chorus aviation inc.

Unaudited Interim Condensed Consolidated Financial Statements

March 31, 2018

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at	
	March 31, 2018 $	**December 31, 2017 $**
		(Restated - Note 3)
Assets		
Current assets		
Cash	151,815	71,249
Accounts receivable – trade and other	72,219	77,397
Inventories	51,378	51,543
Prepaid expenses and deposits	14,720	12,920
Income tax receivable	1,597	2,268
Total current assets	291,729	215,377
Restricted cash	17,756	20,383
Property and equipment (note 5)	1,804,822	1,742,674
Intangibles	2,317	2,392
Goodwill	7,150	7,150
Deferred income tax asset (note 9)	2,771	3,022
Other long-term assets	46,885	34,827
	2,173,430	2,025,825
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	193,877	210,809
Current portion of obligations under finance leases	2,866	2,762
Current portion of long-term incentive plan	5,515	5,844
Current portion of long-term debt (note 7)	125,397	118,729
Current portion of consideration payable	4,514	4,387
Dividends payable	5,559	5,014
Income tax payable	304	—
Total current liabilities	338,032	347,545
Obligations under finance leases	4,637	5,219
Long-term debt (note 7)	1,039,091	996,080
Convertible units (note 8)	193,724	193,540
Deferred income tax liability (note 9)	142,376	135,740
Other long-term liabilities	60,712	65,679
	1,778,572	1,743,803
Equity	394,858	282,022
	2,173,430	2,025,825

Contingencies (note 12)
Economic dependence (note 13)

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 units $	Total $
Balance - December 31, 2016	16,819	(919,201)	1,041,345	—	138,963
Adjustment on initial adoption of IFRS 15 (net of tax) (note 3)	—	2,912	—	—	2,912
Restated balance at January 1, 2017	16,819	(916,289)	1,041,345	—	141,875
Net income for the period	—	26,963	—	—	26,963
Other comprehensive income for the period (net of tax)	—	9,636	—	—	9,636
Comprehensive income for the period	—	36,599	—	—	36,599
Dividends	—	(14,661)	—	—	(14,661)
Issuance of convertible units	—	—	—	2,981	2,981
Expense related to stock-based compensation plans	—	—	229	—	229
Balance - March 31, 2017	16,819	(894,351)	1,041,574	2,981	167,023
Net income for the period	—	140,360	—	—	140,360
Other comprehensive income for the period (net of tax)	—	4,411	—	—	4,411
Comprehensive income for the period	—	144,771	—	—	144,771
Dividends	—	(44,617)	—	—	(44,617)
Stock options exercised	15,593	—	(1,068)	—	14,525
Expense related to stock-based compensation plans	—	—	320	—	320
Balance - December 31, 2017	32,412	(794,197)	1,040,826	2,981	282,022
Net income for the period	—	5,052	—	—	5,052
Other comprehensive income for the period (net of tax)	—	14,378	—	—	14,378
Comprehensive income for the period	—	19,430	—	—	19,430
Dividends	—	(15,617)	—	—	(15,617)
Issuance of shares, net of transaction costs and related tax	108,373	—	—	—	108,373
Dividend reinvestment plan	597	(31)	—	—	566
Expense related to stock-based compensation plans	—	—	84	—	84
Balance - March 31, 2018	141,382	(790,415)	1,040,910	2,981	394,858

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

chorus aviation inc.

Unaudited Consolidated Statements of Income
For the three-month periods ended March 31, 2018 and 2017

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

	Three months ended March 31, 2018 $	Three months ended March 31, 2017 $ (Restated - Note 3)
Operating revenue (note 13)		
Passenger	319,388	307,122
Other	28,162	12,639
	347,550	319,761
Operating expenses (note 13)		
Salaries, wages and benefits	117,487	114,220
Depreciation and amortization	29,655	22,049
Aircraft maintenance materials, supplies and services	53,770	44,289
Airport and navigation fees	39,573	39,393
Aircraft rent	24,247	24,729
Terminal handling services	6,258	9,329
Other	31,645	37,657
	302,635	291,666
Operating income	44,915	28,095
Non-operating (expenses) income		
Interest revenue	371	175
Interest expense	(14,176)	(8,189)
Gain (loss) on disposal of property and equipment	8	(187)
Foreign exchange (loss) gain	(20,000)	13,377
	(33,797)	5,176
Income before income taxes	11,118	33,271
Income tax expense (note 9)		
Current income tax	(448)	(641)
Deferred income tax	(5,618)	(5,667)
	(6,066)	(6,308)
Net income	5,052	26,963
Earnings per share, basic	0.04	0.22
Earnings per share, diluted	0.04	0.21

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

chorus aviation inc.

Unaudited Consolidated Statements of Comprehensive Income
For the three-month periods ended March 31, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2018	**2017**
	$	**$**
		(Restated - Note 3)
Net income	5,052	26,963
Other comprehensive income		
Items that will not be subsequently reclassified to the statements of income		
Actuarial income on employee benefit liabilities, net of tax expense of $2,353 (2017 - $3,672)	6,104	9,572
Cumulative translation adjustment	6,738	64
Change in fair value of financial assets, net of tax expense of $219	1,536	—
Comprehensive income	19,430	36,599

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, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2018 $	2017 $ (Restated - Note 3)
Cash provided by (used in)		
Operating activities		
Net income	5,052	26,963
Charges (credits) to operations not involving cash		
Depreciation and amortization	29,655	22,049
Amortization of prepaid aircraft rent and related fees	648	722
(Gain) loss on disposal of property and equipment	(8)	187
Unrealized foreign exchange loss (gain)	17,974	(10,415)
Realized foreign exchange loss	1,607	2,436
Effect of foreign exchange rate changes on cash	(1,095)	617
Deferred income tax expense	5,618	5,667
Other	391	254
	59,842	48,480
Net changes in non-cash balances related to operations (note 14)	(21,409)	(14,065)
	38,433	34,415
Financing activities		
Repayment of obligations under finance leases	(687)	(1,327)
Repayment of long-term borrowings	(28,817)	(18,948)
Convertible units, net of transaction costs	—	195,972
Long-term borrowings	45,387	2,189
Issuance of shares, net of transaction costs	106,959	—
Dividends	(14,505)	(14,663)
	108,337	163,223
Investing activities		
Additions to property and equipment	(71,310)	(9,743)
Proceeds on disposal of property and equipment	8	7
Increase in restricted cash	3,127	—
	(68,175)	(9,736)
Effect of foreign exchange rate changes on cash	1,971	(617)
Net change in cash during the periods	80,566	187,285
Cash – Beginning of periods	71,249	23,491
Cash – End of periods	151,815	210,776

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.

The accompanying unaudited interim condensed 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. Chorus and Air Canada are parties to an Amended and Restated Capacity Purchase Agreement dated January 1, 2015 (the "CPA"), under which Air Canada purchases substantially all of Jazz’s fleet capacity at pre-determined rates. Chorus is economically and commercially dependent upon Air Canada and one of its subsidiaries, as, in addition to being Chorus’ primary source of revenue, these entities currently provide significant services and aircraft to Chorus (refer to note 13 - Economic Dependence for further details). Jazz also operates charter flights for a variety of customers. Voyageur Airways provides specialized contract ACMI (aircraft, crew, maintenance and insurance) flying, such as medical, logistical and humanitarian flights, to international and domestic customers.

Chorus also conducts business in aircraft leasing and is growing this business. Chorus’ aircraft leasing portfolio includes a fleet of thirty four Q400s, five CRJ900s and five Dash 8-300s which are currently operated by Jazz under the CPA. In addition, through its subsidiary Chorus Aviation Capital Corp. ("CAC"), the aircraft leasing portfolio includes four CRJ1000s, six ATR 72-600s, five Q400s, two Embraer 195s, four Embraer 190s and two CRJ900s. Voyageur Airways Limited and North Bay Leasing Inc. also carry on a small amount of leasing activity.

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

Under the CPA, Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year, principally as a result of the high number of leisure travelers and their preference for travel during the summer months. Seasonality has little effect on the operations of Voyageur, CAC, and other lines of business carried on by Chorus. Chorus has substantial fixed costs that do not meaningfully fluctuate with demand in the short-term.

2 Basis of presentation

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, 2017. These financial statements should be read in conjunction with Chorus’ consolidated financial statements for the year ended December 31, 2017.

These financial statements have been authorized for issuance by the Board of Directors on May 3, 2018.

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

3 Significant accounting policies, judgements and estimation uncertainty

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, 2017.

Significant accounting judgements and estimation uncertainty

Operating revenue

Under the CPA, Chorus and Air Canada are to re-set certain rates applicable to the year ending December 31, 2018. The new rates will be retroactive to January 1, 2018. The negotiation of these rates has not been completed. As a result, Chorus used interim rates for certain Controllable Costs to estimate CPA operating revenues during the three-month period ended March 31, 2018. 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 for the three months ended March 31, 2018 would change by approximately $1,600.

New accounting standards adopted during the period

IFRS 15 - *Revenue from Contracts with Customers*

On January 1, 2018, Chorus adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15" or the "new standard") using the full retrospective method applied to contracts that were not completed as of January 1, 2017. Chorus also elected not to restate contracts that began and ended in the comparative period. IFRS 15 establishes a new control-based revenue recognition model and the adoption of the new standard required restatement of certain previously reported results, relating to the following accounting changes:

- A portion of maintenance fees earned under the CPA will be recognized using a different methodology than under the current standard. Based on more specific guidance related to the identification of the contract and performance obligations, revenue recognition related to these services will be accelerated.
- Some pass-through billings previously recognized as revenue have been recorded net of the related costs. This change relates to costs that Chorus incurs on behalf of Air Canada, for which Chorus is deemed to be acting as an agent.

Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 15 on Chorus' consolidated financial statements.

Consolidated Statements of Financial Position

January 1, 2017	As previously reported $	IFRS 15 adoption $		As restated $
Deferred income tax liability	126,099	1,124	*1*	127,223
Accounts payable and accrued liabilities	173,656	(4,036)	*1*	169,620
Equity	138,963	2,912	*1*	141,875

(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 Financial Position

December 31, 2017	As previously reported $	IFRS 15 adoption $		As restated $
Deferred income tax liability	134,240	1,500	*1*	135,740
Accounts payable and accrued liabilities	216,197	(5,388)	*1*	210,809
Equity	278,134	3,888	*1*	282,022

Consolidated Statements of Income

Three months ended March 31, 2017	As previously reported $	IFRS 15 adoption $		As restated $
Revenue	320,590	(829)	*1,2*	319,761
Other expense	38,807	(1,150)	*2*	37,657
Deferred income tax expense	(5,578)	(89)		(5,667)
Net income	26,731	232		26,963
Earnings per share, basic	0.22	—		0.22
Earnings per share, diluted	0.21	—		0.21

[1] Adjustments related to acceleration of revenue recognition on a portion of maintenance fees
[2] Adjustments related to pass-through revenue recorded net of related costs

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.

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

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

– A variable amount of Controllable 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;
– A fixed margin per Covered Aircraft and fixed 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 that are defined as Pass-Through Costs.

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

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

Under the CPA, Chorus incurs certain costs which subsequently are reimbursed by Air Canada. Consideration for Pass-Through Costs that relates 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 is 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.

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

IFRS 9 - *Financial Instruments*

The IASB issued IFRS 9 (2014) Financial Instruments ("IFRS 9 (2014)") effective for annual periods beginning on or after January 1, 2018. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment, additional changes relating to financial liabilities and new general hedge accounting requirements. Chorus has already early adopted all previous iterations of IFRS 9 (2009 through 2013). The adoption of this standard had no impact on the Chorus consolidated financial statements.

IFRS 2 - *Share-based Payment*

The IASB issued amendments to IFRS 2 Share-based Payment ("IFRS 2"), to clarify the classification and measurement of share-based payment transactions. The amendments provided for requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The adoption of this standard had no impact on the Chorus consolidated financial statements.

Accounting standards issued but not yet applied

The IASB issued IFRS 16 Leases ("IFRS 16") effective for annual periods beginning on or after January 1, 2019 with early adoption permitted for entities that have also adopted IFRS 15. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases ("IAS 17") and IFRIC 4 Determining whether an Arrangement contains a Lease. Chorus does not anticipate early adoption of the new standard.

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

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

4 Revenue from contracts with customers

Chorus' operations and main revenue streams are those described in the annual consolidated financial statements for the year ended December 31, 2017. The nature and effect of initially applying IFRS 15 is disclosed in Note 3.

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes $74,654 (2017- $57,678) in other sources of revenue relating to lease income, including any rights to use specified aircraft that have been identified as lease components embedded in the CPA and contract flying service agreements. Revenue is disaggregated primarily by nature and category in the underlying contract.

	Three months ended March 31,	
	2018	**2017**
	$	**$**
Controllable Revenue	169,809	153,744
Fixed Margin and Infrastructure Fee per Covered Aircraft	27,918	27,668
Incentive Revenue	3,913	4,771
CPA Pass-Through Revenue	50,517	54,176
Charter and other contract flying revenue	11,522	11,369
Passenger revenue	263,679	251,728
Other revenue	9,217	10,355
Revenue	**272,896**	**262,083**

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

5 Property and equipment

	Year ended December 31, 2017					Three months ended March 31, 2018			
	Opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the year $	Closing/ opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	1,155,833	612,122	(229)	(88,530)	1,679,196	88,547	—	(26,050)	1,741,693
Facilities	32,153	3,721	—	(1,946)	33,928	1,042	—	(505)	34,465
Equipment	12,024	5,136	—	(5,273)	11,887	1,123	—	(1,615)	11,395
Leaseholds	5,586	3,718	—	(1,876)	7,428	1,011	—	(688)	7,751
Flight equipment under finance leases	13,303	—	—	(5,298)	8,005	—	—	(717)	7,288
Deposits on aircraft/ engines	2,588	671	(1,029)	—	2,230	—	—	—	2,230
Total	1,221,487	625,368	(1,258)	(102,923)	1,742,674	91,723	—	(29,575)	1,804,822

	At December 31, 2017			At March 31, 2018		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	2,038,527	(359,331)	1,679,196	2,123,055	(381,362)	1,741,693
Facilities	45,121	(11,193)	33,928	46,164	(11,699)	34,465
Equipment	73,937	(62,050)	11,887	74,911	(63,516)	11,395
Leaseholds	33,035	(25,607)	7,428	34,199	(26,448)	7,751
Flight equipment under finance leases	14,337	(6,332)	8,005	14,337	(7,049)	7,288
Deposits on aircraft/engines	2,230	—	2,230	2,230	—	2,230
Total	2,207,187	(464,513)	1,742,674	2,294,896	(490,074)	1,804,822

The table above includes a non-cash transaction of $20,413 related to the foreign currency adjustments.

6 Credit facility

On August 30, 2017 Chorus entered into a three-year committed operating credit facility. The facility provides Chorus and certain designated subsidiaries (collectively, the "Credit Parties") with a committed limit of up to $50,000 with the opportunity to borrow up to a further $25,000 on a demand basis, subject in each case to a borrowing base calculation, based principally on the value of eligible accounts receivable, inventory and equipment. As at March 31, 2018, no amounts were drawn on the facility, however, Chorus has provided letters of credit totaling $6,458 that reduce the amount available under this facility. The indebtedness under this facility is secured by all present and after-acquired personal property of the Credit Parties, excluding aircraft, engines and certain real estate property. It contains customary representations, warranties and covenants, including maximum total leverage and fixed charge covenants.

Under the terms of this credit facility, Chorus is required to maintain a maximum ratio of total debt to EBITDA, as well as a minimum ratio of EBITDA to fixed charges. At March 31, 2018, Chorus was in compliance with these covenants.

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

7 Long-term debt

Long-term debt consists of the following:

	As at	
	March 31, 2018 $	**December 31, 2017 $**
Amortizing term loans		
Secured by aircraft[1a]	1,143,065	1,093,350
Secured by engines[1b]	11,423	11,459
Nova Scotia Jobs Fund loan - secured by office building[2]	10,000	10,000
	1,164,488	1,114,809
Less: Current portion	125,397	118,729
	1,039,091	996,080

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in monthly, quarterly, or semi-annual instalments, ranging from $88 to $1,309, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.844%, maturing between April 2020 and December 2028, each secured primarily by its respective aircraft and engines. These instalments are payable in USD or Euro and have been converted to CAD at period end foreign exchange rates of 1.2894 USD to CAD and 1.5867 Euro to CAD. As at March 31, 2018, the total payable under these term loans in US dollars and Euros was US$800,717 and €69,736, respectively (December 31, 2017 - US $787,313 and €71,388, respectively), and the net book value of property and equipment pledged as collateral under these term loans was CAD$1,470,715 (December 31, 2017 - CAD$1,429,300).

b) Secured by engines - Individual term loans, repayable in quarterly instalments ranging from $68 to $120, including fixed interest at a weighted average rate of 4.396%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine. These instalments are payable in USD and have been converted to CAD at a period end foreign exchange rate of 1.2894 USD to CAD. As at March 31, 2018, the total engine financing payable in US dollars was US$8,859 (December 31, 2017 - US$9,134) and the net book value of property and equipment pledged as collateral under Q400 engine financing was CAD$13,490 (December 31, 2017 - CAD$13,647).

c) Chorus' debt agreements contain covenants, which if breached and not waived by the relevant lenders, could result in the acceleration of indebtedness. Since some of these 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 its debt agreements, this could have a material adverse effect on Chorus' financial position, cash flows and prospects.

As at March 31, 2018, Chorus (or as applicable, certain subsidiaries) were in compliance with all these covenants. The details of these covenants are as follows:

Amortizing term loans totaling $858,936, as at March 31, 2018, have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing and any entity controlled directly or indirectly by either of them), the "North Bay Leasing Group" (comprising North Bay Leasing, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts), and various subsidiaries of Chorus Aviation Capital (which hold aircraft acquired for lease to customers outside the Chorus group and the CPA).

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

7 Long-term debt (continued)

- The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreement with the lender also contains a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Q400s, Q400 spare engines, and CRJ900s.

- The North Bay Leasing Group is required to maintain prescribed liquidity levels, a minimum lease coverage ratio, and a minimum EBITDAR level, measured annually prior to the payment of consideration payable to the former owner of Voyageur. Also, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts have each provided full recourse guarantees to the lender, and Chorus Aviation Holdings II Inc. has pledged the shares of North Bay Leasing Inc. to the lender.

- On each of June 29, 2017 and March 21, 2018, certain subsidiaries of Chorus Aviation Capital entered into financing agreements with the lender in connection with the acquisition of six ATR 72-600s and two CRJ900s, respectively. Both Chorus Aviation Capital and Jazz Leasing have guaranteed the indebtedness under these agreements to the lender. Under the terms of the financing agreements, Chorus Aviation Capital is required to maintain a maximum consolidated total debt to tangible net worth ratio and is also prohibited from declaring or paying dividends or other distributions unless its consolidated tangible net worth is equal to at least the prescribed minimum. The indebtedness under these agreements is cross-defaulted to any payment default by Jazz Leasing under its other debt facilities with the lender. It is also cross-defaulted and cross-collateralized to any other debt of Chorus Aviation Capital or its subsidiaries supported by the lender, except debt in respect of which such lender does not have recourse beyond the borrower entity.

Amortizing term loans totaling $32,729 as at March 31, 2018 have covenants which apply directly to Chorus Aviation Leasing Inc., a subsidiary of Chorus Aviation Inc. This entity is required to maintain a minimum consolidated tangible net worth. At March 31, 2018, Chorus Aviation Leasing Inc. was in compliance with this covenant.

(2) Nova Scotia Jobs Fund loan

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

For the three months ended March 31, 2018, the total interest expense on long-term debt was $10,813 (for the three months ended March 31, 2017 - $7,747).

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.2894, which was the exchange rate in effect at the end of day closing March 31, 2018.

	$
No later than one year	125,397
Later than one year and no later than five years	575,350
Later than five years	463,741
	1,164,488

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

8 Convertible units

In December 2016, Chorus entered into a subscription agreement with Fairfax Financial Holdings Limited ("Fairfax") for an investment of $200,000 in Chorus through a private placement of convertible debt units (the "convertible units"). In March 2017, Chorus received gross proceeds of $200,000 upon issuance of the convertible units. The net proceeds received by Chorus were $195,972 after deduction of the expenses associated with the placement.

Each convertible unit comprises a $1.0 senior debenture (the "Debenture") and 121.21212121 warrants (the "Warrants"). The Debentures bear interest at a rate of 6.00% per annum, are secured by certain Dash 8-100s and Dash 8-300s and certain real estate property owned by Chorus (the "Collateral Security"), mature on December 31, 2024 (the "Maturity Date") and are redeemable at par at any time after December 31, 2021, except in the event of the satisfaction of certain conditions after a change of control (in which case Chorus may be required to make an offer to repurchase all of the Debentures) or the exercise of the Warrants. The Collateral Security will be released in the event that Fairfax sells or otherwise disposes of any of the convertible units.

Each Warrant is exercisable by the holder thereof to acquire one share at an exercise price equal to $8.25 per share payable in cash or by tendering the Debentures. Except in certain circumstances relating to a change of control of Chorus, the Warrants may only be exercised after December 31, 2019 up to and including the earlier of the redemption of the Debentures by Chorus and the business day immediately preceding the Maturity Date. The Warrants also include customary anti-dilution provisions.

Assuming the exercise of all of the Warrants, Fairfax, through its subsidiaries, would beneficially own 24,242,424 of the issued and outstanding shares of Chorus.

The Debentures are listed on the Toronto Stock Exchange under the symbol CHR.DB. Fairfax has agreed to hold the convertible units until at least December 31, 2019 after which time it may dispose of all or part of the convertible units.

The following table illustrates the allocation of the convertible units between debt and equity as at March 31, 2018. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity component of convertible units $	Total $
	6.0	192,991	2,981	195,972
Accretion expense		549	—	549
Balance - December 31, 2017		193,540	2,981	196,521
Accretion expense		184	—	184
Balance - March 31, 2018		**193,724**	**2,981**	**196,705**

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 three months ended March 31, 2018, the total interest expense on the convertible units was $3,159 (for the three months ended March 31, 2017 - $250) which included interest accretion of $184 (for the three months ended March 31, 2017 - $12).

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

9 Income taxes

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

	Three months ended March 31	
	2018	**2017**
	$	**$**
Earnings before income tax	11,118	33,271
Combined statutory tax rate	21.7%	28.7%
Income tax expense at the statutory tax rates	2,413	9,456
Recognition of previously unrecognized cumulative eligible capital	(1,855)	(1,987)
Net impact of capital items(1)	5,293	(2,355)
Non-deductible expenses	215	1,194
Income tax expense	6,066	6,308
Effective tax rate	54.6%	19.0%

(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.

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $374,253 as at March 31, 2018, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three months ended March 31, 2018 and March 31, 2017, Chorus utilized a total of $6,666 ($1,855 tax effected) and $7,168 ($1,987 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

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

10 Capital stock

a) Authorized:

An unlimited number of Variable Voting Shares, no par value ("Variable Voting Shares"); and

An unlimited number of Voting Shares, no par value ("Voting Shares")

Issued and outstanding:

	Number of Shares	$
Shares issued and outstanding December 31, 2016	122,182,168	16,819
Shares issued through exercise of stock options	3,227,833	15,593
Shares issued and outstanding December 31, 2017	125,410,001	32,412
Shares issued through public offering	13,028,000	108,373
Shares issued through equity dividend reinvestment plan	68,490	597
Shares issued and outstanding March 31, 2018	138,506,491	141,382

Public Offering

On March 13, 2018, Chorus announced a public offering of 11,628,000 common shares at an offering price of $8.60 per share. In addition, Chorus issued an additional 1,400,000 shares in connection with the partial exercise of the underwriters' over-allotment option. Gross proceeds of the offering were $112,041 ($108,373 net of transaction costs and related tax).

The net proceeds of the offering will be used to fund the growth of Chorus Aviation Capital, Chorus' aircraft leasing business, including the acquisition of aircraft intended for or currently on lease to third parties, as well as for working capital requirements and other general corporate purposes.

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, and the proceeds received by Chorus are used for general corporate purposes.

The price for shares purchased under the DRIP is equal to 100% of the average market price; however, Chorus may, from time to time, offer a discount of up to 5% from the average market price for shares purchased under the DRIP. Currently, Chorus offers a 4% discount and reserves the right to change or eliminate the discount at any time.

During the month of March 2018, 68,490 shares were issued under this plan for $597.

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

10 Capital stock (continued)

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

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

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

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.

	For the three months ended March 31,	
	2018	**2017**
	$	**$**
Numerator		
Income	5,052	26,963
Denominator		
Weighted average number of shares	128,017,738	122,182,168
Weighted average dilutive shares	4,317,813	3,241,702
Weighted average number of diluted shares	132,335,551	125,423,870

11 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 item noted below, all financial instruments have fair value that approximate carrying value due to their short-term nature.

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

The following financial instruments have a fair value that differs from carrying value:

- Long-term debt

  At March 31, 2018, long-term debt had a fair value of $1,120,160 compared to a carrying value of $1,164,488. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- Convertible units

  At March 31, 2018, the convertible units had a fair value of $207,129 versus a book value of $193,724. The fair value was calculated by discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

Chorus has entered into interest rate swaps on four of its term loans to convert floating interest rates to fixed rates for the duration of each loan. 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 these interest rate swaps, amounted to $1,755 at March 31, 2018, has been recognized in other comprehensive income for the three months ended March 31, 2017 - $nil).

12 Contingencies

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

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

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

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

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

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

13 Economic dependence

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, 2018 $	Three months ended March 31, 2017 $
Operating revenue		
Air Canada	308,372	295,872
Operating expenses		
Air Canada	1,373	1,336
Air Canada Capital Ltd.	16,425	18,883

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

	As at March 31, 2018 $	As at December 31, 2017 $
Accounts receivable		
Air Canada	43,032	40,655
Accounts payable and accrued liabilities		
Air Canada	3,006	2,021
Air Canada Capital Ltd.	13,017	8,086

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

14 Statement of cash flows - supplementary information

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

	Three months ended March 31, 2018 $	2017 $
Decrease (increase) in accounts receivable – trade and other	5,185	(4,360)
Decrease (increase) in inventories	165	(1,307)
Increase in prepaid expenses	(1,800)	(9,422)
Decrease in income tax receivable	671	535
(Increase) decrease in other long-term assets	(2,513)	1,007
(Decrease) increase in accounts payable and accrued liabilities	(17,861)	7,495
Decrease in current portion of long-term incentive plan	(329)	(2,388)
Increase (decrease) in income tax payable	304	(2,743)
Decrease in other long-term liabilities	(5,231)	(2,882)
	(21,409)	(14,065)

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

b) Other

	Three months ended March 31, 2018 $	2017 $
Cash payments of interest	16,441	7,254
Cash receipts of interest	338	144
Cash (receipts) payments of tax	(526)	2,849

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

14 Statement of cash flows - supplementary information (continued)

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

	Obligations under Finance Leases $	Long-term Borrowings $	Consideration Payable $	Convertible Units $
Balance - December 31, 2017	7,981	1,114,809	4,387	193,540
Long-term borrowings	—	45,387	—	—
Repayment of long-term borrowings	—	(28,817)	—	—
Repayment of obligations under finance leases	(687)	—	—	—
Total financing cash flow activities	(687)	16,570	—	—
Interest expense	—	—	127	184
Unrealized foreign exchange loss	209	17,784	—	—
Realized foreign exchange loss	—	1,607	—	—
Foreign currency adjustments	—	13,718	—	—
Total financing non-cash activities	209	33,109	127	184
Balance - March 31, 2018	7,503	1,164,488	4,514	193,724