Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2015

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	June 30, 2015 $	December 31, 2014 $
Assets		
Current assets		
Cash and cash equivalents	54,465	114,578
Restricted cash	2,544	3,277
Accounts receivable – trade and other	91,626	66,229
Inventories	46,756	43,493
Prepaid expenses and deposits	18,117	16,757
Total current assets	213,508	244,334
Property and equipment	674,523	594,486
Intangibles (note 4)	3,207	—
Goodwill	7,150	6,693
Other assets	34,143	36,417
	932,531	881,930
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	209,794	215,325
Current portion of obligations under finance leases	1,504	3,352
Current portion of long-term incentive plan	5,632	6,358
Current portion of long-term debt	38,737	35,376
Current portion of consideration payable (note 4)	11,319	—
Dividends payable	4,889	4,509
Income tax payable	5,269	—
Total current liabilities	277,144	264,920
Long-term debt	376,488	368,682
Consideration payable (note 4)	18,334	—
Deferred income tax (note 5)	66,177	45,974
Other long-term liabilities	67,369	72,294
	805,512	751,870
Equity	127,019	130,060
	932,531	881,930

Economic dependence (note 10)
Contingencies (note 9)
Subsequent event (note 12)

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Contributed surplus $	Equity component of convertible debentures $	Total $
Balance - December 31, 2013	5,116	(875,736)	1,047,104	9,497	185,981
Net income for the period	—	42,120	—	—	42,120
Other comprehensive loss for the period (net of tax)	—	(15,289)	—	—	(15,289)
Comprehensive income for the period	—	26,831	—	—	26,831
Dividends	—	(27,370)	—	—	(27,370)
Repurchase of shares under normal course issuer bid	(75)	—	(7,219)	—	(7,294)
Redemption of convertible debentures	—	—	9,497	(9,497)	—
Conversion of convertible debentures	9	—	—	—	9
Expense related to stock-based compensation plans	—	—	471	—	471
Reclassification of stock-based compensation from equity settled to cash settled liability	—	—	(6,093)	—	(6,093)
Balance - June 30, 2014	5,050	(876,275)	1,043,760	—	172,535
Net income for the period	—	22,590	—	—	22,590
Other comprehensive loss for the period (net of tax)	—	(33,943)	—	—	(33,943)
Comprehensive loss for the period	—	(11,353)	—	—	(11,353)
Dividends	—	(27,084)	—	—	(27,084)
Repurchase of shares under normal course issuer bid	(21)	—	(2,057)	—	(2,078)
Expense related to stock-based compensation plans	—	—	297	—	297
Reclassification of stock-based compensation from equity settled to cash settled liability	—	—	(2,257)	—	(2,257)
Balance - December 31, 2014	5,029	(914,712)	1,039,743	—	130,060
Net income for the period	—	6,655	—	—	6,655
Other comprehensive income for the period (net of tax)	—	6,674	—	—	6,674
Comprehensive income for the period	—	13,329	—	—	13,329
Dividends	—	(28,479)	—	—	(28,479)
Expense related to stock-based compensation plans	—	—	319	—	319
Share issuance for stock-based compensation plans	3,018	—	—	—	3,018
Share issuance for acquisition of 519222 Ontario Limited (note 4)	8,772	—	—	—	8,772
Balance - June 30, 2015	16,819	(929,862)	1,040,062	—	127,019

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

Unaudited Consolidated Statements of Income
For the three and six-month periods ended June 30, 2015 and 2014

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
Operating revenue (note 10)				
Passenger	393,027	414,300	764,548	825,121
Other	7,028	3,536	10,608	7,296
	400,055	417,836	775,156	832,417
Operating expenses (note 10)				
Salaries, wages and benefits	106,595	103,419	224,653	207,534
Aircraft fuel	71,997	96,651	135,219	192,112
Depreciation and amortization	14,016	16,395	26,155	32,482
Food, beverage and supplies	3,087	4,373	5,872	8,624
Aircraft maintenance materials, supplies and services	51,021	41,889	101,045	81,443
Airport and navigation fees	43,688	42,303	83,666	81,789
Aircraft rent	25,343	23,001	51,052	46,653
Terminal handling services	12,567	24,326	30,122	55,321
Other	33,693	31,211	63,472	60,959
	362,007	383,568	721,256	766,917
Operating income	38,048	34,268	53,900	65,500
Non-operating income (expenses)				
Interest revenue	274	216	611	537
Interest expense	(3,755)	(3,984)	(7,388)	(10,149)
Gain on disposal of property and equipment	157	71	160	87
Foreign exchange gain (loss)	5,671	11,817	(28,190)	(1,784)
Other	500	500	500	500
	2,847	8,620	(34,307)	(10,809)
Income before income taxes	40,895	42,888	19,593	54,691
Income tax expense (note 5)				
Current income tax	(2,379)	(414)	(5,593)	(546)
Deferred income tax	(7,105)	(5,976)	(7,345)	(12,025)
	(9,484)	(6,390)	(12,938)	(12,571)
Net income	31,411	36,498	6,655	42,120
Earnings per share, basic	0.26	0.30	0.05	0.34
Earnings per share, diluted	0.25	0.29	0.05	0.34

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 and six-month periods ended June 30, 2015 and 2014

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**
Net income	31,411	36,498	6,655	42,120
Other comprehensive gain				
Items that will not be subsequently reclassified to the statements of income				
Actuarial gain (loss) on employee benefit liabilities, net of tax (recovery) expense of ($5,464) and ($2,577) (2014 - $2,256 and $5,748)	14,150	(5,998)	6,674	(15,289)
Comprehensive income	45,561	30,500	13,329	26,831

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 six-month periods ended June 30, 2015 and 2014

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
Cash provided by (used in)				
Operating activities				
Net income	31,411	36,498	6,655	42,120
Charges (credits) to operations not involving cash				
Depreciation and amortization	14,016	16,395	26,155	32,482
Amortization of prepaid aircraft rent and related fees	1,918	595	2,514	1,191
Gain on disposal of property and equipment	(157)	(71)	(160)	(87)
Unrealized foreign exchange (gain) loss on long-term debt and finance leases	(7,577)	(14,301)	26,100	411
Realized foreign exchange loss on long-term debt	3,130	—	4,850	—
Effect of foreign exchange on cash and cash equivalents	729	—	(2,372)	—
Deferred income tax expense	7,105	5,976	7,345	12,025
Accretion of debt component of convertible debentures	—	163	—	1,675
Other	(1,136)	2,674	(1,005)	5,118
	49,439	47,929	70,082	94,935
Net changes in non-cash balances related to operations (note 11)	(15,092)	(1,157)	(11,351)	(2,428)
	34,347	46,772	58,731	92,507
Financing activities				
Repayment of obligations under finance leases	(1,050)	(852)	(2,078)	(1,689)
Repayment of long-term borrowings	(9,942)	(7,801)	(18,807)	(14,715)
Redemption of convertible debentures	—	(20,201)	—	(80,201)
Restricted cash related to aircraft financing	5,930	—	5,930	—
Repurchase of shares under normal course issuer bid	—	(7,294)	—	(7,294)
Dividends	(14,550)	(13,786)	(28,098)	(27,572)
	(19,612)	(49,934)	(43,053)	(131,471)
Investing activities				
Business acquisition, net of cash acquired	(45,474)	—	(45,474)	—
Additions to property and equipment	(23,139)	(7,906)	(33,582)	(14,606)
Proceeds on disposal of property and equipment	157	71	160	87
Decrease in restricted cash related to letters of credit	797	—	733	—
	(67,659)	(7,835)	(78,163)	(14,519)
Effect of foreign exchange rate changes on cash and cash equivalents	(729)	—	2,372	—
Net change in cash and cash equivalents during the periods	(53,653)	(10,997)	(60,113)	(53,483)
Cash and cash equivalents – Beginning of periods	108,118	117,415	114,578	159,901
Cash and cash equivalents – End of periods	54,465	106,418	54,465	106,418

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.

References to Chorus in the following notes to the unaudited interim condensed 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 trans-border network. Jazz and Air Canada are parties to a capacity purchase agreement, defined below, under which Air Canada purchases the greater part 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. 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") (refer to note 10 - Economic Dependence for further details).

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, 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 anticipated to occur in the fourth quarter of 2015.

On May 1, 2015, Chorus successfully completed its acquisition of 519222 Ontario Limited, the holding company that owns Voyageur Airways Limited and its related companies, (collectively "Voyageur") a leading provider of specialized aviation services with international operations (refer to note 4 - Business Acquisition).

Under the CPA, Chorus has historically experienced greater demand for its services under the CPA 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 generally affected by seasonality. Seasonality also has little effect on the other lines of business operated by Chorus. The Company has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' revenues do not fluctuate significantly with Passenger Load Factors.

(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, 2014. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2014.

These financial statements have been authorized for issuance by the Board of Directors on August 11, 2015.

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, 2014. Refer to note 3 of Chorus' consolidated financial statements for the year ended December 31, 2014 for information on new accounting standards and amendments not yet effective.

a) Principles of consolidation

These financial statements include the accounts of Chorus and its subsidiaries. Subsidiaries are all entities which Chorus controls. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained and are de-consolidated from the date that control ceases. All inter-company balances and transactions are eliminated.

b) Intangible assets

Intangible assets are recorded at cost. Chorus has intangible assets with indefinite lives and intangible assets with finite lives as follows:

Trade name	Indefinite life - not amortized
Customer relationships	Finite life - amortized on a straight line basis over 3-5 years

The indefinite life intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. The assessment of indefinite life is reviewed each period to determine whether the indefinite life assumption continues to be supportable. If it is deemed unsupportable, the change in the useful life from indefinite to finite life is made and amortization is recognized on a prospective basis.

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

Significant accounting judgements and estimation uncertainty

Operating revenue

Under the CPA, Chorus and Air Canada are to re-set detailed rates applicable to the year ending December 31, 2015. The new rates will be retroactive to January 1, 2015. The negotiation of these rates has not been completed. As a result, Chorus used rates based both on contractually obligated costs and a mutually agreed upon interim escalation rate of 1.25%, plus the prior year's rate as the basis for estimating CPA operating revenues during the six-month period ended June 30, 2015. Once the new rates are established, Chorus and Air Canada will reconcile amounts already recorded to those rates now under negotiation. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. As such, Chorus' revenue is subject to judgement and estimate uncertainty. If the negotiated rates were to differ 1% from the current estimate being used, the amount of operating revenue recognized under the CPA in the quarter would change by approximately $3,400.

Depreciation of long-lived assets

In the first quarter of 2015, Chorus reviewed the estimated useful economic lives and residual value of its owned aircraft and flight equipment. As a result, the expected estimated useful economic lives of certain of these assets have been extended and there was no significant impact related to the residual value. The effect of these changes was a reduction to depreciation expense for the three and six months ended June 30, 2015 of approximately $5,800 and $10,800, respectively. The impact of this change was offset by flight equipment acquired in 2014 and 2015 and capitalized major maintenance overhauls, for a net change in depreciation period-over-period and year-over-year of approximately $4,200 and $8,100, respectively.

Business combinations

Chorus applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of an entity is equal to the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair value of the acquired company's assets and assumed liabilities. There are various assumptions made when determining the fair value of the acquired company's assets and assumed liabilities. The most significant assumptions and those requiring the most judgement involve the estimated fair value of intangible assets.

Consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by Chorus is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognized in profit or loss.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer relationships and trade name. To determine the fair value of these customer based intangible assets, significant assumptions were made, which include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

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

4 Business Acquisition

Business Acquisition - 519222 Ontario Limited

On May 1, 2015, Chorus acquired all of the outstanding shares of 519222 Ontario Limited, a holding company that owns Voyageur Airways Limited and its related companies ("Voyageur"). Headquartered in North Bay, Ontario, Voyageur, is a Transport Canada approved air operator, and an integrated provider of specialized aviation services, including contract flying operations both internationally and domestically. It also provides advanced engineering and maintenance services. The total consideration is expected to approximate $85,256, consisting of cash in the amount of $47,000 paid at closing, and cash of $31,439 payable over three years, which has been recorded at the fair value on the date of acquisition of $29,484; and 1,457,194 Voting Shares of Chorus valued at $8,772, being the fair value of the shares on the date of acquisition issued at closing to the vendor. The portion of the purchase price payable over three years includes contingent consideration in the gross amount of $2,000 provided certain performance targets are met in the 24 months following closing and a gross working capital adjustment estimated to be $4,439. The remainder of the gross consideration is payable over 36 months from closing and does not bear interest. As a result an amount of $1,955, determined to represent the fair value of the interest savings has been recorded as a reduction to the purchase price, calculated as imputed interest. Transaction costs totaling $2,810 have been incurred in 2014 and 2015 in connection with the acquisition and are included in other expenses.

Chorus uses the acquisition method to account for business combinations. As such, the results of operations include revenue and expenses of Voyageur since May 1, 2015. The revenue of Voyageur included in the consolidated statement of income since the acquisition date was $12,661, for the three and six months ended June 30, 2015. The net income of Voyageur included in the consolidated statement of income since the acquisition date was $788 for the three and six months ended June 30, 2015. If Voyageur had been part of the Chorus consolidated group since January 1, 2015, the consolidated revenue would have been $418,762 and $812,390 for the three and six months ended June 30, 2015 and net income would have been $32,532 and $8,107 for the same periods.

The purchase price has been allocated, on a preliminary basis to the assets acquired and the liabilities assumed based on their estimated fair values as follows:

Purchase Price

Cash consideration	$	47,000
Share consideration		8,772
Consideration payable		29,484
Total consideration to allocate	$	85,256

Given the timing of the acquisition and the complexities involved in determining the fair values of the identifiable assets, a provisional estimate of the purchase price allocation and fair value of tangible and intangible assets was performed during the quarter ended June 30, 2015.

The fair value of the contingent consideration was determined to be $1,806 using a present valued probability-weighted income approach. Key assumptions include probability-adjusted earnings before tax, interest and depreciation ("EBITDA") with discount rates consistent with the level of risk of achievement.

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

4 Business Acquisition (continued)

Recognized amounts of identifiable assets acquired and liabilities assumed - preliminary:

Assets		
Cash	$	1,526
Accounts receivable - trade and other		14,574
Inventories		5,882
Prepaid expenses and deposits		3,553
Property and equipment		72,610
Customer relationships		1,526
Trade name		1,681
Goodwill		457
		101,809
Liabilities		
Accounts payable and accrued liabilities		6,272
Deferred income tax		10,281
		16,553
	$	85,256

Chorus will finalize the purchase price allocation upon completion of the review of certain working capital balances and the determination of the fair value of the tangible and intangible assets acquired. The fair values of the property and equipment, intangible assets and inventories are being determined with the assistance of independent third party valuators. Any future adjustment resulting from the completion of the valuation exercise will be recorded as a measurement period adjustment. Goodwill attributable to the acquisition arises from Voyageur's assembled workforce at the time of acquisition and is not expected to be deductible for tax purposes.

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

5 Income taxes

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

	Three months ended June 30,			
	2015 %	2015 $	2014 %	2014 $
Income tax expense at the Canadian statutory tax rate	29.2	11,949	29.2	12,540
Recognition of previously unrecognized cumulative eligible capital	(5.6)	(2,309)	(5.6)	(2,426)
Net impact of capital items (1)	(4.4)	(1,799)	(9.9)	(4,244)
Non-deductible expenses	4.0	1,643	1.2	520
Income tax expense	23.2	9,484	14.9	6,390

	Six months ended June 30,			
	2015 %	2015 $	2014 %	2014 $
Income tax expense at the Canadian statutory tax rate	27.3	5,345	28.4	15,514
Recognition of previously unrecognized cumulative eligible capital	(23.6)	(4,618)	(8.9)	(4,886)
Net impact of capital items (1)	47.5	9,314	1.0	530
Non-deductible expenses	14.6	2,897	2.5	1,413
Income tax expense	65.8	12,938	23.0	12,571

(1) The impact of capital items is mainly related to the foreign exchange fluctuations on the long-term debt associated with the purchase of the Q400 NextGen aircraft, of which the impact of the non-deductible (non-taxable) portion of any unrealized loss (gain) is considered in the calculation of income tax expense at the end of each period. To the extent that a capital loss is recorded for accounting purposes, the benefit of the deductible portion of the loss is recognized only to the extent that it is probable that the loss will be utilized. 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 $456,995 as at June 30, 2015, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three and six months ended ended June 30, 2015, Chorus utilized a total of $8,288 ($2,309 tax effected) and $16,575 ($4,618 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income. During the three and six months ended ended June 30, 2014, Chorus utilized a total of $8,879 ($2,426 tax effected) and $17,886 ($4,886 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at June 30, 2015, Chorus had $52,715 (December 31, 2014 - $37,794) 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.

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

6 Capital stock

Capital stock

Authorized:

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

Issued and outstanding:

	Number of Shares(1)	$
Shares issued and outstanding December 31, 2014	120,252,939	5,029
Shares issued for stock-based compensation plans(2)	522,264	3,018
Shares issued for acquisition of Voyageur (note 4)	1,457,194	8,772
Shares issued and outstanding June 30, 2015	122,232,397	16,819

1) References to "Shares" above are inclusive of Variable Voting Shares and Voting Shares. As at June 30, 2015, Chorus had 6,937,793 Variable Voting Shares (December 31, 2014 - 5,191,462) and 115,294,604 Voting Shares (December 31, 2014 - 115,061,477) issued and outstanding.

2) On February 24, 2015 Chorus issued 522,264 Voting Shares to satisfy the vesting of awards made under the long-term incentive plan. The shares were issued at market price at closing on the day of issuance, net of amounts, if applicable, Chorus paid in withholding taxes on behalf of the employees.

As at June 30, 2015 Chorus had weighted average potentially dilutive shares related to stock-based compensation that were excluded from the calculation of dilutive loss per share of 3,279,665 and 2,963,529 for the three and six months ended June 30, 2015, respectively, as their effect would have been anti-dilutive.

Total compensation expense related to stock-based compensation (including the long-term incentive plan, the deferred share unit plan, stock options and the employee share ownership plan) for the three and six months ended June 30, 2015 was $3,487 and $10,070, respectively (2014 - $2,431 and $3,890, respectively).

7 Credit facilities

As at June 30, 2015, Chorus' subsidiaries had a combined total of $36,000 in secured revolving credit facilities. Under one of the revolving credit facilities, Chorus has provided letters of credit totaling $4,004 to third parties, to indemnify them, in the event the Company does not perform its contractual obligations. Chorus has not recorded any additional liability with respect to these letters of credit, as the Company is not expected to make any payments in excess of what is recorded in the Company's financial statements. The letters of credit mature at various dates ranging from September 2015 to June 2017.

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 items noted below, all financial instruments have fair value that approximate carrying value due to their short-term nature.

Chorus' financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, asset backed commercial paper, accounts payable and accrued liabilities, dividends payable, 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 June 30, 2015, the fixed rate term loans had a fair value of $409,757 compared to a carrying value of $415,219. 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.

9 Contingencies

The CBCA and bylaws of Chorus provide that each Director will be entitled to indemnification from Chorus in respect of the exercise of the Director’s power and the discharge of the Director’s duties, provided that the Director acted honestly and in good faith with a view to the best interests of all shareholders, or in the case of a criminal or administrative action proceeding that is enforced by a monetary penalty, where the Director had reasonable grounds for believing that his or her conduct was lawful. Chorus and its subsidiaries have agreed to indemnify their respective directors and officers against certain costs and damages incurred by the directors and officers as a result of lawsuits or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. The directors and officers are also covered by directors’ and officers’ liability insurance. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

Various other lawsuits and claims that have arisen in the normal course of business are pending by and against Chorus. The provisions, 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.

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

9 Contingencies (continued)

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 parties' gross negligence or wilful misconduct.

10 Economic dependence

For a detailed description of the most recent amendments to the CPA effective January 1, 2015, please refer to note 22 of Chorus' consolidated financial statements for the year ended December 31, 2014.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
Operating revenue				
Air Canada	381,444	411,324	751,510	819,654
Operating expenses				
Air Canada	882	16,152	1,723	36,519
Air Canada Capital Ltd.	21,511	21,149	45,607	42,653

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

	June 30, 2015	December 31, 2014
	$	$
Accounts receivable		
Air Canada	62,482	51,894
Accounts payable and accrued liabilities		
Air Canada	46,715	54,773
Air Canada Capital Ltd.	9,212	8,419

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

10 Economic dependence (continued)

Other

Air Canada provides certain supplies, primarily fuel, from third parties to Chorus and subsequently collects payment from Chorus. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed. Air Canada also provides ground handling services.

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the CPA.

The balances in accounts payable and accrued liabilities are payable on normal trade terms and have arisen from the services provided by the applicable party.

11 Statement of cash flows - supplementary information

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	$	$	$	$
(Increase) decrease in accounts receivable – trade and other	(19,891)	1,504	(10,823)	5,651
Decrease (increase) in inventories	1,381	630	2,619	(2,043)
Decrease (increase) in prepaid expenses	4,039	(4,720)	2,192	406
Increase in other assets	(337)	(1,813)	(4,162)	(6,760)
(Decrease) increase in accounts payable and accrued liabilities	(1,295)	3,689	(11,671)	356
Increase in current portion of long-term incentive plan	734	625	2,292	884
Increase in income tax payable	1,924	—	5,138	—
(Decrease) increase in other long-term liabilities	(1,647)	(1,072)	3,064	(922)
	(15,092)	(1,157)	(11,351)	(2,428)

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

11 Statement of cash flows - supplementary information (continued)

b) Other

	Three months ended June 30,		**Six months ended June 30,**	
	2015	**2014**	**2015**	**2014**
	$	**$**	**$**	**$**
Cash payments of interest	3,833	4,660	7,269	8,665
Cash receipts of interest	284	203	638	581
Cash payments of tax	251	293	251	2,493
Cash and cash equivalents comprise:				
Cash	54,465	106,418	54,465	106,418

12 Subsequent event

On July 27, 2015, Chorus purchased two Dash 8-300 aircraft that had been in the fleet pursuant to operating leases which were terminated co-incident with the purchase. The purchase price for these two aircraft was US$9,650 which was paid from cash on hand. These aircraft will continue to be allocated for charter purposes.