Unaudited Interim Condensed Consolidated Financial Statements

March 31, 2017

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at	
	March 31, 2017 $	**December 31, 2016 $**
Assets		
Current assets		
Cash	210,776	23,491
Restricted cash	5,671	5,671
Accounts receivable – trade and other	79,418	75,058
Inventories	50,770	49,657
Prepaid expenses and deposits	20,013	10,591
Income tax receivable	4,067	4,602
Total current assets	370,715	169,070
Property and equipment	1,209,517	1,221,487
Intangibles	2,622	2,698
Goodwill	7,150	7,150
Deferred income tax asset (note 6)	8,454	19,844
Other long-term assets	40,965	42,113
	1,639,423	1,462,362
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	181,472	173,656
Current portion of obligations under finance leases	4,437	5,099
Current portion of long-term incentive plan	4,179	6,567
Current portion of long-term debt	84,836	84,543
Current portion of consideration payable	12,667	12,626
Dividends payable	4,887	4,889
Income tax payable	—	2,743
Total current liabilities	292,478	290,123
Obligations under finance leases	7,729	8,534
Long-term debt	779,249	803,954
Convertible units (note 5)	193,003	—
Consideration payable	6,026	5,907
Deferred income tax liability (note 6)	123,959	126,099
Other long-term liabilities	73,100	88,782
	1,475,544	1,323,399
Equity	163,879	138,963
	1,639,423	1,462,362

Contingencies (note 8)
Economic dependence (note 9)
Subsequent event (note 11)

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

Approved by the Board of Directors

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

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Contributed surplus $	Equity component of convertible units $	Total $
Balance - December 31, 2015	16,819	(946,493)	1,040,470	—	110,796
Net income for the period	—	55,398	—	—	55,398
Other comprehensive loss for the period (net of tax)	—	(21,660)	—	—	(21,660)
Comprehensive income for the period	—	33,738	—	—	33,738
Dividends	—	(14,667)	—	—	(14,667)
Expense related to stock-based compensation plans	—	—	223	—	223
Balance - March 31, 2016	16,819	(927,422)	1,040,693	—	130,090
Net income for the period	—	56,368	—	—	56,368
Other comprehensive loss for the period (net of tax)	—	(4,297)	—	—	(4,297)
Comprehensive income for the period	—	52,071	—	—	52,071
Dividends	—	(43,850)	—	—	(43,850)
Expense related to stock-based compensation plans	—	—	652	—	652
Balance - December 31, 2016	16,819	(919,201)	1,041,345	—	138,963
Net income for the period	—	26,731	—	—	26,731
Other comprehensive income for the period (net of tax)	—	9,636	—	—	9,636
Comprehensive income for the period	—	36,367	—	—	36,367
Dividends	—	(14,661)	—	—	(14,661)
Issuance of convertible units	—	—	—	2,981	2,981
Expense related to stock-based compensation plans	—	—	229	—	229
Balance - March 31, 2017	16,819	(897,495)	1,041,574	2,981	163,879

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

chorus aviation inc.

Unaudited Consolidated Statements of Income
For the three-month periods ended March 31, 2017 and 2016

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

	Three months ended March 31, 2017 $	2016 $
Operating revenue (note 9)		
Passenger	307,951	314,029
Other	12,639	6,521
	320,590	320,550
Operating expenses (note 9)		
Salaries, wages and benefits	114,220	115,971
Aircraft fuel	619	819
Depreciation and amortization	22,049	18,647
Food, beverage and supplies	3,368	3,057
Aircraft maintenance materials, supplies and services	44,289	46,969
Airport and navigation fees	39,393	39,432
Aircraft rent	24,729	23,708
Terminal handling services	9,329	11,516
Other	34,820	33,646
	292,816	293,765
Operating income	27,774	26,785
Non-operating income (expenses)		
Interest revenue	175	126
Interest expense	(8,189)	(5,157)
(Loss) gain on disposal of property and equipment	(187)	37
Foreign exchange gain	13,377	38,754
	5,176	33,760
Income before income taxes	32,950	60,545
Income tax expense (note 6)		
Current income tax	(641)	(1,583)
Deferred income tax	(5,578)	(3,564)
	(6,219)	(5,147)
Net income	26,731	55,398
Earnings per share, basic	0.22	0.45
Earnings per share, diluted	0.21	0.44

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

chorus aviation inc.

Unaudited Consolidated Statements of Comprehensive Income

For the three-month periods ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2017	**2016**
	$	**$**
Net income	26,731	55,398
Other comprehensive income (loss)		
Items that will not be subsequently reclassified to the statements of income		
Actuarial income (loss) on employee benefit liabilities, net of tax expense (recovery) of $3,672 (2016 - ($8,210))	9,572	(21,660)
Cumulative translation adjustment	64	—
Comprehensive income	36,367	33,738

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-month periods ended March 31, 2017 and 2016

(expressed in thousands of Canadian dollars)

	Three months ended March 31,	
	2017	**2016**
	$	**$**
Cash provided by (used in)		
Operating activities		
Net income	26,731	55,398
Charges (credits) to operations not involving cash		
Depreciation and amortization	22,049	18,647
Amortization of prepaid aircraft rent and related fees	722	1,359
Loss (gain) on disposal of property and equipment	187	(37)
Unrealized foreign exchange gain	(10,415)	(40,638)
Realized foreign exchange loss	2,436	2,697
Effect of foreign exchange rate changes on cash	617	717
Deferred income tax expense	5,578	3,564
Other	254	(59)
	48,159	41,648
Net changes in non-cash balances related to operations (note 10)	(13,744)	(20,891)
	34,415	20,757
Financing activities		
Repayment of obligations under finance leases	(1,327)	(1,331)
Repayment of long-term borrowings	(18,948)	(10,891)
Convertible units, net of transaction costs	195,972	—
Long-term borrowings	2,189	48,464
Dividends	(14,663)	(14,667)
	163,223	21,575
Investing activities		
Additions to property and equipment	(9,743)	(60,547)
Proceeds on disposal of property and equipment	7	141
	(9,736)	(60,406)
Effect of foreign exchange rate changes on cash	(617)	(717)
Net change in cash during the periods	187,285	(18,791)
Cash – Beginning of periods	23,491	32,677
Cash – End of periods	210,776	13,886

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

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

1 General information

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

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

Contract flying is Chorus' primary business and these flying operations are conducted through both its Jazz and 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 9 - Economic Dependence for further details). Jazz also operates charter flights for a variety of customers. Voyageur Airways provides specialized contract flying, such as medical, logistical and humanitarian flights, to international and domestic customers.

Chorus also conducts business in aircraft leasing. Chorus' aircraft leasing portfolio includes a fleet of 34 Q400s and 5 CRJ900s (which are currently operated, or planned to be operated, by Jazz under the CPA) and two CRJ1000s (currently leased to Air Nostrum). Voyageur Airways and 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 and other lines of business carried on by Chorus. Chorus has substantial fixed costs that do not meaningfully fluctuate with demand in the short-term.

2 Basis of presentation

These financial statements are in compliance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. Accordingly, certain information included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying Chorus' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2016. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2016.

These financial statements have been authorized for issuance by the Board of Directors on May 11, 2017.

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2016.

New accounting standards adopted during the period

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

The IASB issued amendments to IAS 7, "Statement of Cash Flows" ("IAS 7") to improve financial information provided to users of financial statements about an entity's financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of this standard had no impact on the Chorus consolidated financial statements.

Accounting standards issued but not yet applied

The IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15") effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18 Revenue, IAS 11 Construction Contracts and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements.

The IASB issued IFRS 16 Leases ("IFRS 16") effective for annual periods beginning on or after January 1, 2019 with early adoption permitted for entities that have also adopted IFRS 15. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases ("IAS 17"). This will impact Chorus' statement of financial position and statement of income. Qualifying leases will be recorded as a right-of-use asset or together with property and equipment, and will have a corresponding liability with both current and long-term portions.

Chorus is continuing to evaluate the impact of IFRS 15 on its consolidated financial statements in conjunction with evaluating the expected impact of IFRS 16. In particular, the effect on the CPA under which Chorus provides services to Air Canada. Chorus is focusing its analysis on the identification of lease and non-lease components and the allocation of the transaction price to those components in the CPA and plans to provide additional information in the second quarter. Chorus has not yet selected a transition method for either standard.

The IASB issued IFRS 9 (2014), "Financial Instruments" ("IFRS 9 (2014)") effective for annual periods beginning on or after January 1, 2018. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment, and new general hedge accounting requirements. Chorus has already early adopted all previous iterations of IFRS 9 (2009 through 2013). Chorus is currently evaluating the impact of IFRS 9 (2014) on its consolidated financial statements.

The IASB issued amendments to IFRS 2, "Share-based Payment" ("IFRS 2"), to clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018. Chorus is currently evaluating the impact of these amendments on its consolidated financial statements.

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

4 Credit facilities

As at March 31, 2017, Chorus' subsidiaries had a combined total of $40,000 in undrawn secured 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 $4,740 to third parties. The letters of credit mature at various dates ranging from April 2017 to March 2018.

5 Convertible units

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

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

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

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

Assuming the exercise of all of the Warrants, Fairfax, through its subsidiaries, will beneficially own 24,242,424 of the issued and outstanding Shares of Chorus, representing approximately 16.5% of all issued and outstanding Shares after the exercise of all of the Warrants (assuming no other issuances of Shares by Chorus or any adjustments to the Shares issuable upon the exercise of the Warrants pursuant to the applicable anti-dilution provisions).

Fairfax has agreed to hold the convertible units until at least December 31, 2019 after which time it may dispose of all or part of the convertible units.

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

5 Convertible units (continued)

The following table illustrates the allocation of the convertible units between debt and equity as at March 31, 2017. Significant judgement was exercised by management in determining this allocation.

	Cost of borrowing %	Debt $	Equity Component of convertible units $	Total $
	6.0	192,991	2,981	195,972
Accretion expense		12	—	12
		193,003	**2,981**	**195,984**

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 months ended March 31, 2017, the total interest expense on the convertible units was $250 (2016 - $nil) which included interest accretion of $12 (2016 - $nil).

6 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 March 31,			
	2017 %	**2017 $**	**2016 %**	**2016 $**
Income tax expense at the Canadian statutory tax rate	28.7	9,456	28.2	17,125
Recognition of previously unrecognized cumulative eligible capital	(6.0)	(1,987)	(3.5)	(2,135)
Net impact of capital items(1)	(7.1)	(2,355)	(18.8)	(11,440)
Non-deductible expenses	3.3	1,105	2.6	1,597
Income tax expense	18.9	6,219	8.5	5,147

(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.

6 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 $402,423 as at March 31, 2017, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three months ended March 31, 2017 and March 31, 2016, Chorus utilized a total of $7,168 ($1,987 tax effected) and $7,707 ($2,135 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at March 31, 2017, Chorus had $64,367 (December 31, 2016 - $67,987) of allowable capital losses that have not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

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 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 instrument has a fair value that differs from carrying value:

- Long-term debt

  At March 31, 2017, the EDC term loans had a fair value of $850,217 compared to a carrying value of $864,085. 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 March 31, 2017, the convertible units had a fair value equivalent to the carrying value of $193,003. The fair values were calculated by discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

8 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)

9 Economic dependence

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

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

	Three months ended March 31, 2017 $	2016 $
Operating revenue		
Air Canada	269,529	303,058
Operating expenses		
Air Canada	1,336	1,414
Air Canada Capital Ltd.	18,883	20,766

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

	March 31, 2017 $	December 31, 2016 $
Accounts receivable		
Air Canada	44,502	32,677
Accounts payable and accrued liabilities		
Air Canada	4,334	6,441
Air Canada Capital Ltd.	13,426	8,655

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

10 Statement of cash flows - supplementary information

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

	2017 $	2016 $
Increase in accounts receivable – trade and other	(4,360)	(6,214)
Increase in inventories	(1,307)	(1,912)
(Increase) decrease in prepaid expenses	(9,422)	22
Decrease in income tax receivable	535	—
Decrease (increase) in other long-term assets	1,007	(925)
Increase in accounts payable and accrued liabilities	7,816	1,334
(Decrease) increase in current portion of long-term incentive plan	(2,388)	420
Decrease in income tax payable	(2,743)	(6,800)
Decrease in other long-term liabilities	(2,882)	(6,816)
	(13,744)	(20,891)

b) Other

	2017 $	2016 $
Cash payments of interest	7,254	3,969
Cash receipts of interest	144	137
Cash payments of tax	2,849	7,859

11 Subsequent event

On April 24, 2017 Chorus announced an agreement to acquire six ATR 72-600 aircraft with attached leases from Avation PLC. Three of these aircraft are currently on lease to U.K. carrier, Flybe, and three to Virgin Australia. The aircraft are between one and four years old. The aggregate purchase price for the aircraft is consistent with current market values for similar aircraft, and Chorus intends to finance the purchase utilizing a combination of debt financing and cash. The transactions are expected to close by the end of June 2017 and are subject to customary conditions precedent to closing, including novation of the existing leases and receipt of debt financing.