Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2016

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at September 30, 2016 $	As at December 31, 2015 $
Assets		
Current assets		
Cash	42,150	32,677
Restricted cash	2,287	1,829
Accounts receivable – trade and other	77,754	81,357
Inventories	47,600	45,942
Prepaid expenses and deposits	12,410	15,718
Total current assets	182,201	177,523
Property and equipment (note 4)	1,019,962	863,992
Intangibles	2,775	3,004
Goodwill	7,150	7,150
Deferred income tax asset	39,339	19,644
Other long-term assets	41,519	36,026
	1,292,946	1,107,339
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	181,940	177,313
Current portion of obligations under finance leases	5,293	5,432
Current portion of long-term incentive plan	5,455	5,159
Current portion of long-term debt (note 6)	69,093	54,867
Current portion of consideration payable	13,000	11,319
Dividends payable	4,889	4,889
Income tax payable	6,946	7,270
Total current liabilities	286,616	266,249
Obligations under finance leases	9,330	14,052
Long-term debt (note 6)	634,316	530,390
Consideration payable	5,374	18,849
Deferred income tax liability	123,541	103,202
Other long-term liabilities	109,525	63,801
	1,168,702	996,543
Equity	124,244	110,796
	1,292,946	1,107,339

Contingencies (note 9)
Economic dependence (note 10)

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 $	Total $
Balance - December 31, 2014	5,029	(914,712)	1,039,743	130,060
Net income for the period	—	12,975	—	12,975
Other comprehensive loss for the period (net of tax)	—	(3,319)	—	(3,319)
Comprehensive income for the period	—	9,656	—	9,656
Dividends	—	(43,147)	—	(43,147)
Expense related to stock-based compensation plans	—	—	506	506
Share issuance for stock-based compensation plans	3,018	—	—	3,018
Share issuance for acquisition of 519222 Ontario Limited	8,772	—	—	8,772
Balance - September 30, 2015	16,819	(948,203)	1,040,249	108,865
Net income for the period	—	12,512	—	12,512
Other comprehensive income for the period (net of tax)	—	3,865	—	3,865
Comprehensive income for the period	—	16,377	—	16,377
Dividends	—	(14,667)	—	(14,667)
Expense related to stock-based compensation plans	—	—	221	221
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

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, 2016 and 2015

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Operating revenue (note 10)				
Passenger	325,180	403,649	943,185	1,168,197
Other	5,917	8,508	18,566	19,116
	331,097	412,157	961,751	1,187,313
Operating expenses (note 10)				
Salaries, wages and benefits	103,643	103,669	326,227	328,322
Aircraft fuel	878	70,556	2,499	205,775
Depreciation and amortization	21,253	15,943	59,747	42,098
Food, beverage and supplies	3,526	3,233	9,429	9,105
Aircraft maintenance materials, supplies and services	46,608	52,793	136,621	153,838
Airport and navigation fees	43,204	47,162	121,726	130,828
Aircraft rent	22,523	26,865	68,326	77,917
Terminal handling services	9,165	12,851	28,677	42,973
Other	31,755	29,949	98,761	93,421
	282,555	363,021	852,013	1,084,277
Operating income	48,542	49,136	109,738	103,036
Non-operating income (expenses)				
Interest revenue	167	144	408	755
Interest expense	(5,863)	(3,939)	(16,398)	(11,327)
Gain on disposal of property and equipment	8	22	378	182
Foreign exchange (loss) gain	(10,782)	(27,529)	29,780	(55,719)
Other	—	—	313	500
	(16,470)	(31,302)	14,481	(65,609)
Income before income taxes	32,072	17,834	124,219	37,427
Income tax expense (note 7)				
Current income tax	(4,719)	(4,140)	(8,150)	(9,733)
Deferred income tax	(7,298)	(7,374)	(16,959)	(14,719)
	(12,017)	(11,514)	(25,109)	(24,452)
Net income	20,055	6,320	99,110	12,975
Earnings per share, basic	0.16	0.05	0.81	0.11
Earnings per share, diluted	0.16	0.05	0.79	0.10

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, 2016 and 2015

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Net income	20,055	6,320	99,110	12,975
Other comprehensive loss				
Items that will not be subsequently reclassified to the statements of income				
Actuarial loss on employee benefit liabilities, net of tax recovery of $3,493 and $16,315 (2015 - $3,859 and $1,282)	(9,061)	(9,993)	(42,322)	(3,319)
Comprehensive income (loss)	10,994	(3,673)	56,788	9,656

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, 2016 and 2015

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Cash provided by (used in)				
Operating activities				
Net income	20,055	6,320	99,110	12,975
Charges (credits) to operations not involving cash				
Depreciation and amortization	21,253	15,943	59,747	42,098
Amortization of prepaid aircraft rent and related fees	760	1,373	2,079	3,887
Gain on disposal of property and equipment	(8)	(22)	(378)	(182)
Unrealized foreign exchange loss (gain)	8,523	25,123	(37,525)	51,223
Realized foreign exchange loss	2,196	2,221	7,019	7,071
Effect of foreign exchange rate changes on cash	(135)	(1,376)	1,008	(3,748)
Deferred income tax expense	7,298	7,374	16,959	14,719
Other	(1,319)	(1,005)	(1,056)	(2,010)
	58,623	55,951	146,963	126,033
Net changes in non-cash balances related to operations (note 11)	14,349	(8,267)	(8,349)	(19,618)
	72,972	47,684	138,614	106,415
Financing activities				
Repayment of obligations under finance leases	(1,284)	(1,079)	(3,870)	(3,157)
Repayment of long-term borrowings	(15,477)	(9,485)	(40,994)	(28,292)
Long-term borrowings	46,216	23,725	188,736	23,725
Restricted cash related to aircraft financing	—	—	—	5,930
Repayment of consideration payable	—	—	(12,438)	—
Dividends	(14,666)	(14,667)	(44,001)	(42,765)
	14,789	(1,506)	87,433	(44,559)
Investing activities				
Business acquisition, net of cash acquired	—	—	—	(45,474)
Additions to property and equipment	(66,770)	(52,362)	(215,599)	(85,944)
Proceeds on disposal of property and equipment	8	22	491	182
Decrease (increase) in restricted cash related to letters of credit	—	726	(458)	1,459
	(66,762)	(51,614)	(215,566)	(129,777)
Effect of foreign exchange rate changes on cash	135	1,376	(1,008)	3,748
Net change in cash during the periods	21,134	(4,060)	9,473	(64,173)
Cash – Beginning of periods	21,016	54,465	32,677	114,578
Cash – End of periods	42,150	50,405	42,150	50,405

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

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 is conducted through Jazz Aviation LP ("Jazz"). In Canada, Jazz operates the largest regional airline and the third largest airline, based on passengers carried. Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus and Air Canada are parties to an Amended and Restated Capacity Purchase Agreement, effective January 1, 2006, as most recently amended on January 1, 2015 (collectively, the "CPA"), 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.

Effective January 1, 2015, Chorus and Air Canada entered into an amending agreement whereby the parties extended the term of the CPA to December 31, 2025, changed the means by which Air Canada pays Chorus for services delivered under the amended CPA, created a fleet renewal and transition program for the covered aircraft, and introduced certain new or revised terms and conditions related to: (i) the consequences of a severe economic downturn or event of force majeure, (ii) change of control, (iii) non-competition, and (iv) other matters. With regard to payment for services delivered under the CPA as amended by the January 1, 2015 amendment, the parties have eliminated the mark-up on controllable costs, any future benchmarking process and the compensating mark-up, and replaced them with a simplified combination of fixed fees per covered aircraft and an infrastructure fee, conversion of some former controllable costs into pass-through costs, compensation for controllable costs (other than crew labour costs) by payment of rates generally set on an annual basis, and Air Canada's assumption of direct responsibility for some significant costs. The majority of these changes occurred in the first quarter of 2015, with the exception of fuel, which is no longer billed to Chorus as of November 1, 2015.

On May 1, 2015, Chorus successfully completed its acquisition of 519222 Ontario Limited, the holding company that owned Voyageur Airways Limited and its related companies (collectively "Voyageur"), a leading provider of specialized aviation services with international operations. On January 1, 2016 Voyageur was re-organized into three entities. Voyageur Aviation Corp. became the parent company for the group and provides common support services to its subsidiaries. Voyageur Aviation Corp. was created by the amalgamation of 519222 Ontario Limited, Hangar 6 Inc. and Voyageur Airport Services Inc. Voyageur Airways Limited is a Transport Canada approved air operator with international and domestic contract flying operations. Voyageur Aerotech Inc. is a Transport Canada approved aircraft maintenance organization with advanced aircraft engineering and maintenance capabilities. On October 12, 2016 Voyageur Avparts Inc. commenced business as a company specializing in a wide range of regional aircraft supply chain services. Voyageur Avparts serves airlines, maintenance organizations, leasing companies, and other aviation-related companies in the provisioning of aircraft parts, inventory management, inventory consignment services, component repair and overhaul, and aircraft disassembly management.

Chorus finalized the purchase price allocation upon completion of the valuation of property and equipment, inventories and intangibles during the first quarter of 2016. The finalization of the purchase price allocation resulted in no changes to the previously recorded fair value of assets acquired and liabilities assumed.

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. The operations of Voyageur are not affected by seasonality. Seasonality also has little effect on the other lines of business operated by Chorus. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term.

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

2 Basis of presentation

These financial statements are in compliance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying Chorus' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2015. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2015.

These financial statements have been authorized for issuance by the Board of Directors on November 8, 2016.

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

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, 2015. Refer to note 3 of Chorus' consolidated financial statements for the year ended December 31, 2015 for information on new accounting standards and amendments not yet effective.

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

4 Property and equipment

	Year ended December 31, 2015					Nine months ended September 30, 2016			
	Opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing / opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	513,548	294,988	—	(48,709)	759,827	223,060	—	(49,536)	933,351
Facilities	20,620	11,783	—	(905)	31,498	1,517	—	(1,327)	31,688
Equipment	9,602	6,004	—	(4,396)	11,210	3,854	—	(3,189)	11,875
Leaseholds	7,978	1,238	—	(2,381)	6,835	46	—	(1,385)	5,496
Flight equipment under finance leases	2,395	19,479	—	(3,133)	18,741	—	—	(4,079)	14,662
Deposits on aircraft/ engines	40,343	26,156	(30,618)	—	35,881	24,699	(37,690)	—	22,890
Total	594,486	359,648	(30,618)	(59,524)	863,992	253,176	(37,690)	(59,516)	1,019,962

	At December 31, 2015			At September 30, 2016		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	1,045,210	(285,383)	759,827	1,238,098	(304,747)	933,351
Facilities	39,012	(7,514)	31,498	40,479	(8,791)	31,688
Equipment	65,158	(53,948)	11,210	69,012	(57,137)	11,875
Leaseholds	28,693	(21,858)	6,835	28,316	(22,820)	5,496
Flight equipment under finance leases	19,479	(738)	18,741	19,479	(4,817)	14,662
Deposits on aircraft/engines	35,881	—	35,881	22,890	—	22,890
Total	1,233,433	(369,441)	863,992	1,418,274	(398,312)	1,019,962

5 Credit facilities

As at September 30, 2016, Chorus' subsidiaries had a combined total of $40,000 in undrawn secured revolving credit facilities and an additional US$8,000 secured facility specifically for letters of credit. Under these facilities, Chorus has provided letters of credit totaling $1,331 to third parties, to indemnify them, in the event that Chorus does not perform its contractual obligations. Chorus has not recorded any additional liability with respect to these letters of credit, as Chorus is not expected to make any payments in excess of what is recorded in the financial statements. The letters of credit mature at various dates ranging from November 2016 to June 2017.

(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, 2016 $	December 31, 2015 $
Term loans - purchased aircraft(1)	681,073	564,222
Term loans - purchased engines(2)	11,336	9,035
Term loan - Halifax facility(3)	11,000	12,000
	703,409	585,257
Less: Current portion	69,093	54,867
	634,316	530,390

(1) 42 individual term loans, repayable in semi-annual or quarterly instalments, ranging from $88 to $1,332, bearing fixed and floating interest at a weighted average rate of 3.329%, maturing between June 2021 and September 2028, each secured primarily by its respective aircraft and engines. At September 30, 2016, the total payable under these term loans in US dollars was US$519,229 (December 31, 2015 - US$407,674), and the net book value of property and equipment pledged as collateral under these term loans was $756,501 (December 31, 2015 - $553,910).

(2) Five individual term loans, repayable in quarterly instalments ranging from $69 to $85, including fixed interest at a weighted average rate of 4.422%, maturing between December 2024 and May 2028, each secured primarily by one PW150A engine. At September 30, 2016, the total Q400 engine financing payable in US dollars was US$8,643 (December 31, 2015 - US$6,528) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $11,673 (December 31, 2015 - $7,859).

(3) Nova Scotia Jobs Fund 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.

During the three and nine months ended September 30, 2016, long-term borrowings were $46,216 and $188,736 respectively (for the three and nine months ended September 30, 2015 - $23,725). For the three and nine months ended September 30, 2016, the total interest expense on long-term debt was $5,637 and $15,638 respectively (for the three and nine months ended September 30, 2015 - $3,660 and $10,811 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 $1.3117, which was the exchange rate in effect at the end of day closing September 30, 2016.

	$
No later than one year	69,093
Later than one year and no later than five years	299,105
Later than five years	335,211
	703,409

The Company is bound by specific covenants contained in the financing obtained from Export Development Canada ("EDC") for both aircraft and engine purchases. These covenants apply separately to the "Jazz Group" (comprising subsidiaries Jazz, Jazz Aircraft Financing and Jazz Leasing) and the “North Bay Leasing Group” (comprising subsidiaries North Bay Leasing, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts).

The Jazz Group is required to maintain a maximum adjusted leverage ratio of 2.25:1 and a minimum adjusted interest coverage ratio of 1.66:1. Failure by the Jazz Group to comply with either such ratio at an applicable time would constitute an event of default under the financing agreement, which could have a material adverse effect on Chorus. As at September 30, 2016, the Jazz Group was in compliance with these covenants. The financing agreement with EDC also contains a continuation of business under the CPA covenant which is specific to Jazz as the lessee of the Q400s and engines. As at September 30, 2016, Jazz was in compliance with this covenant.

As additional security under the EDC financing agreements, the Q400 and related engine leases between Jazz and Jazz Leasing Inc. have been assigned to EDC. Also, Jazz Leasing Inc. has provided a full recourse guarantee to EDC and Jazz Aircraft Financing Inc. pledged the issued shares of Jazz Leasing Inc. to EDC.

On June 29, 2016, Chorus entered into an additional financing agreement with EDC. Terms of this agreement require the North Bay Leasing Group to maintain prescribed liquidity levels, a minimum lease coverage ratio of 1:1, and minimum earnings before interest, lease rental payments, taxes, depreciation, amortization, and other rent and restructuring costs ("EBITDAR"), measured annually prior to the payment of consideration payable to the former owner of Voyageur, who is the current President of Voyageur. Failure by the North Bay Leasing Group to comply with either such ratio at an applicable time would constitute an event of default under the financing agreement, which could have a material adverse effect on Chorus. As at September 30, 2016, the North Bay Leasing Group was in compliance with these covenants.

As additional security under the North Bay Leasing Group EDC financing agreements, the aircraft and engine leases between North Bay Leasing and Voyageur and Jazz have been assigned to EDC. Also, Voyageur Aviation Corp., Voyageur Airways Limited, Voyageur Aerotech Inc. and Voyageur Avparts Inc. have each provided a full recourse guarantee to EDC, and Chorus Aviation Holdings II Inc. has pledged the issued shares of North Bay Leasing Inc. to EDC.

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

7 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,			
	2016 %	**2016 $**	**2015 %**	**2015 $**
Income tax expense at the Canadian statutory tax rate	29.9	9,574	25.6	4,569
Recognition of previously unrecognized cumulative eligible capital	(6.6)	(2,126)	(13.1)	(2,340)
Net impact of capital items(1)	10.1	3,243	47.7	8,510
Non-deductible expenses	4.1	1,326	4.4	775
Income tax expense	37.5	12,017	64.6	11,514

	Nine months ended September 30,			
	2016 %	**2016 $**	**2015 %**	**2015 $**
Income tax expense at the Canadian statutory tax rate	29.1	36,098	26.5	9,914
Recognition of previously unrecognized cumulative eligible capital	(5.2)	(6,415)	(18.6)	(6,958)
Net impact of capital items(1)	(7.4)	(9,186)	47.6	17,824
Non-deductible expenses	3.7	4,612	9.8	3,672
Income tax expense	20.2	25,109	65.3	24,452

(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 Q400s, of which the impact of the non-deductible (non-taxable) portion of any unrealized loss (gain) is considered in the calculation of income tax expense at the end of each period. To the extent that a capital loss is recorded for accounting purposes, the benefit of the deductible portion of the loss is recognized only to the extent that it is probable that the loss will be utilized. Income tax expense related to unrealized foreign exchange gains recorded in a period is reduced by previously unrecognized income tax assets related to unrealized foreign exchange losses. Chorus does not have a plan in place to utilize the deductible portion of the balance of the foreign exchange losses, accordingly no deferred tax asset has been recognized related to the foreign exchange losses.

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $417,298 as at September 30, 2016, 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, 2016, Chorus utilized a total of $6,537 ($2,126 tax effected) and $23,112 ($6,415 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income. During the three and nine months ended September 30, 2015, Chorus utilized a total of $8,287 ($2,340 tax effected) and $24,862 ($6,958 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at September 30, 2016, Chorus had $62,389 (December 31, 2015 - $77,143) of allowable capital losses that have not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

8 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 and long-term debt.

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

- Long-term debt

  At September 30, 2016, the EDC term loans had a fair value of $715,530 compared to a carrying value of $703,409. 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.

Interest rate risk

Thirty-nine term loans with EDC and the Nova Scotia Jobs Fund loan bear fixed interest rates and the consideration payable does not bear interest. These debts are not subject to interest rate volatility. Eight term loans with EDC bear floating interest rates. This debt is therefore subject to interest rate volatility. The allocation of fixed rate debt to floating rate debt at September 30, 2016 is 97.0% fixed and 3.0% floating.

Chorus manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize potential for changes in interest rates to cause adverse changes in cash flows to Chorus.

A 1% change in the interest rate would not have a material impact on net income for the three and nine months ended September 30, 2016.

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

9 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, as the case may be, typically indemnifies the landlord for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

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

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

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

10 Economic dependence

For a detailed description of the most recent amendments to the CPA effective January 1, 2015, please refer to note 20 of Chorus' consolidated financial statements for the year ended December 31, 2015.

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,	
	2016	2015	2016	2015
	$	$	$	$
Operating revenue				
Air Canada	313,824	389,218	907,552	1,140,728
Operating expenses				
Air Canada	1,512	964	3,790	2,687
Air Canada Capital Ltd.	18,229	23,722	58,715	69,329

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

	September 30, 2016	December 31, 2015
	$	$
Accounts receivable		
Air Canada	51,112	42,923
Accounts payable and accrued liabilities		
Air Canada	6,416	10,252
Air Canada Capital Ltd.	13,243	9,328

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.

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

11 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,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
(Increase) decrease in accounts receivable – trade and other	(5,408)	116	3,603	(10,707)
Decrease (increase) in inventories	458	(1,396)	(1,658)	1,223
Decrease (increase) in prepaid expenses	1,132	(1,138)	3,308	1,054
Increase in other long-term assets	(691)	(2,626)	(7,690)	(6,788)
Increase (decrease) in accounts payable and accrued liabilities	15,565	8,010	4,627	(3,661)
Increase (decrease) in current portion of long-term incentive plan	188	(819)	296	1,473
Increase (decrease) in income tax payable	4,425	3,826	(324)	8,964
Decrease in other long-term liabilities	(1,320)	(14,240)	(10,511)	(11,176)
	14,349	(8,267)	(8,349)	(19,618)

b) Other

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Cash payments of interest	5,340	3,433	14,916	10,702
Cash receipts of interest	132	152	373	790
Cash payments of tax	275	785	8,140	1,036