chorus aviation inc.

Unaudited Interim Condensed Consolidated Financial Statements
March 31, 2015

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	March 31, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	108,118	114,578
Restricted cash	3,341	3,277
Accounts receivable – trade and other	57,161	66,229
Inventories	42,255	43,493
Prepaid expenses and deposits	18,604	16,757
Total current assets	229,479	244,334
Property and equipment	592,790	594,486
Goodwill	6,693	6,693
Other assets	40,289	36,417
	869,251	881,930
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	204,949	215,325
Current portion of obligations under finance leases	2,604	3,352
Current portion of long-term incentive plan	4,898	6,358
Current portion of long-term debt	38,925	35,376
Dividends payable	4,831	4,509
Income tax payable	3,214	—
Total current liabilities	259,421	264,920
Long-term debt	392,117	368,682
Deferred income tax (note 4)	43,327	45,974
Other long-term liabilities	87,262	72,294
	782,127	751,870
Equity	87,124	130,060
	869,251	881,930

Economic dependence (note 8)
Contingencies (note 7)
Subsequent event (note 10)

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Contributed surplus $	Equity component of convertible debentures $	Total $
Balance - December 31, 2013	5,116	(875,736)	1,047,104	9,497	185,981
Net income for the period	—	5,622	—	—	5,622
Other comprehensive loss for the period (net of tax)	—	(9,291)	—	—	(9,291)
Comprehensive loss for the period	—	(3,669)	—	—	(3,669)
Dividends	—	(13,786)	—	—	(13,786)
Redemption of convertible debentures	—	—	7,104	(7,104)	—
Expense related to stock-based compensation plans	—	—	407	—	407
Reclassification of stock-based compensation from equity settled to cash settled liability	—	—	(6,093)	—	(6,093)
Balance - March 31, 2014	5,116	(893,191)	1,048,522	2,393	162,840
Net income for the period	—	59,088	—	—	59,088
Other comprehensive loss for the period (net of tax)	—	(39,941)	—	—	(39,941)
Comprehensive income for the period	—	19,147	—	—	19,147
Dividends	—	(40,668)	—	—	(40,668)
Repurchase of shares under normal course issuer bid	(96)	—	(9,276)	—	(9,372)
Redemption of convertible debentures	—	—	2,393	(2,393)	—
Conversion of convertible debentures	9	—		—	9
Expense related to stock-based compensation plans	—	—	361	—	361
Reclassification of stock-based compensation from equity settled to cash settled liability	—	—	(2,257)	—	(2,257)
Balance - December 31, 2014	5,029	(914,712)	1,039,743	—	130,060
Net loss for the period	—	(24,756)	—	—	(24,756)
Other comprehensive loss for the period (net of tax)	—	(7,476)	—	—	(7,476)
Comprehensive loss for the period	—	(32,232)	—	—	(32,232)
Dividends	—	(13,870)	—	—	(13,870)
Expense related to stock-based compensation plans	—	—	148	—	148
Share issuance for stock-based compensation plans	3,018	—	—	—	3,018
Balance - March 31, 2015	8,047	(960,814)	1,039,891	—	87,124

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

Unaudited Consolidated Statements of (Loss) Income
For the three-month periods ended March 31, 2015 and 2014

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

	Three months ended March 31,	
	2015	**2014**
	$	**$**
Operating revenue (note 8)		
Passenger	371,521	410,821
Other	3,580	3,760
	375,101	414,581
Operating expenses (note 8)		
Salaries, wages and benefits	118,058	104,115
Aircraft fuel	63,222	95,461
Depreciation and amortization	12,139	16,087
Food, beverage and supplies	2,785	4,251
Aircraft maintenance materials, supplies and services	50,024	39,554
Airport and navigation fees	39,978	39,486
Aircraft rent	25,709	23,652
Terminal handling services	17,555	30,995
Other	29,779	29,748
	359,249	383,349
Operating income	15,852	31,232
Non-operating income (expenses)		
Interest revenue	337	321
Interest expense	(3,633)	(6,165)
Gain on disposal of property and equipment	3	16
Foreign exchange loss	(33,861)	(13,601)
	(37,154)	(19,429)
(Loss) income before income taxes	(21,302)	11,803
Income tax expense (note 4)		
Current income tax	(3,214)	(132)
Deferred income tax	(240)	(6,049)
	(3,454)	(6,181)
Net (loss) income	(24,756)	5,622
(Loss) earnings per share, basic	(0.21)	0.05
(Loss) earnings per share, diluted	(0.21)	0.05

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

chorus aviation inc.

Unaudited Consolidated Statements of Comprehensive Loss

For the three-month periods ended March 31, 2015 and 2014

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2015 $	Three months ended March 31, 2014 $
Net (loss) income	(24,756)	5,622
Other comprehensive loss		
Items that will not be subsequently reclassified to the statements of income		
Actuarial loss on employee benefit liabilities, net of tax expense of $2,887 (2014 - $3,492)	(7,476)	(9,291)
Comprehensive loss	(32,232)	(3,669)

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

chorus aviation inc.

Unaudited Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2015 and 2014

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2015 $	2014 $
Cash provided by (used in)		
Operating activities		
Net (loss) income	(24,756)	5,622
Charges (credits) to operations not involving cash		
Depreciation and amortization	12,139	16,087
Amortization of prepaid aircraft rent and related fees	596	596
Gain on disposal of property and equipment	(3)	(16)
Unrealized foreign exchange loss on long-term debt and finance leases	33,677	14,712
Realized foreign exchange loss on long-term debt	1,720	—
Effect of foreign exchange on cash and cash equivalents	(3,101)	—
Deferred income tax expense	240	6,049
Accretion of debt component of convertible debentures	—	1,512
Other	131	2,835
	20,643	47,397
Net changes in non-cash balances related to operations (note 9)	3,741	(1,662)
	24,384	45,735
Financing activities		
Repayment of obligations under finance leases	(1,028)	(837)
Repayment of long-term borrowings	(8,865)	(6,914)
Redemption of convertible debentures	—	(60,000)
Dividends	(13,548)	(13,786)
	(23,441)	(81,537)
Investing activities		
Additions to property and equipment	(10,443)	(6,700)
Proceeds on disposal of property and equipment	3	16
Decrease in restricted cash related to letters of credit	(64)	—
	(10,504)	(6,684)
Effect of foreign exchange on cash and cash equivalents	3,101	—
Net change in cash and cash equivalents during the periods	(6,460)	(42,486)
Cash and cash equivalents – Beginning of periods	114,578	159,901
Cash and cash equivalents – End of periods	108,118	117,415

The accompanying notes are an integral part of these unaudited interim condensed 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.

References to Chorus in the following notes to the unaudited interim condensed 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 is conducted through Jazz Aviation LP ("Jazz"). In Canada, Jazz operates the largest regional airline and the third largest airline, based on passengers carried. Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and trans-border network. Jazz and Air Canada are parties to a capacity purchase agreement, defined below, under which Air Canada purchases the greater part of Jazz's fleet capacity at pre-determined rates. Chorus is economically and commercially dependent upon Air Canada and one of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services and aircraft to Chorus. Chorus and Air Canada are parties to an Amended and Restated Capacity Purchase Agreement, effective January 1, 2006, as most recently amended on January 1, 2015 (collectively, the "CPA"). (Refer to note 8 - Economic Dependence for further details).

Effective January 1, 2015, Chorus and Air Canada entered into an amending agreement whereby the parties extended the term of the CPA to December 31, 2025, changed the means by which Air Canada pays Chorus for services delivered under the amended CPA, created a fleet renewal and transition program for the Covered Aircraft, and introduced certain new or revised terms and conditions related to: (i) the consequences of a severe economic downturn or event of force majeure, (ii) change of control, (iii) non-competition and (iv) other matters. With regard to payment for services delivered under the CPA as amended by the January 1, 2015 amendment, the parties have eliminated the mark-up on Controllable Costs, any future benchmarking process and the Compensating Mark-Up, and replaced them with a simplified combination of fixed fees per Covered Aircraft, conversion of some former Controllable Costs into Pass-through costs, compensation for Controllable Costs (other than crew labour costs) by payment of rates generally set on an annual basis, and Air Canada's assumption of direct responsibility for some significant costs. The majority of these changes occurred in the first quarter of 2015, with the exception of fuel, which is anticipated to occur in the fourth quarter of 2015.

Under the CPA, Chorus experiences greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' revenues do not fluctuate significantly with passenger load factors.

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

2 Basis of presentation

These financial statements are in compliance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying Chorus' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2014. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2014.

These financial statements have been authorized for issuance by the Board of Directors on May 13, 2015.

3 Significant accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2014. Refer to note 3 of Chorus' consolidated financial statements for the year ended December 31, 2014 for information on new accounting standards and amendments not yet effective.

Critical accounting estimates and judgements

Operating revenue

Under the CPA, Chorus and Air Canada are to re-set detailed rates applicable to the year ending December 31, 2015. The new rates will be retroactive to January 1, 2015. The negotiation of these rates has not been completed. As a result, Chorus used rates based both on contractually obligated costs and a mutually agreed upon interim escalation rate of 1.25%, plus the prior year's rate as the basis for estimating CPA operating revenues during the three-month period ended March 31, 2015. Once the new rates are established, Chorus and Air Canada will reconcile amounts already recorded to those rates now under negotiation. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. As such, Chorus' revenue is subject to judgement and estimate uncertainty. If the negotiated rates were to differ 1% from the current estimate being used, the amount of operating revenue recognized under the CPA in the quarter would be increased/decreased by approximately $1,800.

Depreciation of long-lived assets

During the three-month period ended March 31, 2015, Chorus reviewed the estimated useful economic lives and residual values of its owned aircraft and flight equipment. As a result, the expected estimated useful economic lives of certain of these assets have been extended and there was no significant impact related to the residual values. The effect of these changes was a reduction to depreciation expense for the three-month period ended March 31, 2015 of approximately $5,000. The impact of this was offset by flight equipment acquired in 2014 and 2015 and capitalized major maintenance overhauls, for a net reduction in depreciation period over period of approximately $3,900.

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

4 Income taxes

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

	Three months ended March 31,			
	2015 %	**2015 $**	**2014 %**	**2014 $**
Income tax expense at the Canadian statutory tax rate	31.0	(6,604)	25.2	2,974
Recognition of previously unrecognized cumulative eligible capital	10.8	(2,309)	(20.8)	(2,460)
Net impact of capital items (1)	(52.2)	11,113	40.4	4,774
Non-deductible expenses	(5.8)	1,254	7.6	893
Income tax expense	(16.2)	3,454	52.4	6,181

(1) The impact of capital items is mainly related to the foreign exchange fluctuations on the long-term debt associated with the purchase of the Q400 NextGen aircraft, of which the impact of the non-deductible (non-taxable) portion of any unrealized loss (gain) is considered in the calculation of income tax expense at the end of each period. To the extent that a capital loss is recorded for accounting purposes, the benefit of the deductible portion of the loss is recognized only to the extent that it is probable that the loss will be utilized. Income tax expense related to unrealized foreign exchange gains recorded in a period is reduced by previously unrecognized income tax assets related to unrealized foreign exchange losses. Chorus does not have a plan in place to utilize the deductible portion of the balance of the foreign exchange losses, accordingly no deferred tax asset has been recognized related to the foreign exchange losses.

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $465,283 as at March 31, 2015, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time that those benefits can be applied to reduce current tax expense. During the periods ended March 31, 2015 and March 31, 2014, Chorus utilized a total of $8,287 ($2,309 tax effected) and $9,007 ($2,460 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at March 31, 2015, Chorus had $55,719 (December 31, 2014 - $37,794) of allowable capital losses that have not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

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

5 Capital stock

Capital stock

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[1]	$
Shares issued and outstanding December 31, 2013	122,542,026	5,116
Shares issued[2]	1,713	9
Shares repurchased[3]	(2,290,800)	(96)
Shares issued and outstanding December 31, 2014	120,252,939	5,029
Shares issued[4]	522,264	3,018
Shares issued and outstanding March 31, 2015	120,775,203	8,047

1) References to "Shares" above are inclusive of Variable Voting Shares and Voting Shares. As at March 31, 2015, Chorus had 6,166,732 Variable Voting Shares (December 31, 2014 - 5,191,462) and 114,608,471 Voting Shares (December 31, 2014 - 115,061,477) issued and outstanding.
2) On June 20, 2014, $9 of convertible debenture principal was converted into 1,713 Shares.
3) On March 27, 2014, Chorus announced that it had received approval from the Toronto Stock Exchange to implement a normal course issuer bid to purchase up to 12,168,157 Shares during the period March 31, 2014 to no later than March 30, 2015. From April 1, 2014 to December 31, 2014, Chorus purchased and cancelled 2,290,800 Shares under its normal course issuer bid at an aggregate cost of $9,372. Share capital was reduced by $96 and the remaining $9,276 was accounted for as a reduction of contributed surplus. There were no shares purchased under the normal course issued bid during the period January 1, 2015 to March 31, 2015.
4) On February 24, 2015 Chorus issued 522,264 Voting Shares to satisfy the vesting of awards made under the long-term incentive plan. The shares were issued at market price at closing on the day of issuance, net of amounts, if applicable, Chorus paid in withholding taxes on behalf of the employees.

As at March 31, 2015 Chorus had 2,423,787 potentially dilutive shares related to stock-based compensation that were excluded from the calculation of dilutive loss per share as their effect would have been anti-dilutive.

Total compensation expense related to stock-based compensation (including the long-term incentive plan, the deferred share unit plan, stock options and the employee share ownership plan) for the three-month period ended March 31, 2015 was $6,583 (2014 - $1,459).

6 Financial instruments and fair values

Financial assets and liabilities have been classified into categories that determine their basis of 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. With the exception of the items noted below, all financial instruments have fair values that approximate carrying value due to their short-term nature.

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

The following financial instruments have fair values that differ from carrying value:

- Long-term debt

  At March 31, 2015, the fixed rate term loans had a fair value of $431,680 compared to a carrying value of $431,042. 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.

7 Contingencies

The CBCA and bylaws of Chorus provide that each Director will be entitled to indemnification from Chorus in respect of the exercise of the Director's power and the discharge of the Director's duties, provided that the Director acted honestly and in good faith with a view to the best interests of all shareholders, or in the case of a criminal or administrative action proceeding that is enforced by a monetary penalty, where the Director had reasonable grounds for believing that his or her conduct was lawful. Chorus and its subsidiaries have agreed to indemnify their respective directors and officers against certain costs and damages incurred by the directors and officers as a result of lawsuits or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. The directors and officers are also covered by directors' and officers' liability insurance. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

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

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

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

7 Contingencies (continued)

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

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

8 Economic dependence

For a detailed description of the most recent amendments to the CPA effective January 1, 2015, please refer to note 22 of Chorus' consolidated financial statements for the year ended December 31, 2014.

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

	Three months ended March 31,	
	2015	**2014**
	$	**$**
Operating revenue		
Air Canada	370,066	408,330
Operating expenses		
Air Canada	841	20,367
Air Canada Capital Ltd.	24,096	21,504

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

	March 31, 2015	**December 31, 2014**
	$	**$**
Accounts receivable		
Air Canada	45,926	51,894
Accounts payable and accrued liabilities		
Air Canada	40,494	54,773
Air Canada Capital Ltd.	13,816	8,419

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

8 Economic dependence (continued)

Other

Air Canada provides certain supplies, primarily fuel, from third parties to Chorus and subsequently collects payment from Chorus. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed. Air Canada also provides ground handling services.

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the CPA.

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

9 Statement of cash flows - supplementary information

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

	Three months ended March 31,	
	2015	**2014**
	$	**$**
Decrease in accounts receivable – trade and other	9,068	4,147
Decrease (increase) in inventories	1,238	(2,673)
(Increase) decrease in prepaid expenses	(1,847)	4,994
Increase in other assets	(3,825)	(4,947)
Decrease in accounts payable and accrued liabilities	(10,376)	(3,333)
Increase in current portion of long-term incentive plan	1,558	—
Increase in income tax payable	3,214	—
Increase in other long-term liabilities	4,711	150
	3,741	(1,662)

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

9 Statement of cash flows - supplementary information (continued)

b) Other

	Three months ended March 31,	
	2015	**2014**
	$	**$**
Cash payments of interest	3,436	4,005
Cash receipts of interest	354	378
Cash payments of tax	—	2,200
Cash and cash equivalents comprise:		
Cash	108,118	97,433
Term deposits and fixed income securities	—	19,982

10 Subsequent event

Acquisition of 519222 Ontario Limited

On May 1, 2015, Chorus successfully closed its acquisition of 519222 Ontario Limited, the holding company that owns Voyageur Airways Limited and its related companies, a leading provider of specialized aviation services with international operations. The acquisition was first announced on March 12, 2015. The purchase price, on a cash free/debt free basis, which represents a total enterprise value of approximately $80,000, subject to certain post-closing working capital and other adjustments, was funded with cash on hand of $47,000, and the issuance of 1,457,194 Voting Shares paid at closing. The balance of approximately $25,000 in deferred cash payments will be paid in separate installments over the 36 month period following the closing.

Chorus is in the process of completing the initial accounting for the business combination. Accordingly, the purchase price allocation has not been completed and other financial information has not been included.