22,609	23,773	1,798	1,967
Past service cost	—	1,185	—	—
Interest cost on benefit obligation	18,106	16,848	676	639
Administrative expenses	500	500	—	—
Interest income on plan assets	(18,987)	(16,850)	—	—
Costs arising in the period	22,228	25,456	2,474	2,606
Remeasurements recognized in the consolidated statements of income	—	—	95	(2,197)
	22,228	25,456	2,569	409
Remeasurements recognized in other comprehensive income				
Gain on demographic assumptions	—	(2,453)	(162)	—
Loss (gain) from financial assumptions	65,530	(23,348)	485	—
Experience (gains) losses	(6,928)	6,927	—	(292)
(Return) loss on plan assets (excluding interest income)	(79,839)	15,361	—	—
(Gain) loss recognized in the statement of other comprehensive income for the period[1]	(21,237)	(3,513)	323	(292)

(1) There is no impact on the minimum funding requirements for pensions in 2019 or 2018.

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

14 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, 2019 $	2018 $
Net defined benefit pension and Other Future Employee Benefits expense recorded in the consolidated statements of income		
Wages, salaries and benefits	24,797	25,865
Employee benefit funding by Chorus		
Defined benefit pension	33,956	32,055
Other Future Employee Benefits	1,699	1,311
	35,655	33,366
Employee benefit funding greater than expense	10,858	7,501

15 Dividends

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

Chorus declared $76,315 in dividends for the year ended December 31, 2019 ($66,215 for the year ended December 31, 2018). Cash dividends paid for the year ended December 31, 2019 were $55,292 ($53,647 for the year ended December 31, 2018).

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

16 Capital stock

a) 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, 2017	125,410,001	32,412
Shares issued through public offering	13,028,000	108,498
Shares issued through equity dividend reinvestment plan	1,695,673	12,389
Shares issued through exercise of stock options	76,500	370
Shares issued and outstanding December 31, 2018	140,210,174	153,669
Shares issued through private offering	15,561,600	97,260
Shares issued through equity dividend reinvestment plan	2,679,810	21,154
Shares issued through exercise of stock options	1,984,069	9,674
Shares issued through long-term incentive plan	15,342	92
Shares issued and outstanding December 31, 2019	160,450,995	281,849

Private Placement

On February 4, 2019, Chorus issued 15,561,600 Class B Voting shares to Air Canada at a price of $6.25 per share by way of a private placement for total gross proceeds of $97,260. Upon closing this transaction, Chorus and Air Canada entered into an Investor Rights Agreement pursuant to which Air Canada acquired the right to nominate a member to Chorus' Board of Directors and agreed, for a period of 60 months and subject to limited exceptions, to hold its shares in Chorus, participate in the dividend reinvestment program and abide by customary standstill provisions. In addition, the Investor Rights Agreement grants Air Canada certain pro-rata pre-emptive rights in respect of the issuance of further shares by Chorus.

Dividend Reinvestment Program ("DRIP")

Chorus implemented a DRIP effective February 1, 2018, which provides shareholders who are resident in Canada the opportunity to purchase additional shares using cash dividends paid on shares enrolled in the DRIP. All shares purchased under the DRIP are newly issued by Chorus from treasury.

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

16 Capital stock (continued)

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

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

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

b) Earnings per Share

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

	Year ended December 31,	
	2019	**2018**
	$	**$**
		(Restated - Note 3)
Numerator		
Income	133,160	67,430
Denominator		
Weighted average number of shares	156,988,193	136,506,798
Weighted average dilutive shares	1,916,130	2,745,104
Weighted average number of diluted shares	158,904,323	139,251,902

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

16 Capital stock (continued)

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

	2019 Options	2019 Weighted Average Exercise Price Per Share $	2018 Options	2018 Weighted Average Exercise Price Per Share $
Beginning of year	2,854,000	5.37	2,930,500	5.34
Exercised	(1,984,069)	4.54	(76,500)	4.50
Outstanding options, end of year	869,931	7.25	2,854,000	5.37
Options exercisable, end of year	869,931	7.25	2,854,000	5.37

The weighted average Share price on the date of exercise for options exercised in 2019 was $7.30 (2018 - $7.35)

		2019 Outstanding Options			2019 Exercisable Options	
Exercise Price $	Expiry Date	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price Per Share $	Number of Exercisable Options	Weighted Average Exercise Price Per Share $
7.25	2020	869,931	0.69	7.25	869,931	7.25

		2018 Outstanding Options			2018 Exercisable Options	
Exercise Price $	Expiry Date	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price Per Share $	Number of Exercisable Options	Weighted Average Exercise Price Per Share $
4.50	2019	1,954,000	0.38	4.50	1,954,000	4.50
7.25	2020	900,000	1.71	7.25	900,000	7.25
		2,854,000	0.80	5.37	2,854,000	5.37

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

16 Capital stock (continued)

c) RSUs

Chorus awards RSUs to certain key employees under the LTIP plan and the Voyageur LTIP plan. In the fourth quarter of 2019 participants in the Voyageur plan were given the option, prior to the vesting of their RSUs, to receive cash or shares. As a result, the RSU obligation changed from an equity settled obligation to a cash settled obligation and was recognized in the appropriate liability accounts in the Statement of Financial Position.

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

Long-term incentive plan	**2019** **Number of units**	**2018** **Number of units**
RSUs outstanding beginning of the year	2,208,964	2,079,323
Total RSUs granted during the year	840,947	623,514
Dividend-equivalent units granted	149,179	129,270
RSUs redeemed during the year	(911,841)	(623,143)
RSUs forfeited during the year	(75,590)	—
RSUs outstanding	2,211,659	2,208,964
RSUs vested	1,904,711	1,953,657

The value of total RSUs and dividend-equivalent units granted during the year ended December 31, 2019 was $6,552 and $1,089, respectively (2018 - $5,405 and $973, respectively).

d) DSUs

Deferred share unit plan	**2019** **Number of units**	**2018** **Number of units**
DSUs outstanding beginning of the year	822,038	683,032
Total DSUs granted during the year	91,854	93,836
Dividend-equivalent units granted	58,024	45,170
DSUs redeemed during the year	—	—
DSUs outstanding	971,916	822,038

Fair value of total DSUs and dividend-equivalent units granted during the year ended December 31, 2019 was $704 and $425, respectively (2018 - $638 and $352, respectively).

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

16 Capital stock (continued)

e) Employee Share Purchase Plan

Eligible employees can participate in the ESOP under which employees can invest between 2% and 6% of their base salary for the purchase of shares on the secondary market. For 2019 contributions, Chorus will match 60% of contributions up to March 31, 2019 and 25% of contributions for the remainder of 2019 after 12 months of continuous participation in the program.

f) Stock-based Compensation Expense

	2019 $	**2018 $**
Stock Options	—	108
RSUs	11,240	(475)
DSUs	3,227	(1,955)
ESOP	3,902	4,927
	18,369	2,605

17 Future lease income under operating leases

Chorus has the following future minimum lease revenues under operating lease.

	December 31, 2019 $
2020	300,803
2021	304,360
2022	288,650
2023	270,735
2024	237,308
After five years	784,228

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.2988, which was the exchange rate in effect at the end of day closing on December 31, 2019 (2018 - $1.3642).

18 Financial instruments and fair values

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, asset backed commercial paper, total return swap, accounts payable and accrued liabilities, dividends payable, interest rate swaps, long-term debt and lease liabilities.

Fair value of financial instruments

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

The carrying amounts reported in the statement of financial position for cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, and dividends payable approximate fair values based on the immediate or short-term maturities of these financial instruments. Assets and liabilities, such as commodity taxes and deferred lease inducements, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- Asset Backed Commercial Paper ("ABCP")

  The ABCP is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis.

- Lease receivables

  At December 31, 2019, the lease receivables had a fair value of $14,313 versus a carrying value of $13,195. Chorus' annual cash flows have been discounted at the relevant market interest rates.

- Amortizing term loans

  At December 31, 2019, the term loans had a fair value of $1,561,459 versus a carrying value of $1,545,984. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

18 Financial instruments and fair values (continued)

- Convertible units

  At December 31, 2019, the convertible units had a fair value of $219,260 versus a carrying value of $195,097. The fair value was calculated by valuing warrants held within convertible units and discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

- 5.75% Unsecured debentures

  At December 31, 2019, the 5.75% Unsecured Debentures had a fair value of $88,061 versus a carrying value of $82,049, net of transaction costs associated with the offering. The fair value is based on quoted prices observed in active markets.

- Interest rate swaps

  At December 31, 2019, the interest rate swaps had a fair value and carrying value liability of $2,398. The fair value of interest rate swaps, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

- Total return swap

  At December 31, 2019, the total return swaps had a fair value and carrying value of $707. The fair value of total return swaps, classified as Level 2, is estimated using valuation models that utilize market based observable inputs.

Fair value hierarchy

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs.

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

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

18 Financial instruments and fair values (continued)

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

	2019 $	2018 $
Level 3		
Asset backed commercial paper	424	637

The following table presents the changes in level 3 instruments by class of asset for the years ended December 31, 2019 and 2018:

	2019 $	2018 $
Start of year	637	993
Payments received	(186)	(411)
Foreign exchange (loss) gain	(27)	55
	424	637

Financial risk factors

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

Interest rate risk

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

The majority of Chorus' debt 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. As at December 31, 2019, 97.3% of Chorus' debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 2.7% floating rate debt. Approximately 38.8% of the floating rate debt relates to aircraft for which Chorus has a variable lease rate with the underlying lessee and therefore has limited the exposure to the fluctuating rate of those loans.

Chorus has entered into interest rate swaps on certain of its amortizing term loans and warehouse revolving credit facility, converting a portion of its floating interest rate debt to fixed rates for the average duration of each loan and facility. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. All interest rate swaps are designated and effective as cash flow hedges. The fair value of interest rate swaps was $2,398 at December 31, 2019 and is recorded in other long-term liabilities. Changes in the fair value of interest rate swaps are recorded in other comprehensive income. During the year ended December 31, 2019, Chorus recognized other comprehensive loss of $3,273, net of tax (December 31, 2018 - comprehensive income of $2,052, net of tax).

18 Financial instruments and fair values (continued)

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

A 1% change in the interest rate would not have a material impact on net income for the year ended December 31, 2019.

Credit risk

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

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

Equity price risk

Chorus has equity price risk exposure to shares that it issues under its various stock-based compensation programs. To mitigate this risk Chorus implemented an equity hedging program in the fourth quarter of 2019, and entered into a total return swap. The total return swap is intended to economically hedge the variability of Chorus' share price affecting settlement under its various stock-based compensation programs. Chorus does not apply hedge accounting to the total return swap and as such, gains and losses arising from changes in its fair value are recognized in operating income in the period in which they arise. The fair value of total return swaps was $707 at December 31, 2019 and is recorded in other long-term assets. A corresponding gain of $707 has been recorded in operating income during the year ended December 31, 2019 (December 31, 2018 - $nil).

For additional information, please refer to note 3(h) and 3(i).

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

18 Financial instruments and fair values (continued)

With the exception of trade receivables, Chorus has no financial assets past due. As at December 31, 2019, the total amount of trade receivables was $61,730 (2018 - $63,814), net of allowance for doubtful accounts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The amount of this allowance was $nil (2018 - $1,458). At December 31, 2019, trade receivables of $59,318 (2018 - $54,335) were not past due or impaired; $2,412 (2018 - $10,937) were past due, but not impaired; and $nil (2018 - $nil) were impaired. The aging of the latter two categories is as follows:

	2019 $	2018 $
Past due but not impaired		
60 - 90 days	728	1,613
Over 90 days	1,684	9,324
	2,412	10,937

Approximately $50,138 (2018 - $51,437) of the total receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada.

Liquidity risk

Chorus' liquidity needs are primarily related to funding ongoing operations, planned capital expenditures including investment in aircraft acquisitions for purposes of business growth and diversification, principal and interest payments related to long-term borrowings and the payment of dividends.

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

As of December 31, 2019, Chorus had $87,167 in cash and a committed facility of up to $75,000 with the opportunity to borrow up to a further $25,000 on a demand basis. No amounts were drawn as of December 31, 2019, however, Chorus has provided letters of credit totaling $9,650 that reduce the amount available under this facility.

Chorus' cash balance will be used to fund the growth of its business, as well as for working capital requirements and general corporate purposes. Chorus is satisfied that it has sufficient liquidity to satisfy its requirements.

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

18 Financial instruments and fair values (continued)

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

	December 31, 2019			
	Less than 3 months $	3 months to 1 year $	2 - 5 years $	Over 5 years $
Principal				
Trade payables and accrued liabilities[(1)]	161,955	—	—	—
Lease liabilities	1,703	4,082	9,746	785
Long-term debt	39,846	127,624	1,057,394	618,516
Long-term incentive plan	6,549	—	9,533	—
	210,053	131,706	1,076,673	619,301
Interest				
Lease liabilities	286	726	1,538	160
Long-term debt	14,852	61,400	229,816	50,516
	15,138	62,126	231,354	50,676

	December 31, 2019			
	Less than 3 months $	3 months to 1 year $	2 - 5 years $	Over 5 years $
Total principal and interest				
Trade payables and accrued liabilities[(1)]	161,955	—	—	—
Lease liabilities	1,989	4,808	11,284	945
Long-term debt	54,698	189,024	1,287,210	669,032
Long-term incentive plan	6,549	—	9,533	—
	225,191	193,832	1,308,027	669,977

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

Currency risk

Chorus receives revenue and incurs expenses in U.S. 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 U.S. 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.

18 Financial instruments and fair values (continued)

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

The amount of US dollar denominated assets was $43,187 and US denominated liabilities was $683,268 at December 31, 2019. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $6,401. A 1¢ change in the Euro versus Canadian dollar exchange rate would not have a material impact on unrealized gains or losses for the period ended December 31, 2019.

19 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.

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.

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

20 Related parties

Compensation of key management

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

	Year ended December 31,	
	2019	2018
	$	$
Salaries and other benefits	6,577	7,227
Other post-employment benefits	4,247	1,424
Stock-based compensation	5,228	4,170
	16,052	12,821

21 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,	
	2019	2018
	$	$
		(Restated - Note 3)
Operating revenue		
Air Canada	1,140,827	1,181,184
Operating expenses		
Air Canada	3,210	3,329

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

21 Economic dependence (continued)

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

	As at	
	December 31, 2019 $	**December 31, 2018 $**
		(Restated - Note 3)
Accounts receivable		
Air Canada	50,138	51,437
Lease receivables		
Air Canada	13,195	19,055
Contract Asset		
Air Canada	4,996	1,666
Other long-term receivables		
Air Canada	1,360	1,767
Accounts payable and accrued liabilities		
Air Canada	1,957	3,975
Air Canada Capital Ltd.	8,372	8,793
Accrued Air Canada payable - Deferred lease inducements, prepaid aircraft rent and related fees		
Air Canada	1,112	2,754

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.

21 Economic dependence (continued)

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 “CPA Amendments”). The 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 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. The CPA Amendments became effective on a retroactive basis to January 1, 2019.

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

Chorus' exposure to variances between the controllable 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”). Controllable revenue rates are set annually, and Chorus and Air Canada complete an annual reconciliation and payment once the variance, if any, between the controllable revenue paid by Air Canada and Chorus' actual controllable costs is determined. 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 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 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.

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

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

Chorus incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

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

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

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

22 Statement of cash flows - supplementary information

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

	Year ended December 31, 2019 $	Year ended December 31, 2018 $ (Restated - Note 3)
Decrease in accounts receivable – trade and other	8,348	303
Increase in inventories	(6,152)	(4,148)
Decrease (increase) in prepaid expenses	336	(152)
(Increase) decrease in income tax receivable	(619)	1,564
Increase in other long-term assets	(15,215)	(6,823)
Decrease in accounts payable and accrued liabilities	(10,737)	(21,274)
Increase (decrease) in current portion long-term incentive plan liability	2,462	(1,757)
Increase in income tax payable	9,184	930
Increase (decrease) in other long-term liabilities	7,765	(8,253)
	(4,628)	(39,610)

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

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

22 Statement of cash flows - supplementary information (continued)

b) Other

	Year ended December 31, 2019 $	2018 $
Cash payments of interest	65,196	63,624
Cash receipts of interest	2,791	2,777
Cash payments (receipts) of tax	47	(361)

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

	Amortizing term loans $	Convertible units $	Unsecured Debentures $	Total long-term debt $	Lease liabilities $
Balance - December 31, 2018 (Restated - Note 3)	1,245,435	194,294	—	1,439,729	22,630
Long-term borrowings	562,737	—	82,000	644,737	—
Repayment of long-term borrowings	(196,571)	—	—	(196,571)	—
Lease liabilities	—	—	—	—	1,049
Repayment of lease liabilities	—	—	—	—	(6,554)
Total financing cash flow activities	366,166	—	82,000	448,166	(5,505)
Interest expense	—	803	—	803	—
Deferred financing fee amortization	2,466	—	49	2,515	—
Unrealized foreign exchange gain	(41,340)	—	—	(41,340)	(809)
Realized foreign exchange loss	10,584	—	—	10,584	—
Foreign currency adjustments	(37,327)	—	—	(37,327)	—
Total financing non-cash activities	(65,617)	803	49	(64,765)	(809)
Balance - December 31, 2019	1,545,984	195,097	82,049	1,823,130	16,316

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 (2019 - $26,690; December 31, 2018 - $20,081).

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

23 Additional information

a) Assets

	As at December 31, 2019 $	2018 $ (Restated - Note 3)
Accounts receivable		
Trade receivables	11,592	13,835
Allowance for doubtful accounts	—	(1,458)
Commodity taxes	2,073	1,728
Other receivables	4,863	11,555
	18,528	25,660
Trade amounts due from Air Canada and its subsidiary (refer to note 21 - Economic dependence)	50,138	51,437
	68,666	77,097
Inventories(1)		
Aircraft expendables	39,163	36,590
Used aircraft expendables and rotables for resale	20,109	16,649
Supplies	2,520	2,383
De-icing fluid	51	69
	61,843	55,691

(1) For the year ended December 31, 2019, the cost of aircraft expendables and supplies recognized as a maintenance expense was $39,962 (2018 - $38,730). For the year ended December 31, 2019 inventory write-downs to net realizable value of $2,159 were recognized as a maintenance expense (2018 - $1,969)

	As at December 31, 2019 $	2018 $ (Restated - Note 3)
Prepaid expenses and deposits		
Airport and navigation fees	4,834	5,395
Other	6,316	6,091
	11,150	11,486
Other long-term assets		
Contract asset	4,996	1,181
Accrued transaction fees, net of accumulated amortization	6,289	7,197
Accrued pension benefit asset ("SERP") (note 14)	11,579	8,009
Accrued defined pension benefit asset (note 14)	46,683	17,290
Long-term receivable	1,360	1,767
Asset backed commercial paper	424	637
Other	269	1,409
	71,600	37,490

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

23 Additional information (continued)

b) Liabilities

	As at December 31, 2019 $	2018 $ (Restated - Note 3)
Accounts payable and accrued liabilities		
Trade payables and accrued liabilities	151,626	160,527
Commodity taxes	15,148	14,998
	166,774	175,525
Trade payables and accrued liabilities due to Air Canada and its subsidiary (refer to note 21 - Economic dependence)	10,329	12,768
Accrued Air Canada payable - Deferred lease inducements, prepaid aircraft rent and related fees	472	755
	177,575	189,048
Other long-term liabilities		
Accrued Other Future Employee Benefits liability (note 14)	21,004	19,811
Long-term incentive plan	9,533	6,038
Accrued Air Canada payable - Deferred lease inducements, prepaid aircraft rent and related fees	640	1,999
DSU liability	7,863	4,636
Security deposits and maintenance reserves	61,176	25,179
Other	7,999	3,468
	108,215	61,131