chorus aviation inc.

Unaudited Interim Condensed Consolidated Financial Statements

September 30, 2017

Unaudited Consolidated Statements of Financial Position

chorus aviation inc.

(expressed in thousands of Canadian dollars)

	As at September 30, 2017 $	As at December 31, 2016 $
Assets		
Current assets		
Cash	148,730	23,491
Restricted cash	7,712	5,671
Accounts receivable – trade and other	71,935	75,058
Inventories	54,113	49,657
Prepaid expenses and deposits	15,671	10,591
Income tax receivable	2,373	4,602
Total current assets	300,534	169,070
Property and equipment (note 4)	1,639,194	1,221,487
Intangibles	2,469	2,698
Goodwill	7,150	7,150
Deferred income tax asset (note 8)	4,450	19,844
Other long-term assets (note 6)	50,316	42,113
	2,004,113	1,462,362
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	209,159	173,656
Unearned revenue	36,767	—
Current portion of obligations under finance leases	2,996	5,099
Current portion of long-term incentive plan	4,972	6,567
Current portion of long-term debt (note 6)	113,072	84,543
Current portion of consideration payable	4,349	12,626
Dividends payable	4,979	4,889
Income tax payable	695	2,743
Total current liabilities	376,989	290,123
Obligations under finance leases	5,881	8,534
Long-term debt (note 6)	965,917	803,954
Convertible units (note 7)	193,359	—
Consideration payable	—	5,907
Deferred income tax liability (note 8)	119,790	126,099
Other long-term liabilities	87,106	88,782
	1,749,042	1,323,399
Equity	255,071	138,963
	2,004,113	1,462,362

Contingencies (note 10)
Economic dependence (note 11)

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

Approved by the Board of Directors

By: (signed) *"Karen Cramm"* — *Director*

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

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, 2015	16,819	(946,493)	1,040,470	—	110,796
Net income for the period	—	99,110	—	—	99,110
Other comprehensive loss for the period (net of tax)	—	(42,322)	—	—	(42,322)
Comprehensive income for the period	—	56,788	—	—	56,788
Dividends	—	(44,001)	—	—	(44,001)
Expense related to stock-based compensation plans	—	—	661	—	661
Balance - September 30, 2016	16,819	(933,706)	1,041,131	—	124,244
Net income for the period	—	12,656	—	—	12,656
Other comprehensive income for the period (net of tax)	—	16,365	—	—	16,365
Comprehensive income for the period	—	29,021	—	—	29,021
Dividends	—	(14,516)	—	—	(14,516)
Expense related to stock-based compensation plans	—	—	214	—	214
Balance - December 31, 2016	16,819	(919,201)	1,041,345	—	138,963
Net income for the period	—	146,603	—	—	146,603
Other comprehensive loss for the period (net of tax)	—	(271)	—	—	(271)
Comprehensive income for the period	—	146,332	—	—	146,332
Dividends	—	(44,269)	—	—	(44,269)
Issuance of convertible units	—	—	—	2,981	2,981
Stock options exercised	11,376	—	(779)	—	10,597
Expense related to stock-based compensation plans	—	—	467	—	467
Balance - September 30, 2017	28,195	(817,138)	1,041,033	2,981	255,071

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, 2017 and 2016

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Operating revenue (note 11)				
Passenger	325,163	325,180	951,349	943,185
Other	19,469	5,917	47,235	18,566
	344,632	331,097	998,584	961,751
Operating expenses (note 11)				
Salaries, wages and benefits	108,756	103,643	334,522	326,227
Aircraft fuel	761	878	2,039	2,499
Depreciation and amortization	27,149	21,253	71,747	59,747
Food, beverage and supplies	136	3,526	3,602	9,429
Aircraft maintenance materials, supplies and services	44,073	46,608	134,561	136,621
Airport and navigation fees	45,995	43,204	127,962	121,726
Aircraft rent	23,980	22,523	75,711	68,326
Terminal handling services	5,936	9,165	21,719	28,677
Other	32,167	31,755	104,830	98,761
	288,953	282,555	876,693	852,013
Operating income	55,679	48,542	121,891	109,738
Non-operating income (expenses)				
Interest revenue	651	167	1,343	408
Interest expense	(12,283)	(5,863)	(31,513)	(16,398)
Gain (loss) on disposal of property and equipment	3	8	(184)	378
Foreign exchange gain (loss)	31,837	(10,782)	61,844	29,780
Other	—	—	687	313
	20,208	(16,470)	32,177	14,481
Income before income taxes	75,887	32,072	154,068	124,219
Income tax (expense) recovery (note 8)				
Current income tax	(188)	(4,719)	(1,275)	(8,150)
Deferred income tax	3,366	(7,298)	(6,190)	(16,959)
	3,178	(12,017)	(7,465)	(25,109)
Net income	79,065	20,055	146,603	99,110
Earnings per share, basic	0.64	0.16	1.19	0.81
Earnings per share, diluted	0.62	0.16	1.17	0.79

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, 2017 and 2016

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Net income	79,065	20,055	146,603	99,110
Other comprehensive loss				
Items that will not be subsequently reclassified to the statements of income				
Actuarial income (loss) on employee benefit liabilities, net of tax expense (recovery) of $1,863 and $2,887 (2016 - ($3,493 and $16,315))	4,958	(9,061)	7,553	(42,322)
Cumulative translation adjustment	(8,246)	—	(7,824)	—
Comprehensive income	75,777	10,994	146,332	56,788

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, 2017 and 2016

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Cash provided by (used in)				
Operating activities				
Net income	79,065	20,055	146,603	99,110
Charges (credits) to operations not involving cash				
Depreciation and amortization	27,149	21,253	71,747	59,747
Amortization of prepaid aircraft rent and related fees	754	760	2,206	2,079
(Gain) loss on disposal of property and equipment	(3)	(8)	184	(378)
Unrealized foreign exchange (gain) loss	(31,088)	8,523	(63,226)	(37,525)
Realized foreign exchange loss	1,580	2,196	6,828	7,019
Effect of foreign exchange rate changes on cash	1,275	(135)	4,791	1,008
Deferred income tax expense	(3,366)	7,298	6,190	16,959
Other	(1,325)	(1,319)	(1,123)	(1,056)
	74,041	58,623	174,200	146,963
Net changes in non-cash balances related to operations (note 12)	79,150	14,349	72,996	(8,349)
	153,191	72,972	247,196	138,614
Financing activities				
Repayment of obligations under finance leases	(1,278)	(1,284)	(3,964)	(3,870)
Repayment of long-term borrowings	(20,016)	(15,477)	(61,324)	(40,994)
Convertible units, net of transaction costs	—	—	195,972	—
Long-term borrowings	110,112	46,216	254,661	188,736
Repayment of consideration payable	(6,500)	—	(13,000)	(12,438)
Stock options exercised	5,835	—	10,597	—
Dividends	(14,825)	(14,666)	(44,174)	(44,001)
	73,328	14,789	338,768	87,433
Investing activities				
Acquisition of leased aircraft, net of debt and cash assumed	891	—	(30,215)	—
Additions to property and equipment	(191,127)	(66,770)	(407,136)	(215,599)
Proceeds on disposal of property and equipment	3	8	10	491
Increase in restricted cash related to leasing agreements	(11,914)	—	(11,914)	—
Increase in restricted cash related to letters of credit	(1,886)	—	(2,041)	(458)
	(204,033)	(66,762)	(451,296)	(215,566)
Effect of foreign exchange rate changes on cash	(5,913)	135	(9,429)	(1,008)
Net change in cash during the periods	16,573	21,134	125,239	9,473
Cash – Beginning of periods	132,157	21,016	23,491	32,677
Cash – End of periods	148,730	42,150	148,730	42,150

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.

Contract flying is 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 11 - 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. Chorus’ aircraft leasing portfolio includes a fleet of 34 Q400s, five CRJ900s and two 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 (currently leased to Air Nostrum), six ATR 72-600s (currently leased to Flybe and Virgin Australia), three Q400s (currently leased to Falcon Aviation Services), two Embraer 195s (currently leased to Azul Linhas Aéreas Brasileiras S.A) and two Embraer 190s (currently leased to KLM Cityhopper and Aeromexico Connect). 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, 2016. These financial statements should be read in conjunction with Chorus’ consolidated financial statements for the year ended December 31, 2016.

These financial statements have been authorized for issuance by the Board of Directors on November 7, 2017.

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, 2016.

New accounting standards adopted during the period

The IASB issued amendments to IAS 12 *Income Taxes* ("IAS 12") regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The adoption of this standard had no impact on the Chorus consolidated financial statements.

The IASB issued amendments to IAS 7 *Statement of Cash Flows* ("IAS 7") to improve financial information provided to users of financial statements about an entity's financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. As a result, additional disclosure has been included in the Chorus consolidated financial statements.

Accounting standards issued but not yet applied

The IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. IFRS 15 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (cumulative effect method). Chorus will adopt the standard using the full retrospective method on January 1, 2018.

Chorus has completed its research and has reached conclusions on key accounting impacts related to both the CPA and non-CPA revenue streams. Under IFRS 15, certain components of CPA revenue will be recognized on a straight-line basis over each annual service period. Currently, these amounts are recognized at the time of invoice. Chorus has concluded that it does not expect this change or any other aspects of the new standard to be material. Chorus will continue to evaluate the impact of changes to the disclosure requirements.

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)

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

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, and new general hedge accounting requirements. Chorus has already early adopted all previous iterations of IFRS 9 (2009 through 2013). Chorus is currently evaluating the impact of IFRS 9 (2014) on its consolidated financial statements and does not anticipate any material impact.

The IASB issued amendments to IFRS 9 *Financial Instruments* to allow companies to measure particular prepayable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. The amendment is effective for annual periods beginning on or after January 1, 2019. Chorus is currently evaluating the impact of this amendment on its consolidated financial statements and does not anticipate any material impact.

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 are effective for annual periods beginning on or after January 1, 2018. Chorus is currently evaluating the impact of these amendments on its consolidated financial statements and does not anticipate any material impact.

4 Property and equipment

	Year ended December 31, 2016					Nine months ended September 30, 2017			
	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	759,827	463,672	—	(67,666)	1,155,833	478,539	681	(61,105)	1,573,948
Facilities	31,498	2,439	—	(1,784)	32,153	2,828	—	(1,446)	33,535
Equipment	11,210	5,105	—	(4,291)	12,024	4,242	—	(3,195)	13,071
Leaseholds	6,835	591	—	(1,840)	5,586	2,934	—	(1,682)	6,838
Flight equipment under finance leases	18,741	—	—	(5,438)	13,303	—	—	(4,079)	9,224
Deposits on aircraft/ engines	35,881	24,382	(57,675)	—	2,588	671	(681)	—	2,578
Total	863,992	496,189	(57,675)	(81,019)	1,221,487	489,214	—	(71,507)	1,639,194

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

4 Property and equipment (continued)

	At December 31, 2016			At September 30, 2017		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	1,471,526	(315,693)	1,155,833	1,913,786	(339,838)	1,573,948
Facilities	41,400	(9,247)	32,153	44,228	(10,693)	33,535
Equipment	70,215	(58,191)	12,024	73,272	(60,201)	13,071
Leaseholds	28,861	(23,275)	5,586	31,795	(24,957)	6,838
Flight equipment under finance leases	19,479	(6,176)	13,303	19,479	(10,255)	9,224
Deposits on aircraft/engines	2,588	—	2,588	2,578	—	2,578
Total	1,634,069	(412,582)	1,221,487	2,085,138	(445,944)	1,639,194

The table above includes a non-cash transaction of $3,058 related to the cumulative translation adjustment.

5 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 September 30, 2017, no amounts were drawn on the facility, however, Chorus has provided letters of credit totaling US$4,700 that reduce the amount available under this facility. This facility replaces $40,000 in demand operating credit facilities previously held by Chorus and certain of its subsidiaries. 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.

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

6 Long-term debt

Long-term debt consists of the following:

	As at September 30, 2017 $	As at December 31, 2016 $
EDC loans		
Term loans - secured by aircraft(1a)	983,344	866,141
Term loans - secured by engines(1b)	11,739	11,356
Other term loans(2)	73,906	—
Nova Scotia Jobs Fund loan(3)	10,000	11,000
	1,078,989	888,497
Less: Current portion	113,072	84,543
	965,917	803,954

(1) Export Development Canada ("EDC") loans

a) Sixty-three individual term loans, repayable in semi-annual or quarterly instalments, ranging from $88 to $1,317, bearing fixed and floating interest at a weighted average rate of 3.776%, maturing between June 2021 and December 2028, each secured primarily by its respective aircraft and engines. As at September 30, 2017, the total payable under these term loans in US dollars and Euros was US$701,135 and €73,028, respectively (December 31, 2016 - US$603,970 and €38,952, respectively), and the net book value of property and equipment pledged as collateral under these term loans was $1,228,259 (December 31, 2016 - $970,241).

b) Six individual term loans, repayable in quarterly instalments ranging from $68 to $119, including fixed interest at a weighted average rate of 4.291%, maturing between December 2024 and May 2028, each secured primarily by one PW150A engine. As at September 30, 2017, the total engine financing payable in US dollars was US$9,406 (December 31, 2016 - US$8,457) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $13,804 (December 31, 2016 - $11,543).

c) Chorus is bound by specific covenants contained in several loans obtained from EDC for aircraft and engine purchases. These covenants generally apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing), 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).

The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreement with EDC 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. As at September 30, 2017, the Jazz Group was in compliance with these covenants.

6 Long-term debt (continued)

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. As at September 30, 2017, the North Bay Leasing Group was in compliance with these covenants. Also, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts have each provided full recourse guarantees to EDC, and Chorus Aviation Holdings II Inc. has pledged the shares of North Bay Leasing Inc. to EDC.

On June 29, 2017, certain subsidiaries of Chorus Aviation Capital entered into financing agreements with EDC in connection with the acquisition of six ATR 72-600s. Both Chorus Aviation Capital and Jazz Leasing have guaranteed the indebtedness under these agreements to EDC. 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. As at September 30, 2017, Chorus Aviation Capital and its subsidiaries were in compliance with these covenants. The indebtedness under these agreements is cross-defaulted to any payment default by Jazz Leasing under its other debt facilities with EDC. It is also cross-defaulted and cross-collateralized to any other EDC-supported debt of Chorus Aviation Capital or its subsidiaries, except EDC-supported debt in respect of which EDC does not have recourse beyond the borrower entity.

(2) Other term loans

Three individual term loans, repayable in quarterly instalments ranging from $246 to $266, including floating interest, fixed via interest rate swap agreements, at a weighted average rate of 5.273%, maturing between November 2021 and May 2025, each secured primarily by its respective aircraft and engines financed thereby as well as collateral assignments of the leases relating to those assets. As at September 30, 2017, the total payable under these term loans in US dollars was US$59,450 (December 31, 2016 - US$nil), and the net book value of property and equipment pledged as collateral under these term loans was $104,311 (December 31, 2016 - $nil). As at September 30, 2017, all three loans were drawn under a single loan facility. Chorus had restricted cash of $11,914 related to these borrowings.

(3) 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.

(4) Revolving loan - please refer to note 5 - Credit facility for discussion of three-year committed operating credit facility.

For the three and nine months ended September 30, 2017, the total interest expense on long-term debt was $9,068 and $24,511, respectively (for the three and nine months ended September 30, 2016 - $5,637 and $15,638, respectively).

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

6 Long-term debt (continued)

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.2480, which was the exchange rate in effect at the end of day closing September 30, 2017.

	$
No later than one year	113,072
Later than one year and no later than five years	484,558
Later than five years	481,359
	1,078,989

7 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.

Chorus intends to use the proceeds of the convertible units primarily to fund the growth of its regional aircraft leasing business, as well as for working capital requirements and general corporate purposes.

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 Voting Share or one Variable Voting Share, as applicable, 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, will beneficially own 24,242,424 of the issued and outstanding shares of Chorus, representing approximately 16.5% of all issued and outstanding shares after the exercise of all of the Warrants (assuming no other issuances of shares by Chorus or any adjustments to the shares issuable upon the exercise of the Warrants pursuant to the applicable anti-dilution provisions).

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.

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

7 Convertible units (continued)

The following table illustrates the allocation of the convertible units between debt and equity as at September 30, 2017. 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		368	—	368
		193,359	**2,981**	**196,340**

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 and nine months ended September 30, 2017, the total interest expense on the convertible units was $3,205 and $6,625 respectively (2016 - $nil) which included interest accretion of $180 and $368, respectively (2016 - $nil).

8 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 September 30,			
	2017 %	2017 $	2016 %	2016 $
Income tax expense at the Canadian statutory tax rate	26.0	19,723	29.9	9,574
Recognition of previously unrecognized cumulative eligible capital	(2.6)	(1,983)	(6.6)	(2,126)
Net impact of capital items(1)	(9.2)	(6,970)	10.1	3,243
Non-deductible expenses	1.1	885	4.1	1,326
Impact of tax rate changes	(19.5)	(14,833)	—	—
Income tax (recovery) expense	(4.2)	(3,178)	37.5	12,017

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

8 Income taxes (continued)

	Nine months ended September 30,			
	2017 %	**2017 $**	**2016 %**	**2016 $**
Income tax expense at the Canadian statutory tax rate	26.9	41,456	29.1	36,098
Recognition of previously unrecognized cumulative eligible capital	(3.9)	(5,958)	(5.2)	(6,415)
Net impact of capital items(1)	(9.7)	(14,896)	(7.4)	(9,186)
Non-deductible expenses	1.1	1,696	3.7	4,612
Impact of tax rate changes	(9.6)	(14,833)	—	—
Income tax expense	4.8	7,465	20.2	25,109

(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 $388,087 as at September 30, 2017, 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, 2017, Chorus utilized a total of $7,168 ($1,983 tax effected) and $21,504 ($5,958 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at September 30, 2017, Chorus had $39,909 (December 31, 2016 - $67,987) 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.

9 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 September 30, 2017, long-term debt had a fair value of $1,053,078 compared to a carrying value of $1,078,989. 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 September 30, 2017, the convertible units had a fair value equivalent to the carrying value of $193,359. 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.

10 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.

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

10 Contingencies (continued)

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

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

11 Economic dependence

For a detailed description of the CPA, please refer to note 20 of Chorus' consolidated financial statements for the year ended December 31, 2016.

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,	
	2017 $	2016 $	2017 $	2016 $
Operating revenue				
Air Canada	281,503	313,824	824,491	907,552
Operating expenses				
Air Canada	1,704	1,512	4,636	3,790
Air Canada Capital Ltd.	16,716	18,229	54,653	58,715

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

	September 30, 2017 $	December 31, 2016 $
Accounts receivable		
Air Canada	42,418	32,677
Accounts payable and accrued liabilities		
Air Canada	7,016	6,441
Air Canada Capital Ltd.	12,599	8,655
Unearned revenue		
Air Canada	34,927	—

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

12 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,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Decrease (increase) in accounts receivable – trade and other	3,550	(5,408)	3,403	3,603
(Increase) decrease in inventories	(1,976)	458	(4,650)	(1,658)
Decrease (increase) in prepaid expenses	4,451	1,132	(5,154)	3,308
Decrease in income tax receivable	2,959	—	2,229	—
Decrease (increase) in other long-term assets	454	(691)	8,602	(7,690)
Increase in accounts payable and accrued liabilities	25,706	15,565	33,212	4,627
Increase in unearned revenue	36,767	—	36,767	—
Increase (decrease) in current portion of long-term incentive plan	570	188	(1,595)	296
Increase (decrease) in income tax payable	250	4,425	(2,048)	(324)
Increase (decrease) in other long-term liabilities	6,419	(1,320)	2,230	(10,511)
	79,150	14,349	72,996	(8,349)

b) Other

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Cash payments of interest	7,098	5,340	22,722	14,916
Cash receipts of interest	573	132	1,207	373
Cash (receipts) payments of tax	(3,020)	275	1,095	8,140

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

12 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, 2016	13,633	888,497	18,533	—
Issue of convertible units	—	—	—	200,000
Transaction costs related to convertible units	—	—	—	(4,028)
Long-term borrowings	—	254,661	—	—
Repayment of long-term borrowings	—	(61,324)	—	—
Repayment of obligations under finance leases	(3,964)	—	—	—
Repayment of consideration payable	—	—	(13,000)	—
Total financing cash flow activities	(3,964)	193,337	(13,000)	195,972
Interest expense	—	—	289	368
Unrealized foreign exchange gain	(792)	(62,518)	—	—
Realized foreign exchange loss	—	6,828	—	—
Cumulative translation adjustment	—	(2,391)	—	—
Assumption of long-term debt on acquisition of leased aircraft	—	55,236	—	—
Reduction of contingent consideration	—	—	(1,473)	—
Allocation of equity component of convertible units	—	—	—	(2,981)
Total financing non-cash activities	(792)	(2,845)	(1,184)	(2,613)
Balance - September 30, 2017	8,877	1,078,989	4,349	193,359