CHC Group Ltd.
Form 10-Q
September 14, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended July 31, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number: 001-36261

CHC Group Ltd.
(Exact name of registrant as specified in its charter)

Cayman Islands	98-0587405
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

190 Elgin Avenue
George Town
Grand Cayman, KY1-9005
Cayman Islands
(Address of principal executive offices, including zip code)
(604) 276-7500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of July 31, 2016, there were 2,721,837 ordinary shares issued and outstanding, excluding unvested restricted shares of 834.

1

Table of Contents

CHC GROUP LTD.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED
July 31, 2016
TABLE OF CONTENTS

Table of Contents

PART I—FINANCIAL INFORMATION

TRADEMARKS

CHC Helicopter and the CHC Helicopter logo are trademarks of CHC Capital (Barbados) Ltd., a wholly owned subsidiary of CHC Group Ltd. All other trademarks and service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders. The absence of a trademark or service mark or logo from this Quarterly Report on Form 10-Q does not constitute a waiver of trademark or other intellectual property rights of CHC Group Ltd., its subsidiaries, affiliates, licensors or any other persons.

GLOSSARY

Adjusted EBITDAR	Adjusted EBITDAR is defined as earnings before interest, taxes, depreciation, amortization, helicopter lease and associated costs, restructuring expense, asset impairments, gain (loss) on disposal of assets, foreign exchange gain (loss), other financing income (charges) and reorganization items, net, or total revenue plus earnings from equity accounted investees less direct costs, excluding helicopter lease and associated costs, and general and administration costs. This is a non-GAAP financial measure.
Adjusted EBITDAR margin	Adjusted EBITDAR margin is calculated as Adjusted EBITDAR divided by total revenue less reimbursable revenue. Cost reimbursements from customers are recorded as reimbursable revenue with the related reimbursement expense in direct costs. This is a non-GAAP financial measure.
EMS	Emergency medical services.
Heavy helicopter	A category of twin-engine helicopters that requires two pilots, can accommodate 16 to 26 passengers and can operate under instrument flight rules, which allow daytime and nighttime flying in a variety of weather conditions. The greater passenger capacity, larger cabin, longer flight range, and ability to operate in adverse weather conditions make heavy helicopters more suitable than single engine helicopters for offshore support. Heavy helicopters are generally utilized to support the oil and gas sector, construction and forestry industries and SAR and EMS customer requirements.
Long-term contracts	Contracts of three years or longer in duration.
Medium helicopter	A category of twin-engine helicopters that generally requires two pilots, can accommodate eight to 15 passengers and can operate under instrument flight rules, which allow daytime and nighttime flying in a variety of weather conditions. The greater passenger capacity, longer flight range, and ability to operate in adverse weather conditions make medium helicopters more suitable than single engine helicopters for offshore support. Medium helicopters are generally utilized to support the oil and gas sector, construction and forestry industries and SAR and EMS customer bases in certain jurisdictions. Medium helicopters can also be used to support the utility and mining sectors, as well as certain parts of the construction and forestry industries, where transporting a smaller number of passengers or carrying light loads over shorter distances is required.
MRO	Maintenance, repair and overhaul.
New technology	When used herein to classify our helicopters, a category of higher-value, recently produced, more sophisticated and more comfortable helicopters, including Airbus Helicopters H225, H135, H145

	and H155; AgustaWestland's AW139; and Sikorsky's S76C++ and S92A.
OEM	Original equipment manufacturer.
PBH	Power-by-the-hour. A program where a helicopter operator pays a fee per flight hour to an MRO provider as compensation for repair and overhaul components required in order for the helicopter to maintain an airworthy condition.
Rotables	Helicopter parts that can be repaired and reused such that they typically have an expected life approximately equal to the helicopters that they support.
SAR	Search and rescue.

Table of Contents

ITEM 1. FINANCIAL STATEMENTS
CHC Group Ltd. (Debtor-in-Possession)
Consolidated Balance Sheets
(Expressed in thousands of United States dollars except share and per share information)
(Unaudited)

	April 30, 2016	July 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$266,130	$288,020
Receivables, net of allowance for doubtful accounts of $2.1 million and $3.4 million, respectively (note 3(a)(ii))	182,507	168,356
Income taxes receivable	5,962	4,671
Inventories (note 5)	92,249	89,337
Prepaid expenses	38,766	31,978
Other assets (note 6)	40,059	38,416
	625,673	620,778
Property and equipment, net	967,619	869,716
Investments (note 3(b)(i))	37,640	37,103
Intangible assets	82,898	82,794
Restricted cash	25,082	15,151
Other assets (note 6)	367,481	198,269
Deferred income tax assets	2,570	736
Assets held for sale	5,305	3,653
	$2,114,268	$1,828,200
Liabilities and Shareholders' Deficit		
Liabilities not subject to compromise:		
Current liabilities:		
Payables and accruals	$279,028	$174,748
Deferred revenue	34,413	12,994
Income taxes payable	37,960	3,966
Current facility secured by accounts receivable (note 3(a)(ii))	22,339	—
Other liabilities (note 7)	70,540	8,541
Current portion of debt obligations (note 8)	1,633,377	362,472
	2,077,657	562,721
Debt obligations (note 8)	25,886	—
Deferred revenue	56,701	23,796
Other liabilities (note 7)	242,711	69,091
Deferred income tax liabilities	8,775	8,527
Total liabilities not subject to compromise	2,411,730	664,135
Liabilities subject to compromise (note 10)	—	2,283,932
Total liabilities	2,411,730	2,948,067
Redeemable non-controlling interests (note 3(a)(i))	18,867	17,753
Redeemable convertible preferred shares: Par value $0.0001		
Authorized: 6,000,000; Issued: 671,189 and 671,189; Dividends in arrears: $7.1 million and $7.9 million	643,967	643,967

Capital stock: Par value $0.003 (ordinary), $0.0001 (preferred):		
Authorized: 544,000,000; Issued: 2,721,592 and 2,721,837	8	8
Additional paid-in capital (note 3(a)(i))	1,914,560	1,915,321
Deficit	(2,510,277)	(3,345,626)
Accumulated other comprehensive loss	(364,587)	(351,290)
	(960,296)	(1,781,587)
	$2,114,268	$1,828,200

See accompanying notes to interim consolidated financial statements.

See table in note 3(a)(i) for certain amounts included in the Consolidated Balance Sheets related to variable interest entities.

4

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Consolidated Statements of Operations
(Expressed in thousands of United States dollars except share and per share information)
(Unaudited)

	Three months ended	
	July 31, 2015	July 31, 2016
Revenue	$375,937	$270,436
Operating expenses:		
Direct costs	(314,170)	(246,861)
Earnings from equity accounted investees	1,433	261
General and administration costs	(16,356)	(15,428)
Depreciation	(40,281)	(35,698)
Restructuring expense (note 4)	(19,379)	(2,405)
Loss on disposal of assets	(987)	(1,125)
	(389,740)	(301,256)
Operating loss	(13,803)	(30,820)
Interest on debt obligations (note 8(a))	(26,946)	(8,591)
Foreign exchange loss	(10,079)	(18,432)
Other financing income (note 12)	10,094	7,500
Reorganization items, net (note 9)	—	(785,390)
Loss before income tax	(40,734)	(835,733)
Income tax expense (note 13)	(5,908)	(59)
Net loss	$(46,642)	$(835,792)
Net earnings (loss) attributable to:		
Controlling interest	$(53,362)	$(835,349)
Non-controlling interests	6,720	(443)
Net loss	$(46,642)	$(835,792)
Computation of basic and diluted net loss per ordinary share:		
Net loss attributable to controlling interest	$(53,362)	$(835,349)
Redeemable convertible preferred share dividends including cumulative effect of dividends in arrears of $0.2 million and $0.8 million	(13,324)	(784)
Adjustment of redeemable non-controlling interest to redemption amount (note 3(a)(i))	16,376	72
Net loss available to common stockholders	$(50,310)	$(836,061)
Net loss per ordinary share available to common stockholders - basic and diluted	$(18.55)	$(307.19)
Weighted average number of ordinary shares outstanding - basic and diluted	2,712,527	2,721,638

See accompanying notes to interim consolidated financial statements.

5

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Consolidated Statements of Comprehensive Loss
(Expressed in thousands of United States dollars)
(Unaudited)

	Three months ended	
	July 31, 2015	July 31, 2016
Net loss	$(46,642)	$(835,792)
Other comprehensive earnings (loss):		
Net foreign currency translation adjustments	(24,659)	8,976
Net change in defined benefit pension plan, net of income tax	1,604	5,439
Comprehensive loss	$(69,697)	$(821,377)
Comprehensive income (loss) attributable to:		
Controlling interest	$(86,439)	$(822,052)
Non-controlling interests	16,742	675
Comprehensive loss	$(69,697)	$(821,377)

See accompanying notes to interim consolidated financial statements.

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Consolidated Statements of Cash Flows
(Expressed in thousands of United States dollars)
(Unaudited)

	Three months ended July 31, 2015	Three months ended July 31, 2016
Cash provided by (used in):		
Operating activities:		
Net loss	$(46,642)	$(835,792)
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities:		
Depreciation	40,281	35,698
Loss on disposal of assets	987	1,125
Earnings from equity accounted investees less dividends received	(793)	344
Deferred income taxes	138	1,815
Non-cash stock-based compensation expense	1,199	689
Net gain on debt extinguishment (note 12)	(14,687)	—
Amortization of long-term debt and lease deferred financing costs	2,469	1,142
Unrealized net gain on derivative financial instruments	(3,442)	(8,786)
Non-cash defined benefit pension expense (income) (note 14)	(173)	890
Defined benefit contributions and benefits paid	(6,777)	(6,878)
Unrealized loss on foreign currency exchange translation	10,605	18,516
Reorganization items, net, non-cash (note 9)	—	780,510
Other	(3,580)	(4,500)
Change in cash resulting from changes in operating assets and liabilities:		
Receivables, net of allowance	30,726	8,176
Income taxes receivable and payable	93	(11,467)
Inventories	1,818	(1,399)
Prepaid expenses	2,715	5,494
Payables and accruals	5,929	73,690
Deferred revenue	170	393
Other assets and liabilities	4,203	(11,916)
Cash provided by operating activities	25,239	47,744
Financing activities:		
Sold interest in accounts receivable, net of collections	10,602	(21,620)
Debt proceeds	150,000	—
Debt and capital lease repayments	(95,868)	(549)
Repurchases of senior unsecured notes	(18,818)	—
Increase in deferred financing costs	(2,179)	—
Cash provided by (used in) financing activities	43,737	(22,169)
Investing activities:		
Property and equipment additions	(80,095)	(11,282)
Proceeds from disposal of property and equipment	27,723	1,844
Helicopter deposits net of lease inception refunds	(24,360)	—
Restricted cash	(16,638)	9,056
Cash used in investing activities	(93,370)	(382)
Effect of exchange rate changes on cash and cash equivalents	(7,793)	(3,303)
Change in cash and cash equivalents during the period	(32,187)	21,890

Cash and cash equivalents, beginning of period	134,297	266,130
Cash and cash equivalents, end of period	$102,110	$288,020
Supplemental cash flow information:		
Non-cash settlement of obligations by letters of credit (note 8(b))	$—	$39,416

See accompanying notes to interim consolidated financial statements.

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Consolidated Statements of Shareholders' Deficit
(Expressed in thousands of United States dollars except share information)
(Unaudited)

Three months ended July 31, 2015	Capital stock		Additional paid-in capital	Deficit	Accumulated other comprehensive loss	Total shareholders' deficit	Redeemable non-controlling interests	Redeemable convertible preferred shares	
	Number of shares	Amount						Number of shares	Amount
April 30, 2015	2,708,312	$ 8	$ 1,961,007	$ (2,070,254)	$ (316,227)	$ (425,466)	$ 16,940	617,045	$ 589,823
Issuance of capital stock for stock option and service vesting shares	7,940	—	—	—	—	—	—	—	—
Foreign currency translation	—	—	—	—	(34,160)	(34,160)	9,501	—	—
Stock-based compensation expense	—	—	1,199	—	—	1,199	—	—	—
Defined benefit plan, net of income tax	—	—	—	—	1,083	1,083	521	—	—
Redeemable convertible preferred share dividends	—	—	(13,112)	—	—	(13,112)	—	13,112	13,112
Adjustment of redeemable non-controlling interest to redemption amount (note 3(a)(i))	—	—	16,376	—	—	16,376	(16,376)	—	—
Net earnings (loss)	—	—	—	(53,362)	—	(53,362)	6,720	—	—
July 31, 2015	2,716,252	$ 8	$ 1,965,470	$ (2,123,616)	$ (349,304)	$ (507,442)	$ 17,306	630,157	$ 602,935

Three months ended July 31, 2016	Capital stock		Additional paid-in capital	Deficit	Accumulated other comprehensive loss	Total shareholders' deficit	Redeemable non-controlling interests	Redeemable convertible preferred shares	
	Number of shares	Amount						Number of shares	Amount
April 30, 2016	2,721,592	$ 8	$ 1,914,560	$ (2,510,277)	$ (364,587)	$ (960,296)	$ 18,867	671,189	$ 643,967
Issuance of capital stock for	245	—	—	—	—	—	—	—	—

stock option and service vesting shares									
Foreign currency translation	—	—	—	—	8,481	8,481	495	—	—
Stock-based compensation expense	—	—	689	—	—	689	—	—	—
Defined benefit plan, net of income tax	—	—	—	—	4,816	4,816	623	—	—
Adjustment of redeemable non-controlling interest to redemption amount (note 3(a)(i))	—	—	72	—	—	72	(72)	—	—
De-consolidation of variable interest entity (note 3(a)(i))	—	—	—	—	—	—	(1,717)	—	—
Net loss	—	—	—	(835,349)	—	(835,349)	(443)	—	—
July 31, 2016	2,721,837	$ 8	$ 1,915,321	$ (3,345,626)	$ (351,290)	$ (1,781,587)	$ 17,753	671,189	$ 643,967

See accompanying notes to interim consolidated financial statements.

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

1. Voluntary filing under Chapter 11 of the United States Bankruptcy Code ("Chapter 11"):

We have incurred net losses since our acquisition on September 16, 2008 of the entity formerly known as CHC Helicopter Corporation. We have a substantial level of indebtedness and operating lease commitments and have experienced a significant decline in consolidated revenues due to the downturn in the oil and gas industry since mid-2014. As a result of this, on May 5, 2016 (the “Petition Date”), CHC Group Ltd. and a number of its subsidiaries (cumulatively referred to as the “Debtors”) filed voluntary petitions (the “Bankruptcy Petitions” or the “Petitions”) in the United States Bankruptcy Court for the Northern District of Texas (the “Bankruptcy Court”), seeking relief under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”). The Debtors have filed a motion with the Bankruptcy Court seeking to jointly administer the Bankruptcy Cases under the caption In re CHC Group Ltd., et al., which we refer to together as the “Bankruptcy Cases”.

The Petitions filed by the Debtors seeking relief under the Bankruptcy Code constituted an event of default that accelerated our obligations under the indenture, dated October 4, 2010, that governs the 9.250% Senior Secured Notes Due 2020 (the “senior secured notes”); the indenture, dated May 13, 2013, that governs the 9.375% Senior Notes Due 2021 (the “senior unsecured notes”); our senior secured revolving credit facility, dated as of January 23, 2014 (the “revolving credit facility”) and our asset-based revolving credit facility, dated June 12, 2015 (the “ABL Facility”). In addition, this also caused an event of default under the terms of all of our helicopter lease agreements and certain other obligations.

The Debtors have filed motions for the rejection or abandonment of 97 helicopters in our fleet which we no longer need in the operation of our business. This includes 84 leased helicopters and 13 helicopters financed under our ABL Facility. As of September 14, 2016, the Bankruptcy Court had approved 66 helicopter lease rejections and the motion to abandon the 13 aircraft under our ABL Facility remains pending before the Bankruptcy Court. Discussions with our lenders and lessors remain pending, the status of those discussions remain fluid, and the outcome of such discussions cannot be assured.

Since the Petition Date, the Debtors have operated their business as “debtors-in-possession.” A trustee has been appointed and the Debtors continue to operate their businesses and manage their properties as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. Any efforts by creditors to enforce such payment obligations as existed before the Petition Date are automatically stayed as a result of the filing of the Petitions, and the holders’ rights of enforcement are subject to the applicable provisions of the Bankruptcy Code. The Bankruptcy Court has approved certain motions for the payment of certain pre-petition obligations, including those related to certain taxes, employee wages, severance and helicopter part repair orders.

These conditions result in material uncertainty that gives rise to substantial doubt about our ability to continue as a going concern. We believe that the Company will require significant debt, lease and other restructuring to continue as a going concern. We must successfully develop a reorganization plan and our ability to continue as a going concern is contingent upon the Bankruptcy Court and our creditors’ approval of this reorganization plan. Our ability to continue as a going concern will also be dependent on our ability to implement this reorganization plan, to maintain existing customer, vendor and other relationships, and to maintain sufficient liquidity throughout the Chapter 11 proceedings, amongst other factors.

The unaudited interim consolidated financial statements (“interim financial statements”) have been prepared under the assumption that the Company will continue as a going concern and do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern or as a consequence of the Bankruptcy Cases. While operating as debtors-in-possession under the jurisdiction of the Bankruptcy Court, we may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Bankruptcy Court, or as otherwise permitted in the ordinary course of business, for amounts other than those reflected in the accompanying interim financial statements.

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

2. Significant accounting policies:

(a) Basis of presentation:

The interim financial statements include the accounts of CHC Group Ltd. and its subsidiaries (the “Company”, “we”, “us” or “our”) after elimination of all significant intercompany accounts and transactions. The interim financial statements are presented in United States dollars and have been prepared in accordance with the United States Generally Accepted Accounting Principles (“US GAAP”) for interim financial information. Accordingly, the interim financial statements do not include all of the information and disclosures for complete financial statements.

In the opinion of management, these interim financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Results of operations for the periods presented are not necessarily indicative of results of operations for the entire year.

The financial information as of April 30, 2016 is derived from our annual audited consolidated financial statements and notes for the fiscal year ended April 30, 2016. These interim financial statements should be read in conjunction with our consolidated financial statements and related notes for the fiscal year ended April 30, 2016, which are included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016 which was filed with the Securities and Exchange Commission (“SEC”) on July 15, 2016.

(b) Bankruptcy accounting and disclosures:

As a result of the filing of the Bankruptcy Petitions, we have applied the FASB Accounting Standards Codification (“ASC”) 852 Reorganizations in preparing our interim financial statements. ASC 852 requires that financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses, realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings have been recorded in a reorganization line item in our consolidated statements of operations. In addition, the pre-petition obligations that may be impacted by the bankruptcy reorganization process have been classified on the balance sheet as liabilities subject to compromise. These liabilities are reported as the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts.

(c) Foreign currency:

The currencies which most influence our foreign currency translations and the relevant exchange rates were:

	Three months ended	
	July 31, 2015	July 31, 2016
Average rates:		
£/US $	1.552814	1.396682
CAD/US $	0.801231	0.771605
NOK/US $	0.127480	0.119985
AUD/US $	0.765316	0.741358
€/US $	1.111956	1.119985
Period end rates:		
£/US $	1.563271	1.326969
CAD/US $	0.766460	0.766812
NOK/US $	0.122863	0.118703

AUD/US $	0.733119	0.759758
€/US $	1.102782	1.116939

10

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

(d) Comparative figures:

In December 2015, our Board of Directors and shareholders approved a reverse share split, by way of consolidation, whereby all of the Company's ordinary shares of capital stock (issued and unissued) were adjusted to reflect the reverse share split ratio of 30:1 (that is, each 30 shares of stock were consolidated into one share). The reverse share split was effective on December 11, 2015. The principal effects of the reverse share split were as follows:

- all capital stock par value and authorized and issued per share information were adjusted retroactively for all prior periods presented to reflect the reverse share split ratio. This includes the calculations of our weighted average number of ordinary shares outstanding and net loss per ordinary share available to common stockholders;
- proportional adjustments were made to the number of ordinary shares available for issuance under the CHC Group Ltd. 2013 Omnibus Incentive Plan (the "2013 Incentive Plan") and those subject to outstanding equity awards (including stock options, time-based restricted stock units, performance based restricted stock units, service vesting stock options and shares and share price performance options and shares). Additionally, the exercise price of any stock options outstanding under the 2013 Incentive Plan and those subject to other outstanding equity awards were proportionally adjusted to reflect the reverse share split ratio; and
- proportional adjustments were made to the per-share conversion price of the Company's redeemable convertible preferred shares ("preferred shares") in accordance with the Rights and Restrictions of the Redeemable Convertible Preferred Shares. The reverse share split had no impact on the total number of authorized preferred shares nor the number of preferred shares issued and outstanding or its par value.

(e) Recent accounting pronouncements adopted:

Consolidation:

On May 1, 2016, we adopted the amendment to the accounting guidance on the consolidation standard. The amendment includes updates relating to the criteria to determine whether a service provider or decision maker is a variable interest entity ("VIE"), whether a decision maker is the primary beneficiary of a VIE, or whether a related party has the characteristics of a primary beneficiary of a VIE. We determined that there was no material impact on our financial results from the adoption of this standard.

Debt issuance costs:

On May 1, 2016, we adopted the accounting guidance on debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an asset and must be applied retrospectively. As a result, we presented the $26.2 million of deferred financing costs previously classified in other assets at April 30, 2016 as an offset to debt obligations. This had no impact on our net loss or operating cash flows as previously reported.

Share-based compensation:

On May 1, 2016, we adopted amended guidance for accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendment requires that a performance target that affects vesting and that could be achieved after requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that such performance condition would be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. There was no material impact on our financial results from the adoption of this standard.

11

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

(f) Recent accounting pronouncements not yet adopted:

Revenue recognition:

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition to achieve the objective of recognizing revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition.

The standard is effective for fiscal periods beginning after December 15, 2017, including interim reporting periods within that reporting period; companies are permitted to early adopt the standard for fiscal periods beginning after December 15, 2016. We will adopt the standard on May 1, 2018. Companies are allowed to use either full retrospective or modified retrospective adoption. We are currently evaluating which transition approach to use and the impact of the adoption of this standard on our consolidated financial statements.

Going concern:

In August 2014, the FASB issued a new standard that requires management to evaluate whether there are conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern and to provide disclosures when certain criteria are met. The standard is effective for fiscal periods ending after December 15, 2016, and interim periods thereafter, with early application permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Inventories:

In July 2015, the FASB issued an amendment that requires management to reduce inventory to the lower of cost and net realizable value rather than the lower of cost or market value. The standard is effective for fiscal periods beginning after December 15, 2016, and interim periods therein and early application is permitted. We will adopt the standard on May 1, 2017. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Financial instruments:

In January 2016, the FASB issued amendments to the standard for the recognition and measurement of financial assets and financial liabilities which introduces new reporting requirements and simplifies some of the existing reporting requirements. The standard is effective for fiscal periods beginning after December 15, 2017, including interim periods within those fiscal years and early application is permitted. We will adopt the standard on May 1, 2018. Companies should apply the amendment using a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, and using a prospective approach for amendments to equity securities with fair values that are not readily determinable. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Leases:

In February 2016, the FASB issued amendments to the standard for the recognition and measurement of leases. The standard is effective for fiscal periods beginning after December 15, 2018, including interim periods within those fiscal years and early application is permitted. We will adopt the standard on May 1, 2019. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Share-based compensation:
In March 2016, the FASB issued amendments to simplify the standard for employee share-based payment accounting. The standard is effective for fiscal periods beginning after December 15, 2016, and interim periods within those annual periods and early adoption is permitted for any entity in any interim or annual period providing all amendments are adopted in the same period. We will adopt the standard on May 1, 2017.

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Derivatives and hedging:

In March 2016, the FASB issued amendments to the standard for derivatives and hedging clarifying the requirements for assessing whether contingent put and call options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The standard is effective for fiscal periods beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted, including adoption in an interim period. We will adopt the standard on May 1, 2017. Companies should adopt the standard on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Impairment of financial instruments:

In June 2016, the FASB issued authoritative guidance that adds an impairment model called the Current Expected Credit Loss ("CECL") model for financial instruments within the scope of the guidance, which includes loans, trade receivables, debt securities classified as Held to Maturity and net investments in leases recognized by a lessor. Under the new guidance, on initial recognition and at each reporting period, an entity would be required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. The standard does not make changes to the existing impairment models for non-financial assets such as fixed assets, intangibles and goodwill. We will adopt the standard on May 1, 2020. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

3. Variable interest entities:

(a) VIEs of which we are the primary beneficiary:

(i) Local ownership VIEs:

Certain areas of operations are subject to local governmental regulations that may limit foreign ownership of aviation companies. Accordingly, operations in certain jurisdictions may require the establishment of local ownership entities that are considered to be VIEs. The nature of our involvement with consolidated local ownership entities is as follows:

Note 3 to the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016 contains a description of our principal involvement with VIEs and the accounting policies regarding determination of whether we are deemed to be the primary beneficiary. During the three months ended July 31, 2016, there have been no significant changes in either the nature of our involvement with, or the accounting policies associated with the analysis of VIEs as described in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, with the exception of Atlantic Aviation Limited and Atlantic Aviation FZE (collectively "Atlantic Aviation").

On June 16, 2016, the Company, Atlantic Aviation and the Nigerian Company entered into a Termination and Exit Agreement (the "Termination Agreement") which replaces the framework agreement but does not immediately terminate the other related agreements in place between the Company, Atlantic Aviation Limited and the Nigerian Company. Under the terms of the Termination Agreement, the Company has agreed to work with Atlantic Aviation and the Nigerian Company to ensure an orderly wind-down of operations in Nigeria and the ultimate dissolution of Atlantic Aviation (and all associated agreements between the Company and Atlantic Aviation). During the three months ended July 31, 2016 we deconsolidated Atlantic Aviation, which, net of the redeemable non-controlling interest, had no material impact to our results.

The following table shows the redeemable non-controlling interests relating to the local ownership VIEs that are included in the interim financial statements.

13

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

	April 30, 2016	July 31, 2016
EEA Helicopters Operations B.V.	$17,150	$17,753
Atlantic Aviation Limited and Atlantic Aviation FZE	1,717	—
	$18,867	$17,753

We have assessed that under the terms of the put and call arrangements with the holder of the non-controlling interest of EEA Helicopter Operations B.V.'s ("EHOB") that it is probable that the non-controlling interest will become redeemable and accordingly, it is recorded at its redemption amount. We have elected to recognize any changes in the redemption amount immediately as they occur and adjust the carrying amount of the redeemable non-controlling interest to equal the redemption amount at the end of the reporting period. Reductions in the carrying amount of the redeemable non-controlling interest are only recorded if we have previously recorded increases in the carrying amount of the redeemable non-controlling interest. The change in redemption amount is recognized in additional paid-in capital and as a deduction or addition to the numerator of the net loss per ordinary share calculation. The redemption amount is based on a formula of $14.5 million plus an amount representing compounded interest, commencing October 31, 2014, which increases from 10% for the first year to 20% for the fifth year and thereafter.

Under the amended Shareholders' Agreement, the put and call options will be exercisable on the earlier of: (a) an exit event, being the entering into an agreement with another investor to acquire the Class A shareholder's interest in EHOB anytime after October 30, 2016, (b) one year after First Reserve Management, L.P. ("First Reserve") and Clayton, Dubilier & Rice ("CD&R") own less than 5% of our issued shares, and (c) October 30, 2020. Furthermore, the Class A shareholder also holds a call option over our Class B shares which is exercisable only in the event of bankruptcy. The right to immediate exercise of the put and call option by the Class A shareholder, due to the Debtors filing Petitions with the Bankruptcy Court on May 5, 2016, has been waived until October 10, 2016, subject to certain terms and conditions.

Financial information of local ownership VIEs

All of the local ownership VIEs and their subsidiaries have the same purpose and are exposed to similar operational risks and are monitored on a similar basis by management. As such, the financial information reflected on the consolidated balance sheets and statements of operations for all local ownership VIEs has been presented in the aggregate below, including intercompany amounts with other consolidated entities:

	April 30, 2016	July 31, 2016
Cash and cash equivalents	$61,396	$70,449
Receivables, net of allowance	58,687	60,097
Other current assets	34,279	35,548
Other long-term assets	125,181	121,205
Total assets	$279,543	$287,299
Payables and accruals	$57,419	$55,042
Intercompany payables	119,019	153,326
Other current liabilities	22,570	11,016
Accrued pension obligations	58,452	50,496
Long-term intercompany payables	119,429	117,144
Other long-term liabilities	29,394	27,624

Total liabilities	$406,283	$414,648

14

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

	Three months ended	
	July 31, 2015	July 31, 2016
Revenue	$237,604	$178,637
Net earnings (loss)	14,131	(15,308)

(ii) Accounts receivable securitization:

As described in note 3(a)(ii) of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, we entered into trade receivables securitization transactions to raise financing, through the sale of pools of receivables, or beneficial interests therein, to a VIE, Finacity Receivables – CHC 2009, LLC (“Finacity”), which we have determined we are required to consolidate as we are the primary beneficiary. Our trade receivables securitization arrangement to raise additional financing with Finacity ended in April 2016, as the Petitions filed with the Bankruptcy Court on May 5, 2016 constituted a termination event under the terms of our receivable purchase agreements.

The following table shows the assets and the associated liabilities related to our secured debt arrangements that are included in the interim financial statements:

	April 30, 2016	July 31, 2016
Cash or Restricted cash	$9,637	$1,869
Transferred receivables	32,876	528
Current facility secured by accounts receivable	22,339	—

(iii) Trinity Helicopters Limited:

As at July 31, 2015 and 2016, we leased two helicopters from Trinity Helicopters Limited (“Trinity”), an entity considered to be a VIE, which we have determined we are required to consolidate as we are the primary beneficiary.

(b) VIEs of which we are not the primary beneficiary:

(i) Local ownership VIEs:

Thai Aviation Services (“TAS”)

As described in note 3(b)(i) of the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, we have a 29.9% interest in the ordinary shares of TAS, which we have determined to be a VIE that we are not required to consolidate as we are not the primary beneficiary.

The following table summarizes the amounts recorded for TAS in the consolidated balance sheets:

	April 30, 2016		July 31, 2016	
	Carrying amounts	Maximum exposure to loss	Carrying amounts	Maximum exposure to loss
Receivables, net of allowance	$3,733	$ 3,733	$2,987	$ 2,987
Equity method investment	29,508	29,508	29,860	29,860

As of July 31, 2015 and 2016, we leased eight helicopters and six helicopters, respectively, to TAS and provided crew, insurance, maintenance and base services. The total revenue earned from providing these services was $11.6 million and $9.9 million for the three months ended July 31, 2015 and 2016, respectively.

Table of Contents

CHC Group Ltd. (Debtor-in-Possession)
Notes to Interim Consolidated Financial Statements (Unaudited)
(Tabular amounts expressed in thousands of United States dollars unless otherwise noted, except share and per share information)

Under the terms of the shareholder agreement, we have exercised our right to require the majority shareholder in TAS to purchase our ordinary share interest, with the purchase price yet to be determined.

(ii) Other VIE lessors:

We have determined that the activity that most significantly impacts the economic performance of the lessor VIEs is the remarketing of the helicopters at the end of the lease term. As we do not have the power to make remarketing decisions, we have determined that we are not the primary beneficiary of the lessor VIEs.

As at July 31, 2015 and 2016, we leased from various entities considered to be VIEs 103 helicopters and 71 helicopters, respectively. All 103 and 71 leases were considered to be operating leases as at July 31, 2015 and 2016, respectively, some of which are subject to restructuring and/or rejection motions filed by the Debtors as detailed in notes 4 and 9 respectively.

4. Restructuring:

We are undergoing a comprehensive review of our operations, organizational structure and fleet with the view to reducing operating costs. In connection with the ongoing review, we have incurred restructuring expenses consisting of employee related severance costs and other associated costs. The majority of the payments relating to the accrual as at July 31, 2016 will be made in fiscal 2017.

We have also incurred restructuring expenses related to contractual lease, maintenance and other costs on specific leased helicopters we have permanently ceased use of in operations and do not form part of our prospective fleet strategy. On May 5, 2016, the Debtors filed Petitions seeking relief under the Bankruptcy Code, as described in note 1. As at July 31, 2016, the Bankruptcy Court had approved motions to reject 9 helicopter operating leases which were recorded within restructuring liabilities. The Debtors have filed rejection motions for the majority of the remaining helicopter leases classified as a restructuring liability. These amounts have been reclassified to liabilities subject to compromise.

The following table summarizes the activity of the restructuring liability for the three months ended July 31, 2016:

	Employee related severance and other costs	Lease associated costs	Total
Balance at April 30, 2015	$ 23,829	$ 48,583	