



Unaudited Interim Condensed Consolidated Financial Statements  
**March 31, 2014**

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	March 31, 2014 \$	December 31, 2013 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	117,415	159,901
Restricted cash	3,320	3,320
Accounts receivable – trade and other	70,750	76,891
Inventories	47,794	45,121
Prepaid expenses and deposits	17,772	22,896
<b>Total current assets</b>	<b>257,051</b>	<b>308,129</b>
<b>Property and equipment</b>	<b>585,263</b>	<b>594,650</b>
<b>Goodwill</b>	<b>6,693</b>	<b>6,693</b>
<b>Other assets</b>	<b>59,387</b>	<b>67,453</b>
	<b>908,394</b>	<b>976,925</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	208,372	207,334
Current portion of obligations under finance leases	3,566	3,356
Current portion of long-term incentive plan liability	2,304	—
Current portion of long-term debt	32,844	31,354
Dividends payable	13,786	13,786
Convertible debentures (note 4)	20,047	78,535
Income tax payable	—	1,737
<b>Total current liabilities</b>	<b>280,919</b>	<b>336,102</b>
<b>Obligations under finance leases</b>	<b>2,273</b>	<b>3,073</b>
<b>Long-term debt</b>	<b>377,744</b>	<b>371,445</b>
<b>Deferred income tax (note 5)</b>	<b>38,347</b>	<b>35,790</b>
<b>Other long-term liabilities</b>	<b>46,271</b>	<b>44,534</b>
	<b>745,554</b>	<b>790,944</b>
<b>Equity</b>	<b>162,840</b>	<b>185,981</b>
	<b>908,394</b>	<b>976,925</b>

**Economic dependence (note 6)**

**Contingencies (note 8)**

*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, 2012</b>	3,628	(932,315)	1,051,305	9,497	132,115
Net income for the period	—	9,180	—	—	9,180
Other comprehensive income for the period (net of tax)	—	2,542	—	—	2,542
Comprehensive income for the period	—	11,722	—	—	11,722
Dividends	—	(18,662)	—	—	(18,662)
Share issuance for stock-based compensation plans	1,566	—	(3,068)	—	(1,502)
Expense related to stock-based compensation	—	—	635	—	635
<b>Balance - March 31, 2013</b>	5,194	(939,255)	1,048,872	9,497	124,308
Net income for the period	—	52,686	—	—	52,686
Other comprehensive income for the period (net of tax)	—	43,051	—	—	43,051
Comprehensive income for the period	—	95,737	—	—	95,737
Dividends	—	(32,218)	—	—	(32,218)
Repurchase of shares under normal course issuer bid	(78)	—	(3,928)	—	(4,006)
Expense related to stock-based compensation	—	—	2,160	—	2,160
<b>Balance - December 31, 2013</b>	5,116	(875,736)	1,047,104	9,497	185,981
Net income for the period	—	5,622	—	—	5,622
Other comprehensive loss for the period (net of tax)	—	(9,291)	—	—	(9,291)
Comprehensive loss for the period	—	(3,669)	—	—	(3,669)
Dividends	—	(13,786)	—	—	(13,786)
Redemption of convertible debentures (note 4)	—	—	7,104	(7,104)	—
Expense related to stock-based compensation	—	—	407	—	407
Reclassification of stock-based compensation from equity settled to cash settled liability (note 3)	—	—	(6,093)	—	(6,093)
<b>Balance - March 31, 2014</b>	5,116	(893,191)	1,048,522	2,393	162,840

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



Unaudited Consolidated Statements of Income  
For the three-month periods ended March 31, 2014 and 2013

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

	Three months ended March 31,	
	2014	2013
	\$	\$
<b>Operating revenue</b> (note 6)		
Passenger	410,821	413,392
Other	3,760	2,888
	414,581	416,280
<b>Operating expenses</b> (note 6)		
Salaries, wages and benefits	104,115	108,578
Aircraft fuel	95,461	96,693
Depreciation and amortization	16,087	13,391
Food, beverage and supplies	4,251	3,999
Aircraft maintenance materials, supplies and services	39,554	37,192
Airport and navigation fees	39,486	48,075
Aircraft rent	23,652	22,896
Terminal handling services	30,995	33,734
Other	29,748	30,893
	383,349	395,451
<b>Operating income</b>	31,232	20,829
<b>Non-operating income (expenses)</b>		
Interest revenue	321	225
Interest expense	(6,165)	(4,979)
Gain on disposal of property and equipment	16	60
Foreign exchange loss	(13,601)	(5,039)
Other	—	750
	(19,429)	(8,983)
<b>Income before income taxes</b>	11,803	11,846
<b>Income tax expense</b> (note 5)		
Current income tax	(132)	(362)
Deferred income tax	(6,049)	(2,304)
	(6,181)	(2,666)
<b>Net income</b>	5,622	9,180
<b>Earnings per share, basic</b>	0.05	0.07
<b>Earnings per share, diluted</b>	0.05	0.07

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



Unaudited Consolidated Statements of Comprehensive (Loss) Income  
For the three-month periods ended March 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2014	2013
	\$	\$
<b>Net income</b>	5,622	9,180
<b>Other comprehensive (loss) income</b>		
<i>Items that will not be subsequently reclassified to the statements of income</i>		
Actuarial (loss) gain on employee benefit liabilities, net of tax (recovery) expense of (\$3,492) (2013 - \$929)	(9,291)	2,542
<b>Comprehensive (loss) income</b>	(3,669)	11,722

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



Unaudited Consolidated Statements of Cash Flows  
For the three-month periods ended March 31, 2014 and 2013

(expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2014	2013
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income	5,622	9,180
Charges (credits) to operations not involving cash		
Depreciation and amortization	16,087	13,391
Amortization of prepaid aircraft rent and related fees	596	605
Gain on disposal of property and equipment	(16)	(60)
Stock-based compensation	666	635
Unrealized foreign exchange loss on long-term debt and finance leases	14,712	5,566
Current income tax expense	132	362
Deferred income tax expense	6,049	2,304
Accretion of debt component of convertible debentures	1,512	431
Other	2,037	557
	47,397	32,971
Net changes in non-cash balances related to operations (note 9)	(1,662)	(25)
	45,735	32,946
<b>Financing activities</b>		
Repayment of obligations under finance leases	(837)	(706)
Long-term borrowings	—	117,486
Repayment of long-term borrowings	(6,914)	(3,983)
Restricted cash related to aircraft financing	—	(5,930)
Redemption of convertible debentures (note 4)	(60,000)	—
Dividends	(13,786)	(18,602)
	(81,537)	88,265
<b>Investing activities</b>		
Additions to property and equipment	(6,700)	(122,936)
Proceeds on disposal of property and equipment	16	60
Decrease in restricted cash related to letters of credit	—	1,491
	(6,684)	(121,385)
<b>Net change in cash and cash equivalents during the periods</b>	(42,486)	(174)
<b>Cash and cash equivalents – Beginning of periods</b>	159,901	118,306
<b>Cash and cash equivalents – End of periods</b>	117,415	118,132
<b>Cash payments of interest</b>	4,005	1,986
<b>Cash receipts of interest</b>	378	304
<b>Cash payments of tax</b>	2,200	619
<b>Cash and cash equivalents comprise:</b>		
Cash	97,433	78,169
Term deposits and fixed income securities	19,982	39,963

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 March 31, 2014

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

### 1 General information

Chorus Aviation Inc. ("Chorus") was incorporated on September 27, 2010 pursuant to the *Canada Business Corporations Act*. On November 18, 2010, Chorus incorporated Aviation General Partner Inc. to act as general partner for Jazz Aviation LP (the "Partnership"). On January 5, 2011, substantially all of the assets of Jazz Air LP were transferred to the Partnership and the airline business previously carried on by Jazz Air LP is now carried on by the Partnership. On February 28, 2011, Chorus incorporated Chorus Leasing I Inc., Chorus Leasing II Inc., and Chorus Leasing III Inc. (collectively, the "Initial LeaseCos"), which were established for the sole purpose of acquiring Q400 NextGen turboprop aircraft ("Q400 aircraft") and related equipment with financing from Export Development Canada ("EDC"). On December 31, 2012, the Initial LeaseCos were reorganized as follows: Chorus Leasing I Inc. and Chorus Leasing II Inc. amalgamated to form Chorus Leasing Amalco (2012) Inc. ("Amalco"), and Chorus Leasing III Inc. then acquired the assets and liabilities of Amalco. Amalco was then wound up into Chorus Aviation Inc.

On November 28, 2013, Chorus incorporated Chorus Aviation Holdings Inc. ("CAHI") and CAHI incorporated Chorus Airport Services Inc. ("CASI"). CAHI was established to act as a holding company and CASI was established for the purpose of providing airport handling services. On December 31, 2013, Chorus' subsidiaries were reorganized as follows: Chorus incorporated Jazz Aviation Holdings Inc. ("JAH"), JAH incorporated Jazz Aircraft Financing Inc. ("JAFI") and JAFI incorporated Jazz Leasing Inc. ("JLI"). Chorus Leasing III Inc. and 7503695 Canada Inc. amalgamated to form Chorus Leasing III Inc. ("CL3 Amalco"). CL3 Amalco transferred the majority of its assets to JLI and JAFI assumed the EDC financing obligations from CL3 Amalco. CL3 Amalco was then wound up into Chorus Aviation Inc.

The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6100, P.O. Box 50, Toronto, Ontario, M5X 1B8 and its country of domicile is Canada.

References to Chorus in the following notes to the consolidated financial statements refer to, as the context may require, to Chorus Aviation Inc. and its subsidiaries collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries, or Chorus itself. In the context of the CPA, references to Chorus are exclusively intended to refer to Jazz.

Chorus is a holding company with various aviation interests. Its principal business is the Partnership which operates the largest regional airline, and the second largest airline in Canada after Air Canada, based on fleet size. Through the Partnership, Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services to Chorus. Chorus and Air Canada are parties to an amended and restated capacity purchase agreement, effective January 1, 2006, as amended by agreements (the "Rate Amending Agreements") dated July 6, 2009, August 6, 2012 and June 3, 2013 and amending agreements (the "CPA Amending Agreements") dated September 22, 2009, March 8, 2011 and June 6, 2013 (as amended, the "CPA"), under which Air Canada currently purchases the greater part of Chorus' fleet capacity on aircraft operated by Chorus (the "Covered Aircraft") at predetermined rates (the "Rates").

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

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the period ended March 31, 2014

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

### 2 Basis of presentation

These financial statements are in compliance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34"). 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 judgment in applying Chorus' accounting policies. The areas involving a higher degree of judgment 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, 2013. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2013.

These financial statements have been authorized for issuance by the Board of Directors on May 14, 2014.

### 3 Significant accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2013.

#### Update to accounting policies

In the first quarter of 2014, pursuant to Chorus' long-term incentive plan ("LTIP") eligible employees were given the option to elect prior to vesting whether to receive cash or shares for their restricted share units ("RSU") that vested in the quarter. As a result, effective February 24, 2014 the RSU obligation changed from an equity settled obligation, accounted for in contributed surplus, to a cash settled obligation, recognized in the appropriate short and long-term liability accounts in the Statement of Financial Position. The liability is adjusted quarterly to reflect the number of RSUs expected to vest and the fair market value of the RSUs at the end of the reporting period. Changes to the outstanding RSU liability are accounted for in salaries, wages and benefits expense in the Statement of Income.

#### Amendments to standards

IFRS 9, Financial Instruments, has been amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect the risk management activities in their financial statements. Chorus early adopted the amendments to this standard effective January 1, 2014. The amendments to this standard have no impact on Chorus' consolidated financial statements.

### 4 Convertible debentures

On February 10, 2014 (the "Early Redemption Date"), Chorus exercised its right to redeem \$60,000 of its \$80,210 aggregate principal amount of convertible debentures ("Debentures") outstanding. The Debentures were redeemed on a pro rata basis. Chorus paid the holders of the redeemed Debentures the outstanding principal amount of the redeemed Debentures (the "Redemption Price"), together with all accrued and unpaid interest thereon up to but excluding the Early Redemption Date, for a total of approximately \$1,011 per \$1,000 principal amount of Debentures. The Debentures that were redeemed ceased to bear interest from and after the Early Redemption Date. Chorus used surplus cash to pay the Redemption Price together with all accrued and unpaid interest thereon as described above. Following the redemption, \$20,210 of Debentures remain outstanding. As a result of the redemption, \$7,104 of the equity component of the Debentures has been reclassified to contributed surplus in the Statement of Changes in Equity.



Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the period ended March 31, 2014

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

**5 Income taxes**

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

	Three months ended March 31,			
	2014 %	2014 \$	2013 %	2013 \$
Income tax expense at the Canadian statutory tax rate	25.2	2,974	26.0	3,077
Recognition of previously unrecognized cumulative eligible capital	(20.8)	(2,460)	(21.9)	(2,591)
Net impact of capital items <sup>(1)</sup>	40.4	4,774	13.2	1,565
Non-deductible expenses	7.6	893	5.2	615
Income tax expense	52.4	6,181	22.5	2,666

- (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 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. 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. As at March 31, 2014, approximately 4% of the cumulative impact of the foreign exchange fluctuations since the issuance of the debt have been realized through principal repayments.

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately \$500,208, as at March 31, 2014, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time that those benefits can be applied to reduce current tax expense. During the periods ended March 31, 2014 and March 31, 2013, Chorus utilized a total of \$9,007 (\$2,460 tax effected) and \$9,685 (\$2,591 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at March 31, 2014, Chorus had \$28,068 (December 31, 2013 - \$20,363) 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.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the period ended March 31, 2014

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

**6 Economic dependence**

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

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Operating revenue</b>		
Air Canada	408,330	411,139
<b>Operating expenses</b>		
Air Canada	20,367	21,441
Air Canada Capital Ltd.	21,504	19,666

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

	<b>March 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Accounts receivable</b>		
Air Canada	58,459	58,682
<b>Accounts payable and accrued liabilities</b>		
Air Canada	63,664	60,403
Air Canada Capital Ltd.	12,094	7,768

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the period ended March 31, 2014

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

### 6 Economic dependence (continued)

#### Other

Air Canada provides certain supplies from third parties, primarily fuel, 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.

### 7 Financial instruments and fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; fair value through other comprehensive income; and amortized cost. With the exception of the items noted below, all financial instruments have fair values that approximate carrying value due to their short-term nature.

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

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

- Long-term debt

At March 31, 2014, the fixed rate term loans had a fair value of \$402,136 compared to a carrying value of \$410,588. 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 debentures

At March 31, 2014, Chorus' convertible debentures had a fair value of \$20,518 compared to a carrying value of \$20,047. The debentures are listed on the Toronto Stock Exchange and the fair value was determined using the closing price on the last trading day of the period.

## Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the period ended March 31, 2014

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

### 8 Contingencies

The Canada Business Corporations Act, as amended (the "CBCA") provides that the Directors will act honestly and in good faith with a view to the best interest of Chorus and, in connection with that duty, will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. 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/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 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 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 and/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 willful 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 and engine financing or leasing agreements, Chorus typically indemnifies the financing parties, directors acting on their behalf and other related parties and/or lessors against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft and engines and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, but generally excludes any liabilities caused by their gross negligence or willful misconduct. In addition, in aircraft and engine financing or leasing transactions, including those structured as leveraged leases, Chorus typically provides indemnities in respect of certain tax consequences.

When Chorus, as a customer, enters into 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 service provider against liabilities that arise from third party claims, whether or not these liabilities arise out of or relate to the negligence of the service provider, but generally excluding liabilities that arise from the service provider's gross negligence or willful misconduct.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements  
For the period ended March 31, 2014

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

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

Net changes in non-cash balances related to operations:

	<b>Three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Decrease (increase) in accounts receivable – trade and other	4,147	(20,525)
Increase in inventories	(2,673)	(897)
Decrease (increase) in prepaid expenses	4,994	(801)
(Increase) decrease in other assets	(4,947)	71
(Decrease) increase in accounts payable and accrued liabilities	(3,333)	22,666
Increase (decrease) in other long-term liabilities	150	(539)
	<b>(1,662)</b>	<b>(25)</b>