Unaudited Interim Condensed Consolidated Financial Statements

June 30, 2018

chorus
aviation inc.

chorus aviation inc.

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at June 30, 2018 $	As at December 31, 2017 $ (Restated - Note 3)
Assets		
Current assets		
Cash	152,005	71,249
Accounts receivable – trade and other	95,362	77,397
Inventories	49,026	51,543
Prepaid expenses and deposits	14,635	12,920
Income tax receivable	2,411	2,268
Total current assets	313,439	215,377
Restricted cash	15,068	20,383
Property and equipment (note 5)	1,796,855	1,742,674
Intangibles	2,241	2,392
Goodwill	7,150	7,150
Deferred income tax asset	2,954	3,022
Other long-term assets	51,249	34,827
	2,188,956	2,025,825
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	208,787	210,809
Current portion of obligations under finance leases	2,954	2,762
Current portion of long-term incentive plan	4,851	5,844
Current portion of long-term debt (note 7)	127,417	118,729
Current portion of consideration payable	—	4,387
Dividends payable	5,608	5,014
Income tax payable	445	—
Total current liabilities	350,062	347,545
Obligations under finance leases	3,987	5,219
Long-term debt (note 7)	1,022,142	996,080
Convertible Units (note 8)	193,908	193,540
Deferred income tax liability	154,264	135,740
Other long-term liabilities	60,537	65,679
	1,784,900	1,743,803
Equity	404,056	282,022
	2,188,956	2,025,825

Contingencies (note 12)
Economic dependence (note 13)

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Contributed surplus $	Equity component of Convertible Units $	Total $
Balance - December 31, 2016	16,819	(919,201)	1,041,345	—	138,963
Adjustment on initial adoption of IFRS 15 (net of tax) (note 3)	—	2,912	—	—	2,912
Restated balance at January 1, 2017	16,819	(916,289)	1,041,345	—	141,875
Net income for the period	—	68,015	—	—	68,015
Other comprehensive income for the period (net of tax)	—	3,017	—	—	3,017
Comprehensive income for the period	—	71,032	—	—	71,032
Dividends	—	(29,384)	—	—	(29,384)
Issuance of Convertible Units	—	—	—	2,981	2,981
Stock options exercised	5,113	—	(351)	—	4,762
Expense related to stock-based compensation plans	—	—	384	—	384
Balance - June 30, 2017	21,932	(874,641)	1,041,378	2,981	191,650
Net income for the period	—	99,308	—	—	99,308
Other comprehensive income for the period (net of tax)	—	11,030	—	—	11,030
Comprehensive income for the period	—	110,338	—	—	110,338
Dividends	—	(29,894)	—	—	(29,894)
Stock options exercised	10,480	—	(717)	—	9,763
Expense related to stock-based compensation plans	—	—	165	—	165
Balance - December 31, 2017	32,412	(794,197)	1,040,826	2,981	282,022
Net income for the period	—	21,247	—	—	21,247
Other comprehensive income for the period (net of tax)	—	20,644	—	—	20,644
Comprehensive income for the period	—	41,891	—	—	41,891
Dividends	—	(32,423)	—	—	(32,423)
Issuance of shares, net of transaction costs and related tax	108,373	—	—	—	108,373
Dividend reinvestment plan	3,967	(197)	—	—	3,770
Stock options exercised	273	—	(19)	—	254
Expense related to stock-based compensation plans	—	—	169	—	169
Balance - June 30, 2018	145,025	(784,926)	1,040,976	2,981	404,056

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

Unaudited Consolidated Statements of Income
For the three and six-month periods ended June 30, 2018 and 2017

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

	Three months ended June 30, 2018 $	Three months ended June 30, 2017 $ (Restated - Note 3)	Six months ended June 30, 2018 $	Six months ended June 30, 2017 $ (Restated - Note 3)
Operating revenue (note 13)				
Passenger	350,251	317,594	669,639	624,716
Other	28,034	15,127	56,196	27,766
	378,285	332,721	725,835	652,482
Operating expenses (note 13)				
Salaries, wages and benefits	109,299	111,546	226,786	225,766
Depreciation and amortization	29,952	22,549	59,607	44,598
Aircraft maintenance materials, supplies and services	74,617	46,199	128,387	90,488
Airport and navigation fees	42,743	42,574	82,316	81,967
Aircraft rent	24,323	27,002	48,570	51,731
Terminal handling services	5,204	6,454	11,462	15,783
Other	38,098	37,619	69,743	75,276
	324,236	293,943	626,871	585,609
Operating income	54,049	38,778	98,964	66,873
Non-operating (expenses) income				
Interest revenue	678	517	1,049	692
Interest expense	(14,335)	(11,041)	(28,511)	(19,230)
Gain (loss) on disposal of property and equipment	—	—	8	(187)
Foreign exchange (loss) gain	(14,108)	16,630	(34,108)	30,007
Other	500	687	500	687
	(27,265)	6,793	(61,062)	11,969
Income before income taxes	26,784	45,571	37,902	78,842
Income tax expense (note 9)				
Current income tax	265	(446)	(183)	(1,087)
Deferred income tax	(10,854)	(4,073)	(16,472)	(9,740)
	(10,589)	(4,519)	(16,655)	(10,827)
Net income	16,195	41,052	21,247	68,015
Earnings per share, basic	0.12	0.34	0.16	0.56
Earnings per share, diluted	0.11	0.33	0.16	0.54

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 six-month periods ended June 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	$	$	$	$
		(Restated - Note 3)		(Restated - Note 3)
Net income	16,195	41,052	21,247	68,015
Other comprehensive income				
Items that will not be subsequently reclassified to the statements of income				
Actuarial income (loss) on employee benefit liabilities, net of tax expense of $826 and $3,180 (2017 - $2,800 and $1,024)	2,135	(6,977)	8,239	2,595
Change in fair value of financial assets, net of tax (recovery) expense of ($9) and $210	(64)	—	1,472	—
Items that will be subsequently reclassified to the statements of income				
Exchange differences on translation of foreign operations	4,195	358	10,933	422
Comprehensive income	22,461	34,433	41,891	71,032

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

chorus aviation inc.

Unaudited Consolidated Statements of Cash Flows
For the three and six-month periods ended June 30, 2018 and 2017

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	$	$	$	$
		(Restated - Note 3)		(Restated - Note 3)
Cash provided by (used in)				
Operating activities				
Net income	16,195	41,052	21,247	68,015
Charges (credits) to operations not involving cash				
Depreciation and amortization	29,952	22,549	59,607	44,598
Amortization of prepaid aircraft rent and related fees	652	730	1,300	1,452
(Gain) loss on disposal of property and equipment	—	—	(8)	187
Unrealized foreign exchange loss (gain)	12,621	(21,723)	30,595	(32,138)
Realized foreign exchange loss	2,144	2,812	3,751	5,248
Effect of foreign exchange rate changes on cash	(431)	2,899	(1,526)	3,516
Deferred income tax expense	10,854	4,073	16,472	9,740
Other	324	(52)	715	202
	72,311	52,340	132,153	100,820
Net changes in non-cash balances related to operations (note 14)	(11,182)	3,718	(34,863)	(10,347)
	61,129	56,058	97,290	90,473
Financing activities				
Repayment of obligations under finance leases	(702)	(1,359)	(1,389)	(2,686)
Repayment of long-term borrowings	(33,170)	(22,360)	(61,987)	(41,308)
Convertible Units, net of transaction costs	—	—	—	195,972
Long-term borrowings	—	142,360	45,387	144,549
Repayment of consideration payable	(4,527)	(6,500)	(4,527)	(6,500)
Issuance of shares, net of transaction costs	—	—	106,959	—
Stock options exercised	254	4,762	254	4,762
Dividends	(13,554)	(14,686)	(28,059)	(29,349)
	(51,699)	102,217	56,638	265,440
Investing activities				
Increase in security deposits and maintenance reserves	1,873	3,533	4,145	3,533
Deposit on acquisition of leased aircraft	—	(31,107)	—	(31,107)
Additions to property and equipment	(16,037)	(206,266)	(87,347)	(216,009)
Proceeds on disposal of property and equipment	—	—	8	7
Decrease (increase) in restricted cash	2,661	(155)	5,788	(155)
	(11,503)	(233,995)	(77,406)	(243,731)
Effect of foreign exchange rate changes on cash	2,263	(2,899)	4,234	(3,516)
Net change in cash during the periods	190	(78,619)	80,756	108,666
Cash – Beginning of periods	151,815	210,776	71,249	23,491
Cash – End of periods	152,005	132,157	152,005	132,157

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

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

1 General information

Chorus Aviation Inc. ("Chorus") is a holding company with various aviation interests incorporated on September 27, 2010, pursuant to the *Canada Business Corporations Act* (the "CBCA"). The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6200, P.O. Box 50, Toronto, Ontario, M5X 1B8 and its country of domicile is Canada.

The accompanying unaudited interim condensed consolidated financial statements (the “financial statements”) are of Chorus. References to Chorus in the following notes to the consolidated financial statements refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries.

Chorus’ primary business activities include contract flying, aircraft leasing and maintenance, repair and overhaul services.

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

Chorus also conducts business in aircraft leasing and is growing this business. Chorus’ aircraft leasing portfolio includes a fleet of 34 Q400s, five CRJ900s and six Dash 8-300s which are currently operated by Jazz under the CPA. In addition, through its subsidiary Chorus Aviation Capital Corp. ("Chorus Aviation Capital" or "CAC"), the aircraft leasing portfolio includes four CRJ1000s, six ATR 72-600s, five Q400s, two Embraer 195s, four Embraer 190s and two CRJ900s. Voyageur Airways and North Bay Leasing Inc. ("North Bay Leasing") also carry on a small amount of leasing activity.

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

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

2 Basis of presentation

These financial statements are in compliance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying Chorus' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus’ annual consolidated financial statements for the year ended December 31, 2017. These financial statements should be read in conjunction with Chorus’ consolidated financial statements for the year ended December 31, 2017 and note 3 of the unaudited interim condensed consolidated financial statements for the period ended March 31, 2018.

These financial statements have been authorized for issuance by the Board of Directors on August 8, 2018.

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

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2017.

Significant accounting judgements and estimation uncertainty

Operating revenue

During the second quarter of 2018, Chorus and Air Canada agreed on detailed rates for controllable costs incurred by Jazz under the CPA for the period commencing on January 1, 2018 and ending on December 31, 2018. The new rates are retroactive to January 1, 2018. Chorus and Air Canada have reconciled amounts already recorded in 2018 to these new rates.

New accounting standards adopted during the period

IFRS 15 - *Revenue from Contracts with Customers*

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

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

Impacts on financial statements

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

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

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

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

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

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

Consolidated Statements of Income

	Three months ended June 30, 2017				Six months ended June 30, 2017			
	As previously reported $	IFRS 15 adoption $		As restated $	As previously reported $	IFRS 15 adoption $		As restated $
Revenue	333,362	(641)	*1,2*	332,721	653,952	(1,470)	*1,2*	652,482
Other expense	38,600	(981)	*2*	37,619	77,407	(2,131)	*2*	75,276
Deferred income tax expense	(3,978)	(95)		(4,073)	(9,556)	(184)		(9,740)
Net income	40,807	245		41,052	67,538	477		68,015
Earnings per Share, basic	0.33	0.01		0.34	0.55	0.01		0.56
Earnings per Share, diluted	0.32	0.01		0.33	0.54	—		0.54

[1] Adjustments related to acceleration of revenue recognition on a portion of maintenance fees.
[2] Adjustments related to Pass-Through Revenue recorded net of related costs.

Accounting standards issued but not yet applied

The IASB issued IFRS 16 *Leases* ("IFRS 16") effective for annual periods beginning on or after January 1, 2019. 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*. Entities have the option of transitioning to IFRS 16 using either a full retrospective approach or a modified retrospective approach.

IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a lessee, an entity recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessor accounting under the new standard remains largely similar to IAS 17, with the exception of new requirements relating to subleases.

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

Chorus is continuing to evaluate the impact that the new standard will have on the consolidated financial statements and the transition approach that will be applied, but is expecting that the new requirements will significantly impact Chorus' statement of financial position and statement of income and additional details on the analysis performed to date in relation to the implementation of IFRS 16 are as follows:

Changes identified in relation to the CPA

Lease components embedded in the CPA related to providing Air Canada the right to use the Covered Aircraft (as defined in the CPA) are currently accounted for as operating leases. The associated lease income generated is included in revenue in the statement of income.

As of June 30, 2018, Chorus had 35 aircraft and six spare engines that are leased or subleased from Air Canada and its subsidiary and used as part of the Covered Aircraft to fulfill its obligations under the CPA. Currently, these leased aircraft and spare engines are accounted for as operating leases. Chorus has determined that these lease or sublease agreements and the CPA meet the contract combination requirements in IFRS 16 and therefore should be accounted for as a single contract. When viewing the agreements as one contract, Chorus does not have the right to direct the use of the aircraft and therefore, no leases will have been identified, from both the lessee perspective and lessor perspective. This conclusion will result in the following outcomes:

- There will be no impact to the statement of financial position compared to the current accounting because Chorus will not have a lease or sublease of the aircraft from Air Canada and its subsidiary (as the lessee) or an embedded lease via the CPA to Air Canada (as a lessor).
- Revenue and operating expenses will be reduced by equal amounts, corresponding to the amount of lease payments made.

As of June 30, 2018, Chorus had six aircraft used as part of the Covered Aircraft that are leased from third parties. These third party leases are currently classified as a mix of operating and finance leases. Chorus has determined that it is subleasing the aircraft to Air Canada and therefore is required to assess the classification of these leases by reference to the right-of-use asset arising from the head lease rather than the underlying asset. As a result, Chorus expects that the classification of the subleases, that are currently classified as operating leases, will change to finance leases. Chorus is in the process of determining the impacts to its statement of financial position and statement of income.

No changes compared to the current accounting are expected in relation to the remainder of the Covered Aircraft used under the CPA, as they are owned by Chorus.

Changes identified in other arrangements

To date, Chorus has also identified that it is a lessee with respect to the following categories of assets, which will result in the recognition of right-of-use assets and lease liabilities under IFRS 16:

- third party leased aircraft used to provide charter and contract flying services; and
- the right to use designated space at airport locations.

Chorus is evaluating the population of leases and determining the measurement of the right-of-use assets and lease liabilities related to the leases.

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

4 Revenue from contracts with customers

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

Chorus earns revenue from contracts with customers in addition to aircraft leasing. The table below excludes $79,490 and $154,552 for the three and six months ended June 30, 2018, respectively (for the three and six months ended June 30, 2017 - $62,854 and $120,941 respectively), in other sources of revenue relating to lease income, including any rights to use specified aircraft that have been identified as lease components embedded in the CPA and contract flying service agreements. Revenue is disaggregated primarily by nature and category in the underlying contract.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	$	$	$	$
Controllable revenue	194,543	160,913	364,352	314,657
Fixed margin and infrastructure fee per Covered Aircraft	27,917	27,792	55,835	55,460
Incentive revenue	3,418	3,285	7,331	8,056
CPA pass-through revenue	54,210	52,130	104,727	106,306
Charter and other contract flying revenue	11,413	13,673	22,935	25,042
Passenger revenue	291,501	257,793	555,180	509,521
Other revenue	7,294	12,074	16,103	22,020
Revenue	**298,795**	**269,867**	**571,283**	**531,541**

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

5 Property and equipment

	Year ended December 31, 2017					Six months ended June 30, 2018			
	Opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the year $	Closing/ opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	1,155,833	612,122	(229)	(88,530)	1,679,196	108,062	—	(52,540)	1,734,718
Facilities	32,153	3,721	—	(1,946)	33,928	1,567	—	(1,018)	34,477
Equipment	12,024	5,136	—	(5,273)	11,887	1,611	—	(3,140)	10,358
Leaseholds	5,586	3,718	—	(1,876)	7,428	2,387	—	(1,315)	8,500
Flight equipment under finance leases	13,303	—	—	(5,298)	8,005	—	—	(1,433)	6,572
Deposits on aircraft/ engines	2,588	671	(1,029)	—	2,230	—	—	—	2,230
Total	1,221,487	625,368	(1,258)	(102,923)	1,742,674	113,627	—	(59,446)	1,796,855

	At December 31, 2017			At June 30, 2018		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	2,038,527	(359,331)	1,679,196	2,134,015	(399,297)	1,734,718
Facilities	45,121	(11,193)	33,928	46,688	(12,211)	34,477
Equipment	73,937	(62,050)	11,887	75,137	(64,779)	10,358
Leaseholds	33,035	(25,607)	7,428	35,742	(27,242)	8,500
Flight equipment under finance leases	14,337	(6,332)	8,005	14,337	(7,765)	6,572
Deposits on aircraft/engines	2,230	—	2,230	2,230	—	2,230
Total	2,207,187	(464,513)	1,742,674	2,308,149	(511,294)	1,796,855

For the six months ended June 30, 2018, the table above includes the following non-cash transactions:

- foreign currency adjustments of $26,901 (2017 - $2,797); and
- an adjustment related to the acquisition of Q400s through the issuance of shares in July 2017 of $621.

6 Credit facility

On August 30, 2017 Chorus entered into a three-year committed operating credit facility and on June 7, 2018, extended the term of that facility for a further year ending August 30, 2021. 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 June 30, 2018, no amounts were drawn on the facility, however, Chorus has provided letters of credit totaling $6,682 that reduce the amount available under this facility. The indebtedness under this facility is secured by all present and after-acquired personal property of the Credit Parties, excluding aircraft, engines and certain real estate property. It contains customary representations, warranties and covenants, including maximum total leverage and fixed charge covenants.

Under the terms of this credit facility, Chorus is required to maintain a maximum ratio of total debt to EBITDA, as well as a minimum ratio of EBITDA to fixed charges. At June 30, 2018, Chorus was in compliance with these covenants.

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

7 Long-term debt

Long-term debt consists of the following:

	As at June 30, 2018 $	As at December 31, 2017 $
Amortizing term loans		
Secured by aircraft[(1a)]	1,128,259	1,093,350
Secured by engines[(1b)]	11,300	11,459
Nova Scotia Jobs Fund loan - secured by office building[(2)]	10,000	10,000
	1,149,559	1,114,809
Less: Current portion	127,417	118,729
	1,022,142	996,080

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in monthly, quarterly, or semi-annual instalments, ranging from $90 to $1,337, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.921%, maturing between April 2020 and December 2028, each secured primarily by its respective aircraft and engines. These instalments are payable in USD or Euro and have been converted to CAD at period end foreign exchange rates of 1.3168 USD to CAD and 1.5360 Euro to CAD. As at June 30, 2018, the total payable under these term loans in US dollars and Euros was US$777,391 and €68,093, respectively (December 31, 2017 - US$787,313 and €71,388, respectively), and the net book value of property and equipment pledged as collateral under these term loans was CAD$1,450,023 (December 31, 2017 - CAD$1,429,300).

b) Secured by engines - Individual term loans, repayable in quarterly instalments ranging from $69 to $123, including fixed interest at a weighted average rate of 4.395%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine. These instalments are payable in USD and have been converted to CAD at a period end foreign exchange rate of 1.3168 USD to CAD. As at June 30, 2018, the total engine financing payable in US dollars was US$8,581 (December 31, 2017 - US$9,134) and the net book value of property and equipment pledged as collateral under Q400 engine financing was CAD$13,333 (December 31, 2017 - CAD$13,647).

c) Chorus' debt agreements contain covenants, which if breached and not waived by the relevant lenders, could result in the acceleration of indebtedness. Since some of these agreements are cross-defaulted to other debt agreements, a default or acceleration under one agreement could cause a default or acceleration under another agreement. Therefore, if Chorus were to default under its debt agreements, this could have a material adverse effect on Chorus' financial position, cash flows and prospects.

The principal financial covenants are as follows:

Amortizing term loans totaling $850,283, as at June 30, 2018, have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing and any entity controlled directly or indirectly by either of them), the "North Bay Leasing Group" (comprising North Bay Leasing, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts), and various subsidiaries of Chorus Aviation Capital (which hold aircraft acquired for lease to customers outside the Chorus group and the CPA).

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

7 Long-term debt (continued)

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

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

- On each of June 29, 2017 and March 21, 2018, certain subsidiaries of Chorus Aviation Capital entered into financing agreements in connection with the acquisition of six ATR 72-600s and two CRJ900s, respectively. Both Chorus Aviation Capital and Jazz Leasing Inc. ("Jazz Leasing") have guaranteed the indebtedness under these agreements to the lender. Under the terms of the financing agreements, Chorus Aviation Capital is required to maintain a maximum consolidated total debt to tangible net worth ratio and is also prohibited from declaring or paying dividends or other distributions unless its consolidated tangible net worth is equal to at least the prescribed minimum. The indebtedness under these agreements is cross-defaulted to any payment default by Jazz Leasing under its other debt facilities with the lender. It is also cross-defaulted and cross-collateralized to any other debt of Chorus Aviation Capital or its subsidiaries supported by the lender, except debt in respect of which such lender's recourse is generally limited to the borrower entity.

Amortizing term loans totaling $32,790 as at June 30, 2018 have covenants which apply directly to Chorus Aviation Leasing Inc., a subsidiary of Chorus Aviation Inc. This entity is required to maintain a minimum consolidated tangible net worth.

As at June 30,2018, Chorus (or as applicable, certain subsidiaries) was in compliance with all these covenants.

(2) Nova Scotia Jobs Fund loan

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

For the three and six months ended June 30, 2018, the total interest expense on long-term debt was $11,192 and $22,005, respectively (for the three and six months ended June 30, 2017 - $7,695 and $15,443, respectively).

The majority of the following future repayments of long-term debt are payable in US dollars and Euros and have been converted to Canadian dollars at closing rates on June 30, 2018. The timing of future principal payments is as follows:

	$
No later than one year	127,417
Later than one year and no later than five years	707,929
Later than five years	314,213
	1,149,559

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

8 Convertible units

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

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

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

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

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

The following table illustrates the allocation of the Convertible Units between debt and equity as at June 30, 2018. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity component of Convertible Units $	Total $
	6.0	192,991	2,981	195,972
Accretion expense		549	—	549
Balance - December 31, 2017		193,540	2,981	196,521
Accretion expense		368	—	368
Balance - June 30, 2018		**193,908**	**2,981**	**196,889**

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 six months ended June 30, 2018, the total interest expense on the Convertible Units was $3,159 and $6,318 respectively (for the three and six months ended June 30, 2017 - $3,168 and $3,420 respectively) which included interest accretion of $184 and $368 (for the three and six months ended June 30, 2017 - $176 and $188, respectively).

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

9 Income taxes

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

	Three months ended June 30,	
	2018	**2017**
	$	**$**
Earnings before income tax	26,784	45,571
Combined statutory tax rate	25.3%	27.1%
Income tax expense at the statutory tax rates	6,776	12,371
Recognition of previously unrecognized cumulative eligible capital	(1,858)	(1,987)
Net impact of capital items(1)	3,988	(5,571)
Non-deductible expenses	1,683	(294)
Income tax expense	10,589	4,519
Effective tax rate	39.5%	9.9%

	Six months ended June 30, 2018	
	2018	**2017**
	$	**$**
Earnings before income tax	37,902	78,842
Combined statutory tax rate	24.2%	27.8%
Income tax expense at the statutory tax rates	9,172	21,919
Recognition of previously unrecognized cumulative eligible capital	(3,713)	(3,975)
Net impact of capital items(1)	9,272	(7,926)
Non-deductible expenses	1,924	809
Income tax expense	16,655	10,827
Effective tax rate	43.9%	13.7%

(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.

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

9 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 $367,587 as at June 30, 2018, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three and six months ended June 30, 2018, Chorus utilized a total of $6,666 ($1,858 tax effected) and $13,332 ($3,713 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

10 Capital stock

a) Authorized:

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

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

Issued and outstanding:

	Number of Shares	**$**
Shares issued and outstanding December 31, 2016	122,182,168	16,819
Shares issued through exercise of stock options	3,227,833	15,593
Shares issued and outstanding December 31, 2017	125,410,001	32,412
Shares issued through public offering	13,028,000	108,373
Shares issued through equity dividend reinvestment plan	494,660	3,967
Shares issued through exercise of stock options	56,500	273
Shares issued and outstanding June 30, 2018	138,989,161	145,025

Public Offering

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

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

Dividend Reinvestment Program ("DRIP")

Chorus implemented a DRIP effective February 1, 2018, which provides shareholders who are resident in Canada the opportunity to purchase additional shares using cash dividends paid on shares enrolled in the DRIP. All shares purchased under the DRIP are newly issued by Chorus from treasury, and the proceeds received by Chorus are used for general corporate purposes.

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

10 Capital stock (continued)

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

During the three months ended June 30, 2018, 426,169 shares were issued under the DRIP for total value of $3,370. During the six months ended June 30, 2018, 494,660 shares were issued under the DRIP for total value of $3,967.

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

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

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

b) Earnings per share

The following table provides a breakdown of the numerator and denominator used in the calculation of earnings per share and diluted earnings per share.

	Three months ended June 30,		**Six months ended June 30,**	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Numerator				
Income	16,195	41,052	21,247	68,015
Denominator				
Weighted average number of shares	138,686,818	123,240,501	133,381,750	122,182,168
Weighted average dilutive shares	2,459,519	3,110,213	2,735,606	3,241,702
Weighted average number of diluted shares	141,146,337	126,350,714	136,117,356	125,423,870

11 Financial instruments and fair values

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

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

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

- Long-term debt

  At June 30, 2018, long-term debt had a fair value of $1,120,751 compared to a carrying value of $1,149,559. 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 June 30, 2018, the Convertible Units had a fair value of $199,311 versus a book value of $193,908. The fair value was calculated by discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

Chorus has entered into interest rate swaps on four of its term loans to convert floating interest rates to fixed rates for the duration of each loan. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. All interest rate swaps are designated and effective as cash flow hedges. The fair value of interest rate swaps was $1,718 at June 30, 2018 and is recorded in other long-term assets. Changes in the fair value of interest rate swaps are recorded in other comprehensive income. During the three and six months ended June 30, 2018, Chorus recognized other comprehensive (loss) income of $(64) and $1,472, respectively, net of tax (three and six months ended June 30, 2017 - $nil).

12 Contingencies

As permitted by the CBCA, the by-laws 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 indemnification agreements and directors' and officers' liability insurance. The aggregate of all amounts recorded in these financial statements with respect to such indemnifications is not material.

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

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

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

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

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

13 Economic dependence

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	$	$	$	$
Operating revenue				
Air Canada	334,989	307,393	643,836	606,014
Operating expenses				
Air Canada	1,604	1,596	2,977	2,932
Air Canada Capital Ltd.	16,773	19,054	33,198	37,937

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

	As at	
	June 30, 2018	December 31, 2017
	$	$
Accounts receivable		
Air Canada	65,196	40,655
Accounts payable and accrued liabilities		
Air Canada	2,500	2,021
Air Canada Capital Ltd.	8,488	8,086

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

14 Statement of cash flows - supplementary information

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

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
(Increase) decrease in accounts receivable – trade and other	(23,147)	4,213	(17,962)	(147)
Decrease (increase) in inventories	2,352	(1,367)	2,517	(2,674)
Decrease (increase) in prepaid expenses	85	(182)	(1,715)	(9,604)
Increase in income tax receivable	(814)	(1,265)	(143)	(730)
(Increase) decrease in other long-term assets	(2,271)	7,141	(4,784)	8,148
Increase (decrease) in accounts payable and accrued liabilities	15,361	(650)	(2,500)	6,845
(Decrease) increase in current portion of long-term incentive plan	(664)	223	(993)	(2,165)
Increase (decrease) increase in income tax payable	141	445	445	(2,298)
Decrease in other long-term liabilities	(2,225)	(4,840)	(9,728)	(7,722)
	(11,182)	3,718	(34,863)	(10,347)

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

b) Other

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Cash payments of interest	11,522	8,370	27,963	15,624
Cash receipts of interest	598	490	936	634
Cash payments (receipts) of tax	377	1,266	(149)	4,115

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

14 Statement of cash flows - supplementary information (continued)

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

	Obligations under Finance Leases	Long-term Borrowings	Consideration Payable	Convertible Units
	$	$	$	$
Balance - December 31, 2017	7,981	1,114,809	4,387	193,540
Long-term borrowings	—	45,387	—	—
Repayment of long-term borrowings	—	(61,987)	—	—
Repayment of obligations under finance leases	(1,389)	—	—	—
Repayment of consideration payable	—	—	(4,527)	—
Total financing cash flow activities	(1,389)	(16,600)	(4,527)	—
Interest expense	—	—	140	368
Unrealized foreign exchange loss	349	30,280	—	—
Realized foreign exchange loss	—	3,751	—	—
Foreign currency adjustments	—	17,319	—	—
Total financing non-cash activities	349	51,350	140	368
Balance - June 30, 2018	6,941	1,149,559	—	193,908