



Unaudited Interim Condensed Consolidated Financial Statements  
**September 30, 2015**

## Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	September 30, 2015 \$	December 31, 2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	50,405	114,578
Restricted cash	1,818	3,277
Accounts receivable – trade and other	91,510	66,229
Inventories	48,152	43,493
Prepaid expenses and deposits	19,255	16,757
<b>Total current assets</b>	<b>211,140</b>	<b>244,334</b>
<b>Property and equipment</b> (note 5)	<b>719,460</b>	<b>594,486</b>
<b>Intangibles</b> (note 4)	<b>3,080</b>	<b>—</b>
<b>Goodwill</b>	<b>7,150</b>	<b>6,693</b>
<b>Other assets</b>	<b>34,670</b>	<b>36,417</b>
	<b>975,500</b>	<b>881,930</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	217,806	215,325
Current portion of obligations under finance leases (note 9)	1,804	3,352
Current portion of long-term incentive plan	4,813	6,358
Current portion of long-term debt (note 10)	44,341	35,376
Current portion of consideration payable (note 4)	11,319	—
Dividends payable	4,889	4,509
Income tax payable	9,095	—
<b>Total current liabilities</b>	<b>294,067</b>	<b>264,920</b>
<b>Obligations under finance leases</b> (note 9)	<b>5,888</b>	<b>—</b>
<b>Long-term debt</b> (note 10)	<b>412,471</b>	<b>368,682</b>
<b>Consideration payable</b> (note 4)	<b>18,590</b>	<b>—</b>
<b>Deferred income tax</b> (note 7)	<b>69,692</b>	<b>45,974</b>
<b>Other long-term liabilities</b>	<b>65,927</b>	<b>72,294</b>
	<b>866,635</b>	<b>751,870</b>
<b>Equity</b>	<b>108,865</b>	<b>130,060</b>
	<b>975,500</b>	<b>881,930</b>
<b>Economic dependence</b> (note 13)		
<b>Contingencies</b> (note 12)		
<b>Subsequent event</b> (note 15)		

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 \$
<b>Balance - December 31, 2013</b>	5,116	(875,736)	1,047,104	9,497	185,981
Net income for the period	—	53,372	—	—	53,372
Other comprehensive loss for the period (net of tax)	—	(18,254)	—	—	(18,254)
Comprehensive income for the period	—	35,118	—	—	35,118
Dividends	—	(40,927)	—	—	(40,927)
Repurchase of shares under normal course issuer bid	(86)	—	(8,271)	—	(8,357)
Redemption of convertible debentures	—	—	9,497	(9,497)	—
Conversion of convertible debentures	9	—	—	—	9
Expense related to stock-based compensation plans	—	—	621	—	621
Reclassification of stock-based compensation from equity settled to cash settled liability	—	—	(6,093)	—	(6,093)
<b>Balance - September 30, 2014</b>	5,039	(881,545)	1,042,858	—	166,352
Net income for the period	—	11,338	—	—	11,338
Other comprehensive loss for the period (net of tax)	—	(30,978)	—	—	(30,978)
Comprehensive loss for the period	—	(19,640)	—	—	(19,640)
Dividends	—	(13,527)	—	—	(13,527)
Repurchase of shares under normal course issuer bid	(10)	—	(1,005)	—	(1,015)
Expense related to stock-based compensation plans	—	—	147	—	147
Reclassification of stock-based compensation from equity settled to cash settled liability	—	—	(2,257)	—	(2,257)
<b>Balance - December 31, 2014</b>	5,029	(914,712)	1,039,743	—	130,060
Net income for the period	—	12,975	—	—	12,975
Other comprehensive loss for the period (net of tax)	—	(3,319)	—	—	(3,319)
Comprehensive income for the period	—	9,656	—	—	9,656
Dividends	—	(43,147)	—	—	(43,147)
Expense related to stock-based compensation plans	—	—	506	—	506
Share issuance for stock-based compensation plans	3,018	—	—	—	3,018
Share issuance for acquisition of 519222 Ontario Limited (note 4)	8,772	—	—	—	8,772
<b>Balance - September 30, 2015</b>	16,819	(948,203)	1,040,249	—	108,865

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

Unaudited Consolidated Statements of Income  
For the three and nine-month periods ended September 30, 2015 and 2014

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Operating revenue</b> (note 13)				
Passenger	403,262	429,979	1,167,810	1,255,100
Other	8,895	2,597	19,503	9,893
	412,157	432,576	1,187,313	1,264,993
<b>Operating expenses</b> (note 13)				
Salaries, wages and benefits	103,669	103,636	328,322	311,170
Aircraft fuel	70,556	100,288	205,775	292,400
Depreciation and amortization	15,943	16,736	42,098	49,218
Food, beverage and supplies	3,233	4,819	9,105	13,443
Aircraft maintenance materials, supplies and services	52,793	42,822	153,838	124,265
Airport and navigation fees	47,162	45,271	130,828	127,060
Aircraft rent	26,865	22,881	77,917	69,534
Terminal handling services	12,851	24,879	42,973	80,200
Other	29,949	31,827	93,421	92,786
	363,021	393,159	1,084,277	1,160,076
<b>Operating income</b>	49,136	39,417	103,036	104,917
<b>Non-operating income (expenses)</b>				
Interest revenue	144	264	755	801
Interest expense	(3,939)	(3,342)	(11,327)	(13,491)
Gain on disposal of property and equipment	22	120	182	207
Foreign exchange loss	(27,529)	(16,036)	(55,719)	(17,820)
Other	—	—	500	500
	(31,302)	(18,994)	(65,609)	(29,803)
<b>Income before income taxes</b>	17,834	20,423	37,427	75,114
<b>Income tax expense</b> (note 7)				
Current income tax	(4,140)	(121)	(9,733)	(667)
Deferred income tax	(7,374)	(9,050)	(14,719)	(21,075)
	(11,514)	(9,171)	(24,452)	(21,742)
<b>Net income</b>	6,320	11,252	12,975	53,372
<b>Earnings per share, basic</b>	0.05	0.09	0.11	0.44
<b>Earnings per share, diluted</b>	0.05	0.09	0.10	0.44

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



Unaudited Consolidated Statements of Comprehensive Income  
For the three and nine-month periods ended September 30, 2015 and 2014

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2015 \$	2014 \$	2015 \$	2014 \$
<b>Net income</b>	6,320	11,252	12,975	53,372
<b>Other comprehensive loss</b>				
<i>Items that will not be subsequently reclassified to the statements of income</i>				
Actuarial loss on employee benefit liabilities, net of tax recovery of \$3,859 and \$1,282 (2014 - \$1,116 and \$6,864)	(9,993)	(2,965)	(3,319)	(18,254)
<b>Comprehensive (loss) income</b>	<b>(3,673)</b>	<b>8,287</b>	<b>9,656</b>	<b>35,118</b>

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

Unaudited Consolidated Statements of Cash Flows  
For the three and nine-month periods ended September 30, 2015 and 2014

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income	6,320	11,252	12,975	53,372
Charges (credits) to operations not involving cash				
Depreciation and amortization	15,943	16,736	42,098	49,218
Amortization of prepaid aircraft rent and related fees	1,373	595	3,887	1,786
Gain on disposal of property and equipment	(22)	(120)	(182)	(207)
Unrealized foreign exchange loss on long-term debt and finance leases	25,123	17,752	51,223	18,163
Realized foreign exchange loss on long-term debt	2,221	—	7,071	—
Effect of foreign exchange on cash and cash equivalents	(1,376)	(3,270)	(3,748)	(3,270)
Deferred income tax expense	7,374	9,050	14,719	21,075
Accretion of debt component of convertible debentures	—	—	—	1,675
Other	(1,005)	168	(2,010)	5,286
	55,951	52,163	126,033	147,098
Net changes in non-cash balances related to operations (note 14)	(8,267)	10,177	(19,618)	7,749
	47,684	62,340	106,415	154,847
<b>Financing activities</b>				
Repayment of obligations under finance leases	(1,079)	(868)	(3,157)	(2,557)
Repayment of long-term borrowings	(9,485)	(6,968)	(28,292)	(21,683)
Long-term borrowings	23,725	—	23,725	—
Redemption of convertible debentures	—	—	—	(80,201)
Restricted cash related to aircraft financing	—	—	5,930	—
Repurchase of shares under normal course issuer bid	—	(1,063)	—	(8,357)
Dividends	(14,667)	(22,622)	(42,765)	(50,194)
	(1,506)	(31,521)	(44,559)	(162,992)
<b>Investing activities</b>				
Business acquisition, net of cash acquired	—	—	(45,474)	—
Additions to property and equipment	(52,362)	(5,116)	(85,944)	(19,722)
Proceeds on disposal of property and equipment	22	120	182	207
Decrease in restricted cash related to letters of credit	726	—	1,459	—
	(51,614)	(4,996)	(129,777)	(19,515)
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	1,376	3,270	3,748	3,270
<b>Net change in cash and cash equivalents during the periods</b>	(4,060)	29,093	(64,173)	(24,390)
<b>Cash and cash equivalents – Beginning of periods</b>	54,465	106,418	114,578	159,901
<b>Cash and cash equivalents – End of periods</b>	50,405	135,511	50,405	135,511

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

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the period ended September 30, 2015

(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 13 - 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.

On May 1, 2015, Chorus successfully completed its acquisition of 519222 Ontario Limited, the holding company that owns Voyageur Airways Limited and its related companies (collectively "Voyageur"), a leading provider of specialized aviation services with international operations (refer to note 4 - Business Acquisition).

Under the CPA, Chorus has historically experienced greater demand for its services under the CPA 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. The operations of Voyageur are not generally affected by seasonality. Seasonality also has little effect on the other lines of business operated by Chorus. The Company 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.

**Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the period ended September 30, 2015**

(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 November 12, 2015.

**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, 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.

a) 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.

b) 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 unsupported, the change in the useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.



## Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the period ended September 30, 2015

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

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

#### Significant accounting judgements and estimation uncertainty

##### *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 nine-month period ended September 30, 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 for the nine months ended September 30, 2015 would change by approximately \$5,300.

##### *Depreciation of long-lived assets*

In the first quarter of 2015, Chorus reviewed the estimated useful economic lives and residual value 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 value. The effect of these changes was a reduction to depreciation expense for the three and nine months ended September 30, 2015 of approximately \$7,000 and \$17,800 respectively. The impact of this change was offset by flight equipment acquired in 2014 and 2015 and capitalized major maintenance overhauls, for a net change in depreciation period-over-period and year-over-year of approximately \$4,400 and \$12,500 respectively.

##### *Business combinations*

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.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the period ended September 30, 2015

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

**4 Business acquisition**

**Business Acquisition - 519222 Ontario Limited**

On May 1, 2015, Chorus acquired all of the outstanding shares of 519222 Ontario Limited, a holding company that owns Voyageur Airways Limited and its related companies ("Voyageur"). Headquartered in North Bay, Ontario, Voyageur, is a Transport Canada approved air operator, and an integrated provider of specialized aviation services, including contract flying operations both internationally and domestically. It also provides advanced engineering and maintenance services. The total consideration is expected to approximate \$85,256, consisting of cash in the amount of \$47,000 paid at closing, and cash of \$31,439 payable over three years, which has been recorded at the fair value on the date of acquisition of \$29,484; and 1,457,194 Voting Shares of Chorus valued at \$8,772, being the fair value of the shares on the date of acquisition issued at closing to the vendor. The portion of the purchase price payable over three years includes contingent consideration in the gross amount of \$2,000 provided certain performance targets are met in the 24 months following closing and a gross working capital adjustment estimated to be \$4,439. The remainder of the gross consideration is payable over 36 months from closing and does not bear interest. As a result, an amount of \$1,955, determined to represent the fair value of the interest savings has been recorded as a reduction to the purchase price, calculated as imputed interest. Transaction costs totaling approximately \$2,800 have been incurred in 2014 and 2015 in connection with the acquisition and are included in other expenses.

Chorus uses the acquisition method to account for business combinations. As such, the results of operations include revenue and expenses of Voyageur since May 1, 2015. The revenue of Voyageur included in the consolidated statement of income since the acquisition date was \$18,667 and \$31,328, for the three and nine months ended September 30, 2015, respectively. The net income of Voyageur included in the consolidated statement of income since the acquisition date was \$1,880 and \$2,668 for the three and nine months ended September 30, 2015, respectively. If Voyageur had been part of the Chorus consolidated group since January 1, 2015, the consolidated revenue would have been \$831,057 for the nine months ended September 30, 2015 and net income would have been \$9,987 for the same period.

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

**Purchase Price**

Cash consideration	\$ 47,000
Share consideration	8,772
Consideration payable	29,484
<b>Total consideration to allocate</b>	<b>\$ 85,256</b>

The fair value of the contingent consideration was determined to be \$1,806 using a present valued probability-weighted income approach. Key assumptions include probability-adjusted earnings before tax, interest and depreciation ("EBITDA") with discount rates consistent with the level of risk of achievement.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the period ended September 30, 2015

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

**4 Business acquisition (continued)**

Recognized amounts of identifiable assets acquired and liabilities assumed - preliminary:

**Assets**

Cash	\$ 1,526
Accounts receivable - trade and other	14,574
Inventories	5,882
Prepaid expenses and deposits	3,553
Property and equipment	72,610
Customer relationships	1,526
Trade name	1,681
Goodwill	457

101,809

**Liabilities**

Accounts payable and accrued liabilities	6,272
Deferred income tax	10,281

16,553

\$ 85,256

Chorus will finalize the purchase price allocation upon completion of the review of certain working capital balances and the determination of the fair value of the tangible and intangible assets acquired. The fair values of the property and equipment, intangible assets and inventories are being determined with the assistance of independent third party valuers. Any future adjustment resulting from the completion of the valuation exercise will be recorded as a measurement period adjustment. Goodwill attributable to the acquisition arises from Voyageur's assembled workforce at the time of acquisition and is not expected to be deductible for tax purposes.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the period ended September 30, 2015

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

**5 Property and equipment**

	<u>Year ended December 31, 2014</u>				<u>Nine months ended September 30, 2015</u>				
	Opening net book value \$	Additions \$	Disposals/ deposits applied \$	Depreciation for the period \$	Closing / opening net book value \$	Additions \$	Disposals/ deposits applied \$	Depreciation for the period \$	Closing net book value \$
Flight equipment	548,718	21,820	—	(56,990)	513,548	127,078	—	(34,473)	606,153
Facilities	20,583	915	—	(878)	20,620	10,892	—	(637)	30,875
Equipment	10,824	2,784	—	(4,006)	9,602	4,175	—	(3,162)	10,615
Leaseholds	9,333	31	—	(1,386)	7,978	1,227	—	(1,576)	7,629
Flight equipment under finance leases	5,192	—	—	(2,797)	2,395	7,191	—	(2,123)	7,463
Deposits on aircraft/ engines	—	40,343	—	—	40,343	22,150	(5,768)	—	56,725
<b>Total</b>	<b>594,650</b>	<b>65,893</b>	<b>—</b>	<b>(66,057)</b>	<b>594,486</b>	<b>172,713</b>	<b>(5,768)</b>	<b>(41,971)</b>	<b>719,460</b>

	<u>At December 31, 2014</u>			<u>At September 30, 2015</u>		
	Cost \$	Accumulated depreciation \$	Net book value \$	Cost \$	Accumulated depreciation \$	Net book value \$
Flight equipment	706,034	(192,486)	513,548	882,824	(276,671)	606,153
Facilities	26,381	(5,761)	20,620	38,122	(7,247)	30,875
Equipment	54,507	(44,905)	9,602	63,329	(52,714)	10,615
Leaseholds	27,001	(19,023)	7,978	28,682	(21,053)	7,629
Flight equipment under finance leases	22,951	(20,556)	2,395	23,604	(16,141)	7,463
Deposits on aircraft/ engines	40,343	—	40,343	56,725	—	56,725
<b>Total</b>	<b>877,217</b>	<b>(282,731)</b>	<b>594,486</b>	<b>1,093,286</b>	<b>(373,826)</b>	<b>719,460</b>

The property and equipment acquired through the business acquisition of 519222 Ontario Limited are included in the above table with a purchase price allocation of \$72,610.

In addition the table above includes non-cash transactions of \$7,191 for finance leases and \$1,200 for other aircraft purchases for the nine months ended September 30, 2015.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the period ended September 30, 2015

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

### 6 Credit facilities

As at September 30, 2015, Chorus' subsidiaries had a combined total of \$36,000 in secured revolving credit facilities. Under one of the revolving credit facilities, Chorus has provided letters of credit totaling \$3,430 to third parties, to indemnify them, in the event the Company does not perform its contractual obligations. Chorus has not recorded any additional liability with respect to these letters of credit, as the Company is not expected to make any payments in excess of what is recorded in the Company's financial statements. The letters of credit mature at various dates ranging from December 2015 to June 2017.

### 7 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 September 30,			
	2015 %	2015 \$	2014 %	2014 \$
Income tax expense at the Canadian statutory tax rate	25.6	4,569	25.6	5,230
Recognition of previously unrecognized cumulative eligible capital	(13.1)	(2,340)	(11.9)	(2,426)
Net impact of capital items <sup>(1)</sup>	47.7	8,510	28.1	5,733
Non-deductible expenses	4.4	775	3.1	634
Income tax expense	64.6	11,514	44.9	9,171

	Nine months ended September 30,			
	2015 %	2015 \$	2014 %	2014 \$
Income tax expense at the Canadian statutory tax rate	26.5	9,914	27.6	20,744
Recognition of previously unrecognized cumulative eligible capital	(18.6)	(6,958)	(9.7)	(7,312)
Net impact of capital items <sup>(1)</sup>	47.6	17,824	8.3	6,263
Non-deductible expenses	9.8	3,672	2.7	2,047
Income tax expense	65.3	24,452	28.9	21,742

- (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.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the period ended September 30, 2015

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

**7 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 \$448,708 as at September 30, 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 as those benefits can be applied to reduce current tax expense. During the three and nine months ended September 30, 2015, Chorus utilized a total of \$8,287 (\$2,340 tax effected) and \$24,862 (\$6,958 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income. During the three and nine months ended September 30, 2014, Chorus utilized a total of \$8,880 (\$2,426 tax effected) and \$26,766 (\$7,312 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at September 30, 2015, Chorus had \$67,033 (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.

**8 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 <sup>(1)</sup>	\$
Shares issued and outstanding December 31, 2014	120,252,939	5,029
Shares issued for stock-based compensation plans <sup>(2)</sup>	522,264	3,018
Shares issued for acquisition of Voyageur (note 4)	1,457,194	8,772
Shares issued and outstanding September 30, 2015	122,232,397	16,819

(1) References to "Shares" above are inclusive of Variable Voting Shares and Voting Shares. As at September 30, 2015, Chorus had 7,614,974 Variable Voting Shares (December 31, 2014 - 5,191,462) and 114,617,423 Voting Shares (December 31, 2014 - 115,061,477) issued and outstanding.

(2) 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 September 30, 2015 Chorus had weighted average potentially dilutive shares related to stock-based compensation that were excluded from the calculation of dilutive loss per share of 3,345,406 and 3,254,683 for the three and nine months ended September 30, 2015, respectively, 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 and nine months ended September 30, 2015 was (\$479) and \$9,591 respectively (2014 - \$2,570, and \$6,460 respectively).

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**9 Obligations under finance leases**

Chorus has entered into finance leases related to aircraft. The obligations are as follows:

	September 30, 2015 \$	December 31, 2014 \$
No later than one year	2,054	3,492
Later than one year and no later than five years	6,339	—
Later than five years	—	—
<b>Total minimum lease payments</b>	<b>8,393</b>	<b>3,492</b>
Less: Amount representing interest (at weighted average rate of 7.405%)	701	140
Present value of net minimum finance lease payments	7,692	3,352
Less: Current portion	1,804	3,352
<b>Obligations under finance leases</b>	<b>5,888</b>	<b>—</b>

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

	2015 \$	2014 \$
No later than one year	1,804	3,352
Later than one year and no later than five years	5,888	—
Later than five years	—	—
	<b>7,692</b>	<b>3,352</b>

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at \$1.3345, which was the exchange rate in effect at the end of day closing on September 30, 2015 (2014 - \$1.1601). Interest of \$34 and \$144 for the three and nine months ended September 30, 2015 (\$98 and \$353 for three and nine months ended September 30, 2014) relating to finance lease obligations has been included in aircraft rent.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
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**10 Long-term debt**

Long-term debt consists of the following:

	As at	
	September 30, 2015	December 31, 2014
	\$	\$
Term loans - purchased aircraft <sup>(1)</sup>	435,921	383,872
Term loans - purchased engines <sup>(2)</sup>	8,891	8,186
Term loan - Halifax facility <sup>(3)</sup>	12,000	12,000
	456,812	404,058
Less: Current portion	44,341	35,376
	412,471	368,682

- (1) 22 individual term loans, repayable in semi-annual instalments, ranging from \$1,037 to \$1,268, bearing fixed interest at a weighted average rate of 3.375%, maturing between May 2023 and September 2027, each secured primarily by one Q400 aircraft and two PW150A engines. At September 30, 2015, the total Q400 NextGen aircraft financing payable in US dollars was US\$326,655 (December 31, 2014 - US\$330,896), and the net book value of property and equipment pledged as collateral under Q400 NextGen aircraft financing was \$392,610 (December 31, 2014 - \$406,522).
- (2) Four individual term loans, repayable in quarterly instalments ranging from \$70 to \$75, including fixed interest at a weighted average rate of 4.879%, maturing between December 2024 and October 2025, each secured primarily by one PW150A engine. At September 30, 2015, the total Q400 NextGen engine financing payable in US dollars was US\$6,662 (December 31, 2014 - US\$7,056) and the net book value of property and equipment pledged as collateral under Q400 engine financing was \$7,948 (December 31, 2014 - \$8,213).
- (3) Nova Scotia Jobs Fund loan, with a maximum contribution of \$12,000, bearing interest at a fixed rate of 3.33% annually. Principal repayments of \$1,000 are payable annually commencing on August 31, 2016. Maturing on 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. As of September 30, 2015, the amount drawn on the loan was \$12,000 (December 31, 2014 - \$12,000).

For the three and nine months ended September 30, 2015, the total interest expense on long-term debt was \$3,660 and \$10,811, respectively (\$3,343 and \$10,276 for the three and nine months ended September 30, 2014).

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at \$1.3345, which was the exchange rate in effect at the end of day closing September 30, 2015.

	\$
No later than one year	44,341
Later than one year and no later than five years	192,810
Later than five years	219,661
	<u>456,812</u>



## Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the period ended September 30, 2015

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

### 10 Long-term debt (continued)

Under its financing agreement with EDC (for both aircraft and engines), the "Jazz Group" (currently comprised of Jazz, Jazz Aircraft Financing Inc. and Jazz Leasing Inc.) is required to maintain a maximum adjusted leverage ratio of 2.25:1 and a minimum adjusted interest coverage ratio of 1.66:1. As at September 30, 2015, the Jazz Group was in compliance with these covenants. Failure by the Jazz Group to satisfy either such ratio at an applicable time would constitute an event of default under the financing agreement, which could have a material adverse effect on Chorus.

The financing agreement with EDC also contains several covenants which are specific to Jazz as the lessee of the Q400 NextGen aircraft and engines including:

- a tangible asset disposal covenant, and;
- a continuation of business under the CPA covenant.

As at September 30, 2015, Jazz was in compliance with both of these covenants.

As additional security under the financing agreements, the aircraft and engine leases between Jazz and Jazz Leasing Inc. have been assigned to EDC. Also, Jazz Leasing Inc. has provided a full recourse guarantee to EDC and Jazz Aircraft Financing Inc. pledged the issued shares of Jazz Leasing Inc. to EDC.

### 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 items noted below, all financial instruments have fair value 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, consideration payable, obligations under finance leases and long-term debt.

The following financial instrument has a fair value that differs from carrying value:

- Long-term debt

At September 30, 2015, the fixed rate term loans had a fair value of \$461,400 compared to a carrying value of \$456,812. 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.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the period ended September 30, 2015

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

### 12 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.

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.

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**13 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 September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Operating revenue</b>				
Air Canada	389,218	426,902	1,140,728	1,246,556
<b>Operating expenses</b>				
Air Canada	964	16,005	2,687	52,524
Air Canada Capital Ltd.	23,722	21,150	69,329	63,803

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

	September 30, 2015	December 31, 2014
	\$	\$
<b>Accounts receivable</b>		
Air Canada	54,459	51,894
<b>Accounts payable and accrued liabilities</b>		
Air Canada	40,461	54,773
Air Canada Capital Ltd.	14,716	8,419

**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.

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**14 Statement of cash flows - supplementary information**

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
(Increase) decrease in accounts receivable – trade and other	116	(5,645)	(10,707)	6
(Increase) decrease in inventories	(1,396)	729	1,223	(1,314)
(Increase) decrease in prepaid expenses	(1,138)	5,798	1,054	6,204
Increase in other assets	(2,626)	(2,378)	(6,788)	(9,138)
Increase (decrease) in accounts payable and accrued liabilities	8,010	11,421	(3,661)	11,777
(Decrease) increase in current portion of long-term incentive plan	(819)	555	1,473	1,439
Increase in income tax payable	3,826	—	8,964	—
Decrease in other long-term liabilities	(14,240)	(303)	(11,176)	(1,225)
	(8,267)	10,177	(19,618)	7,749

b) Other

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Cash payments of interest	3,433	3,563	10,702	12,228
Cash receipts of interest	152	256	790	837
Cash payments of tax	785	—	1,036	2,493

**15 Subsequent event**

On October 14, 2015 Chorus purchased one Dash 8-100 aircraft previously leased from Air Canada Capital Ltd. On each of October 22, 2015 and October 30, 2015, Chorus took delivery of one new Q400 aircraft. The total purchase price for these aircraft was \$60,778. Chorus drew EDC financing for 80% of the total purchase price on the Q400 aircraft.