chorus
aviation inc.

Second Quarter 2015 Management's Discussion and Analysis of Results of Operations and Financial Condition

August 11, 2015

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1 OVERVIEW

The financial and operating highlights for Chorus are as follows:

Financial information

(unaudited)	Three months ended June 30, 2015	2014	Change	Six months ended June 30, 2015	2014	Change
Operating revenue ($000)	400,055	417,836	(17,781)	775,156	832,417	(57,261)
Operating expenses ($000)	362,007	383,568	(21,561)	721,256	766,917	(45,661)
Operating income ($000)	38,048	34,268	3,780	53,900	65,500	(11,600)
Net income for the period ($000)	31,411	36,498	(5,087)	6,655	42,120	(35,465)
Adjusted EBITDA(1) ($000)	52,064	50,663	1,401	80,055	97,982	(17,927)
Adjusted EBITDA(1), excluding other items ($000)	53,684	55,164	(1,480)	93,754	105,322	(11,568)
Adjusted net income(1) ($000)	23,834	22,197	1,637	32,755	42,531	(9,776)
Adjusted net income(1), excluding other items (2) ($000)	25,454	26,698	(1,244)	46,454	49,871	(3,417)
Net income per Share, basic ($)	0.26	0.30	(0.04)	0.05	0.34	(0.29)
Adjusted net income per Share, basic (1) ($)	0.20	0.18	0.02	0.27	0.35	(0.08)
Adjusted net income(1), excluding other items per Share - basic(2) ($)	0.21	0.22	(0.01)	0.38	0.41	(0.03)

(1) This is a non-GAAP measurement. Refer to Section 20 – Non-GAAP Financial Measures.
(2) For the six months ended June 30, 2015, excludes $12.1 million in one-time costs associated with establishing the January 1, 2015 Amendment to the CPA.

Operating income information

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 Operations $	Leasing $	Total $	Three months ended June 30, 2014 Operations $	Leasing $	Total $
Operating revenue	384,158	15,897	400,055	403,782	14,054	417,836
Operating expenses	357,281	4,726	362,007	378,776	4,792	383,568
	26,877	11,171	38,048	25,006	9,262	34,268
Adjusted EBITDA	36,167	15,897	52,064	36,609	14,054	50,663

The year 2015 is expected to be transitional as the January 1, 2015 Amendment to the CPA is implemented, fleet renewal begins under the amended CPA and the acquisition of Voyageur. As Chorus acquired Voyageur on May 1, 2015, the results of operations include revenue and expenses of Voyageur since that date (refer to Section 4 - The Chorus Business). Operating income generated from operations (contract and charter flying and aviation industry services, including Voyageur for $0.6 million) for the three months ended June 30, 2015, compared to the same period 2014, increased by $1.9 million. Operating income for the aircraft leasing operations under the CPA increased by $1.9 million due a favourable US dollar exchange rate. The net increase of $1.3 million in operating income under operations, excluding the impact of Voyageur, was mostly attributable to: reduction in employee separation program costs, more labour and maintenance costs being capitalized on owned aircraft for major maintenance overhauls; offset by increased stock-based compensation, increased professional fees related to the Voyageur acquisition, and the absence in this quarter of Compensating Mark-Up.

The $1.4 million increase in Adjusted EBITDA resulted from the operating income increase previously described; offset by a quarter over quarter net $2.4 million decrease in depreciation and amortization expense. The decrease in depreciation and amortization expense was mostly related to a change in the estimated economic useful lives and residual values of certain owned aircraft and flight equipment in the first quarter of 2015; offset by a $1.8 million increase in depreciation and amortization attributable to Voyageur, which contributed an Adjusted EBITDA of $2.3 million in the quarter.

Operational information

	Three months ended June 30,			Six months ended June 30,		
(unaudited)	2015	2014	Change	2015	2014	Change
Jazz						
Departures	65,190	65,539	(349)	125,173	127,451	(2,278)
Block Hours	90,362	91,032	(670)	176,053	180,120	(4,067)
Billable Block Hours	91,559	91,770	(211)	180,663	184,413	(3,750)
Number of Covered Aircraft (end of period)	120	122	(2)	120	122	(2)
Chorus						
FTE employees (end of period)(1)	4,467	4,320	147	4,467	4,320	147
Number of Operating Aircraft (end of period)(2)	141	125	16	141	125	16

(1) Includes 283 FTEs for Voyageur for 2015.

(2) In 2015 includes 17 aircraft for Voyageur and four aircraft for charter (2014 includes three aircraft for charter) (refer to Section 7 - Fleet).

2 AMENDED CAPACITY PURCHASE AGREEMENT

Effective January 1, 2015, Chorus and Air Canada entered into a CPA 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 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 an event of force majeure, (ii) change of control, (iii) non-competition and (iv) other matters (referred to herein as the "January 1, 2015 Amendment"). With regard to payment for services delivered under the CPA as a result of 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.

There are three cost reclassifications effected with the implementation of the January 1, 2015 Amendment during 2015; (i) previous Controllable Costs no longer billed, (ii) previous Pass-Through Costs no longer billed and (iii) previous Controllable Costs moved to Pass-Through Costs. The following table summarizes the changes implemented in the January 1, 2015 Amendment as at June 30, 2015 and the previous CPA terms that were in effect at December 31, 2014.

Changes to the CPA Cost Categorization & Rate Periods by Operating Expense & Detailed Description[(1)]								
CPA Cost Categorization	**CPA Prior to 2015**				**January 1, 2015 Amendment**			
(unaudited)	Controllable Cost	Pass-Through Cost	Cost no longer billed to Chorus	Rate Periods	Controllable Cost	Pass-Through Cost	Cost no longer billed to Chorus	Rate Periods
Salaries, wages and benefits								
- Crew wages & benefits	X				X			11 years[(2)]
- All others	X				X			Annually[(3)]
Aircraft fuel								
- All costs		X		NA			X[(6)]	NA
Depreciation and amortization								
- All costs	X			3 Years	X			3 Years
Food, beverage and supplies								
- All costs	X			3 Years		X[(4)]		NA
Aircraft maintenance, materials and supplies								
- All costs	X			3 Years	X			Annually
Airport and navigation fees		X		NA		X[(4)]		NA
Aircraft rent								
- Chorus Q400 leased through CPA	X			Lease term	X			Lease term
- 3rd party operating leases	X			3 Years	X			3 Years
- Air Canada & subsidiary leases to Chorus	X			3 Years	X			3 Years
Terminal handling services								
- Groundhandling services from Air Canada	X			3 Years			X[(4)]	NA
- Groundhandling from 3rd parties	X			3 Years		X[(4)]		NA
- De-icing services from Air Canada		X		NA			X[(4)]	NA
- All others	X			3 Years	X			Annually
Other								
- Aircraft parking	X			3 Years		X[(4)]		NA
- Interrupted trips & baggage delivery	X			3 Years		X[(4)]		NA
- Station supplies for processing	X			3 Years		X[(4)]		NA
-3rd party facilities	X			3 Years		X[(5)]		NA
Passengers								
- Air Canada facilities	X			3 Years			X[(4)]	NA
- All others	X			3 Years	X			Annually

(1) For the calendar years 2015 to 2020, compensation will be based on 101 Covered Aircraft, notwithstanding the actual number of Covered Aircraft during that time. For the calendar years 2021 to 2025, the actual number of Covered Aircraft will be used.
(2) Adjusted for pilot flow, schedule efficiency, Block Hours and regulatory changes.
(3) Reset annually, subject to certain conditions.
(4) These costs transitioned in the first quarter of 2015.
(5) These costs transitioned in the second quarter of 2015.
(6) Fuel transition is expected to occur in the fourth quarter of 2015.

The following table outlines the impact of these contractual changes in the different operating expense line items.

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 Contractual variances $	= Contractual variance: 2014 Controllable Costs no longer billed $	2014 Pass-Through Costs no longer billed $	2014 Controllable Costs moved to Pass-Through Costs $	Six months ended June 30, 2015 Contractual variances $	= Contractual variance: 2014 Controllable Costs no longer billed $	2014 Pass-Through Costs no longer billed $	2014 Controllable Costs moved to Pass-Through Costs $
Expenses								
Food, beverage and supplies	(418)	(418)	—	—	(808)	(808)	—	—
Terminal handling services	(12,724)	(11,532)	(1,192)	—	(29,306)	(22,779)	(6,527)	—
Other	(2,453)	(1,776)	(677)	—	(5,247)	(3,809)	(1,438)	—
Total contractual variances	(15,595)	(13,726)	(1,869)	—	(35,361)	(27,396)	(7,965)	—
Summary								
Controllable Costs	(26,499)	(13,726)	—	(12,773)	(50,236)	(27,396)	—	(22,840)
Pass-Through Costs	10,904	—	(1,869)	12,773	14,875	—	(7,965)	22,840
Total contractual variances	(15,595)	(13,726)	(1,869)	—	(35,361)	(27,396)	(7,965)	—

3 INTRODUCTION

In this MD&A, references to Chorus or the Company refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to Jazz Aviation LP ("Jazz").

This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements of Chorus and the notes therein for the three and six months ended June 30, 2015, the audited consolidated financial statements of Chorus for the year ended December 31, 2014, Chorus' annual MD&A dated February 18, 2015, and Chorus' Annual Information Form dated March 30, 2015. All financial information has been prepared in accordance with GAAP, as set out in the CPA Canada Handbook, except for any financial information specifically denoted otherwise. Except as otherwise noted or where the context may otherwise require, this MD&A is prepared as of August 11, 2015.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 21 – Risk Factors.

Except where the context otherwise requires, all amounts are stated in Canadian dollars.

Caution regarding forward-looking information

Certain information in this MD&A may contain statements which are forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to Chorus’ relationship with Air Canada, risks relating to the airline industry and in particular the international operation of airlines in developing countries and areas of unrest, airline leasing, energy prices, general industry, market, credit, and economic conditions,(including a severe and prolonged economic downturn which could result in reduced payments under the CPA), competition, insurance issues and costs, supply issues, war, terrorist attacks, aircraft incidents, epidemic diseases, environmental factors, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, the ability of Chorus to secure financing, the ability of Chorus to renew and/or replace existing contracts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate, pending and future litigation and actions by third parties. For a discussion of certain risks, please refer to Section 21 - Risk Factors. Examples of forward-looking information in this MD&A include the description of deferred cash payments to be made in connection with the acquisition of Voyageur in Section 4 - The Chorus Business, the discussion of the rates payable pursuant to the CPA in Section 15 - Critical Accounting Estimates, the discussion of insurance recovery in Section 7 - Fleet, and the 2015 outlook discussion in Section 18 - 2015 Outlook. The forward-looking statements contained in this discussion represent Chorus’ expectations as of August 11, 2015 and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

4 THE CHORUS BUSINESS

Chorus is a holding company incorporated on September 27, 2010 pursuant to the *Canada Business Corporations Act,* with various aviation interests. Chorus' key strategies are:

- Return of Shareholder value through improved liquidity, strengthening of the balance sheet, and payment of dividends;
- Cost control (cost savings initiatives) and sustainable cost reduction and efficiencies under the CPA with Air Canada; and
- Diversification and growth of EBITDA by leveraging Chorus’ aviation expertise.

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 the CPA under which Air Canada purchases the greater part of Jazz’s fleet capacity at pre-determined rates. Under the CPA, Jazz provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada and to and from certain destinations in the United States. As at June 30, 2015, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 799 departures per weekday to 54 destinations in Canada and 19 destinations in the United States, using 120 Covered Aircraft. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and provide valuable traffic feed to Air Canada’s mainline routes.

Jazz operates the CPA flights on behalf of Air Canada under the "Air Canada Express" brand. Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft (refer to Section 21 - Risk Factors).

Jazz is economically and commercially dependent on Air Canada and one of its subsidiaries as, in addition to being Chorus' primary source of revenue, these entities currently provide services and aircraft to Jazz (refer to Section 14 - Economic Dependence). Jazz is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to Section 21 - Risk Factors).

On January 30, 2015, Chorus announced that Jazz's pilots, represented by ALPA, had ratified the tentative agreement reached on January 13, 2015. The term of this agreement is 11 years expiring on December 31, 2025 and contains provisions prohibiting strikes and lockouts. The ratification of this new collective agreement was a condition to establishing the January 1, 2015 Amendment.

In connection with the January 1, 2015 Amendment, Chorus exercised its nine remaining options to purchase new Q400 aircraft under its purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft ("Bombardier"), and amended that purchase agreement to add firm orders for four additional Q400 aircraft and options for up to ten additional Q400 aircraft.

Chorus has also entered into an agreement with Bombardier to be the launch customer for the Dash 8-300 Extended Service Program ("ESP"). The ESP is expected to extend the service life of the Dash 8-300 aircraft by 50% (or approximately 15 years). This agreement covers a minimum of 19 aircraft and the ESP is anticipated to begin in early 2017.

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 $85.3 million consisting of cash in the amount of $47.0 million paid at closing, and cash of $31.4 million payable over three years which has been recorded at the fair value on the date of acquisition of $29.5 million and 1,457,194 Voting Shares of Chorus valued at $8.8 million, 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 $2.0 million provided certain performance targets are met in the 24 months following closing and a gross working capital adjustment estimated to be $4.4 million. The remainder of the gross consideration is payable over 36 months from closing and does not bear interest. As a result an amount of $2.0 million, 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 $2.8 million have been incurred during 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.

On June 3, 2015, Chorus announced that its dispatchers, represented by the Canadian Air Line Dispatchers Association ("CALDA"), had ratified the tentative agreement reached on May 27, 2015. The term of the agreement is just under 11 years, expiring on December 31, 2025.

5 SECOND QUARTER ANALYSIS

Revenue

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 $	 2014 $	 Change $
Flight revenue including charter[1]	209,807	218,642	(8,835)
Aircraft leasing revenue under the CPA	15,897	14,054	1,843
CPA margin compensation	33,061	35,028	(1,967)
CPA Pass-Through Revenue	134,262	146,576	(12,314)
Passenger revenue	393,027	414,300	(21,273)
Other revenue	7,028	3,536	3,492
	400,055	417,836	(17,781)

(1) Charter includes Jazz and Voyageur.

Operating revenue decreased from $417.8 million to $400.1 million, representing a decrease of $17.8 million or 4.3%.

Flight revenue including charter

Flight revenue including charter decreased by $8.8 million or 4.0%. Under the CPA as amended by the January 1, 2015 Amendment, certain items provided to Chorus by Air Canada, such as ground handling at major hubs and facilities have been removed from flight revenue. Other items, such as third party ground handling services and catering and commissary, have been re-classified as Pass-Through Costs and removed from flight revenue. The flight revenue reduction related to these changes was $26.5 million. In addition, decreased CPA Billable Block Hours accounted for a $1.0 million reduction in flight revenue. These decreases were offset by a favourable US dollar exchange rate which resulted in a $8.8 million increase in the quarter and rate increases pursuant to the CPA accounted for an increase of approximately $1.7 million. As well, new flight revenue from the Voyageur operation accounted for $8.2 million.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $1.8 million. The increase was related to a favourable US dollar exchange rate. Aircraft leasing revenue under the CPA is generated from the current 21 Q400 aircraft and four Q400 engines owned by JLI and leased to Jazz. The Q400 aircraft lease revenue under the CPA is reflected in revenue, and is designed to provide compensation to Chorus based on market lease rates.

CPA margin compensation

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 $	 2014 $	 Change $
Fixed Margin and Infrastructure Fee per Covered Aircraft	27,417	—	27,417
Mark-up, excluding Compensating Mark-Up	—	28,055	(28,055)
Compensating Mark-Up	—	1,278	(1,278)
Incentives	5,644	5,695	(51)
	33,061	35,028	(1,967)

Under the CPA as amended by the January 1, 2015 Amendment, Chorus' margin compensation changed from a mark-up on Controllable Cost rates to a fixed fee arrangement. The mark-up and Compensating Mark-Up concepts have been eliminated. Based on the current fleet plan and the terms of the January 1, 2015 Amendment, margin compensation for 2015 to 2020 is contractually set at $109.7 million annually, or $27.4 million quarterly.

In 2014, the Compensating Mark-Up formula contained in the CPA was applied and the Controllable Mark-Up was increased to compensate Chorus for reduced operating margin and increased Unit Costs resulting from the reduced Block Hours. As a result, Chorus recorded $1.3 million in Compensating Mark-Up in the second quarter of 2014 as an increase in operating revenue.

Incentives earned under the CPA decreased $0.1 million or 0.9%. For the three months ended June 30, 2015, Chorus earned $5.6 million (2014 - $5.7 million) in performance incentives, or 96.7% (2014 - 95.0%) of the maximum available under the CPA as amended by the January 1, 2015 Amendment.

CPA Pass-Through Revenue

Pass-Through Revenue decreased by $12.3 million or 8.4%, from $146.6 million to $134.3 million, which included a decrease of $24.8 million related to fuel costs driven primarily by a decline in jet fuel prices. Under the CPA as amended by the January 1, 2015 Amendment, compensation for deicing and certain other costs provided to Chorus by Air Canada will no longer be billed. This change resulted in a decrease of $1.9 million. As a result of the January 1, 2015 Amendment, other costs, such as third party ground handling services and catering and commissary, have been re-classified to Pass-Through Costs and removed from Controllable Costs. This change increased Pass-Through Revenue by $12.3 million. In addition, a favourable US dollar exchange rate resulted in a $1.9 million increase in the quarter.

Other revenue

Other revenue increased by $3.5 million primarily related to increased sale of consignment inventory and new revenue from the Voyageur operation, which includes leasing and maintenance repair and overhaul.

Expenses

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 $	 2014 $	 Change $
Operating expenses			
Salaries, wages and benefits	106,595	103,419	3,176
Aircraft fuel	71,997	96,651	(24,654)
Depreciation and amortization	14,016	16,395	(2,379)
Food, beverage and supplies	3,087	4,373	(1,286)
Aircraft maintenance materials, supplies and services	51,021	41,889	9,132
Airport and navigation fees	43,688	42,303	1,385
Aircraft rent	25,343	23,001	2,342
Terminal handling services	12,567	24,326	(11,759)
Other	33,693	31,211	2,482
	362,007	383,568	(21,561)

Operating expenses decreased from $383.6 million to $362.0 million, a decrease of $21.6 million. Under the CPA as amended by the January 1, 2015 Amendment, certain items provided to Chorus by Air Canada, such as groundhandling services, facilities and deicing at the major hubs will no longer be billed. These Air Canada costs were $nil in the period compared to $15.6 million for the same period last year. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 $	 2014 $	 Change $
Adjusted salaries, wages and benefits	107,136	100,884	6,252
Stock-based compensation	3,487	2,431	1,056
Employee separation program costs	1,620	4,501	(2,881)
Capitalized major maintenance overhaul labour	(5,648)	(4,397)	(1,251)
Salaries, wages and benefits	106,595	103,419	3,176

Salaries, wages and benefits increased by $3.2 million from $103.4 million to $106.6 million. Adjusted salaries, wages and benefits (adjusted for the removal of employee separation program costs and capitalized major maintenance overhaul labour) increased $6.3 million as a result of increased pension costs and the Voyageur operation. Stock-based compensation increased primarily as a result of Chorus' increased share price. Employee separation program costs paid during the quarter were $1.6 million compared to $4.5 million in the same period of 2014. Salaries and wages were also affected by more labour costs being capitalized on owned aircraft for major maintenance overhauls of $1.3 million on a period-over-period comparison.

Aircraft fuel

Aircraft fuel cost decreased by $24.7 million from $96.7 million to $72.0 million. The decrease was primarily attributable to a decline in jet fuel prices.

Depreciation and amortization

Depreciation and amortization expense decreased by $2.4 million from $16.4 million to $14.0 million. During the three months ended March 31, 2015, Chorus reviewed the estimated useful economic lives and residual values of certain owned aircraft and flight equipment. As a result, the expected estimated useful lives of these assets have been extended. The change in estimate reduced depreciation expense for the three months ended June 30, 2015 by approximately $3.8 million, compared to the same period last year. In addition, fewer capitalized major maintenance overhauls decreased depreciation expense by $0.4 million. These decreases were offset by increased depreciation expenses related to Voyageur of $1.8 million.

Food, beverage and supplies

Food, beverage and supplies decreased by $1.3 million from $4.4 million to $3.1 million. Under the CPA as amended by the January 1, 2015 Amendment, costs for certain services provided to Chorus by Air Canada will no longer be billed. These Air Canada costs were $nil in the period compared to $0.4 million for the same period last year. Chorus negotiated new contracts in late 2014 for catering and commissary services which resulted in decreased costs of $0.8 million. The remaining difference resulted from decreased activity.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense increased by $9.1 million from $41.9 million to $51.0 million. An unfavourable US dollar exchange rate on certain maintenance material purchases accounted for a $4.7 million increase, other maintenance costs accounted for $1.9 million and the Voyageur operation accounted for $3.3 million. These increases were offset by decreased Block Hours which accounted for $0.1 million and more maintenance costs being capitalized as a result of increased major maintenance overhauls accounted for a $0.7 million decrease.

Airport and navigation fees

Airport and navigation fees increased by $1.4 million from $42.3 million to $43.7 million. The increase related to rate changes as a result of changes in aircraft deployment and rate increases at certain airports.

Aircraft rent

Aircraft rent increased by $2.3 million from $23.0 million to $25.3 million. The increase was mainly due to an unfavourable US dollar exchange rate and the Voyageur operation. These increases were offset by reduced costs related to the CRJ aircraft returned in the current quarter.

Terminal handling services

Terminal handling costs decreased by $11.8 million from $24.3 million to $12.6 million. Under the CPA as amended by the January 1, 2015 Amendment, costs for certain services provided to Chorus by Air Canada, such as ground handling and deicing at major hubs will no longer be billed. These Air Canada costs were $nil in the period compared to $12.7 million for the same period last year. Also, decreased activity accounted for $0.3 million. These decreases were offset by increased deicing costs of $0.3 million and increased rates as a result of changes in aircraft deployment of $0.4 million. In addition, the outsourcing of passenger handling services resulted in an increase of $1.1 million.

Other

Other expenses increased by $2.5 million from $31.2 million to $33.7 million. The increase was due to increased costs related to the Voyageur operation of $2.3 million, increased professional fees of $0.7 million and increased crew costs related to training and travel of $1.6 million. Under the CPA as amended by the January 1, 2015 Amendment, costs for certain services provided to Chorus by Air Canada, such as facilities at major hubs will no longer be billed. These Air Canada costs were $nil in the period compared to $2.5 million for the same period last year.

Non-operating income (expenses)

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 $	 2014 $	 Change $
Non-operating income (expenses)			
Net interest expense	(3,481)	(3,768)	287
Gain on disposal of property and equipment	157	71	86
Foreign exchange gain	5,671	11,817	(6,146)
Other	500	500	—
	2,847	8,620	(5,773)

Non-operating income decreased by $5.8 million from $8.6 million to $2.8 million.

Over the course of the first and second quarters of 2014, Chorus redeemed all of the Debentures, which accounted for a decrease in interest expense of $0.6 million related to the Debentures for the three months ended June 30, 2015. Interest expense related to long-term debt increased by $0.1 million, related to an unfavourable US dollar exchange rate for the three months ended June 30, 2015.

The strengthening of the Canadian dollar for the three months ended June 30, 2015 contributed to a foreign exchange gain of $5.7 million, compared to a foreign exchange gain of $11.8 million in the previous year. The US dollar exchange rate at June 30, 2015 was $1.2490 while the US dollar exchange rate at March 31, 2015 was $1.2666. The US dollar exchange rate at June 30, 2014 was $1.0670 while the US dollar exchange rate at March 31, 2014 was $1.1055. These rates are based on the closing day rate from the Bank of Canada.

In 2014 and 2015, Chorus met certain employment conditions required in order to obtain the maximum annual forgiveness of a portion of a forgivable loan from the province of Nova Scotia for both years, and as such $0.5 million was recorded in other income.

6 YEAR-TO-DATE ANALYSIS

Revenue

(unaudited) (expressed in thousands of Canadian dollars)	Six months ended June 30, 2015 $	 2014 $	 Change $
Flight revenue including charter[1]	408,886	431,944	(23,058)
Aircraft leasing under the CPA	31,929	28,273	3,656
CPA margin compensation	66,109	68,436	(2,327)
CPA Pass-Through Revenue	257,624	296,468	(38,844)
Passenger revenue	764,548	825,121	(60,573)
Other revenue	10,608	7,296	3,312
	775,156	832,417	(57,261)

(1) Charter includes Jazz and Voyageur.

Operating revenue decreased from $832.4 million to $775.2 million, representing a decrease of $57.3 million or 6.9%.

Flight revenue including charter

Flight revenue including charter decreased by $23.1 million or 5.3%. Under the CPA as amended by the January 1, 2015 Amendment, certain items provided to Chorus by Air Canada, such as ground handling at major hubs and facilities have been removed from flight revenue. Other items, such as third party ground handling services and catering and commissary, have been re-classified as Pass-Through Costs. The flight revenue reduction related to these changes was $50.2 million. In addition, decreased Billable Block Hours accounted for a $6.3 million reduction in flight revenue. These decreases were offset by a favourable US dollar exchange rate which resulted in a $16.2 million increase in the year and rate increases pursuant to the CPA accounted for an increase of approximately $9.0 million. As well, new flight revenue from the Voyageur operation accounted for $8.2 million.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $3.7 million. This increase was related to a favourable US dollar exchange rate. Aircraft leasing revenue under the CPA is generated from the current 21 Q400 aircraft and four Q400 engines owned by JLI and leased to Jazz. The Q400 aircraft lease revenue under the CPA is reflected in passenger revenue, and is designed to provide compensation to Chorus based on market lease rates.

CPA margin compensation

(unaudited) (expressed in thousands of Canadian dollars)	Six months ended June 30, 2015 $	 2014 $	 Change $
Fixed Margin and Infrastructure Fee per Covered Aircraft	54,822	—	54,822
Mark-up, excluding Compensating Mark-Up	—	55,535	(55,535)
Compensating Mark-Up	—	1,278	(1,278)
Incentives	11,287	11,623	(336)
	66,109	68,436	(2,327)

Under the CPA as amended by the January 1, 2015 Amendment, Chorus' margin compensation changed from a mark-up on Controllable Cost rates to a fixed fee arrangement. The mark-up and Compensating Mark-Up concepts have been eliminated. Based on the current fleet plan and the terms of the January 1, 2015 Amendment, margin compensation for 2015 to 2020 is contractually set at $109.7 million annually, or $27.4 million quarterly.

In 2014, the Compensating Mark-Up formula contained in the CPA was applied and the Controllable Mark-Up was increased to compensate Chorus for reduced operating margin and increased Unit Costs resulting from the reduced Block Hours. As a result, Chorus recorded $1.3 million in Compensating Mark-Up in the second quarter of 2014 as an increase in operating revenue.

Incentives earned under the CPA decreased $0.3 million or 2.9%. For the six months ended June 30, 2015, Chorus earned $11.3 million (2014 - $11.6 million) in performance incentives, or 96.7% (2014 - 95.0%) of the maximum available under the CPA as amended by the January 1, 2015 Amendment.

CPA Pass-Through Revenue

Pass-Through Revenue decreased by $38.8 million or 13.1%, from $296.5 million to $257.6 million, which included a decrease of $56.8 million related to fuel costs driven primarily by a decline in jet fuel prices. Under the CPA as amended by the January 1, 2015 Amendment, compensation for deicing and certain other costs provided to Chorus by Air Canada will no longer be billed. This change resulted in a decrease of $8.0 million. As a result of the January 1, 2015 Amendment, other costs, such as third party ground handling services and catering and commissary, have been re-classified to Pass-Through Costs and removed from Controllable Costs. This change increased Pass-Through Revenue by $22.8 million. In addition, a favourable US dollar exchange rate resulted in a $3.4 million increase in the year.

Other revenue

Other revenue increased by $3.3 million primarily related to increased sale of consignment inventory and new revenue from the Voyageur operation which includes leasing and maintenance repair and overhaul.

Expenses

(unaudited) (expressed in thousands of Canadian dollars)	Six months ended June 30, 2015 $	 2014 $	 Change $
Operating expenses			
Salaries, wages and benefits	224,653	207,534	17,119
Aircraft fuel	135,219	192,112	(56,893)
Depreciation and amortization	26,155	32,482	(6,327)
Food, beverage and supplies	5,872	8,624	(2,752)
Aircraft maintenance materials, supplies and services	101,045	81,443	19,602
Airport and navigation fees	83,666	81,789	1,877
Aircraft rent	51,052	46,653	4,399
Terminal handling services	30,122	55,321	(25,199)
Other	63,472	60,959	2,513
	721,256	766,917	(45,661)

Operating expenses decreased from $766.9 million to $721.3 million, a decrease of $45.7 million or 6.0%. Under the CPA as amended by the January 1, 2015 Amendment, certain items provided to Chorus by Air Canada, such as groundhandling services, facilities and deicing at the major hubs will no longer be billed. These Air Canada costs were $nil in the period compared to $35.4 million for the same period last year. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(unaudited) (expressed in thousands of Canadian dollars)	Six months ended June 30, 2015 $	 2014 $	 Change $
Adjusted salaries, wages and benefits	211,657	203,904	7,753
One-time pilot signing bonus	10,000	—	10,000
Stock-based compensation	10,070	3,890	6,180
Employee separation program costs	1,620	7,340	(5,720)
Capitalized major maintenance overhaul labour	(8,694)	(7,600)	(1,094)
Salaries, wages and benefits	224,653	207,534	17,119

Salaries, wages and benefits decreased by $17.1 million from $207.5 million to $224.7 million. Adjusted salaries, wages and benefits (adjusted for the removal of employee separation program costs and capitalized major maintenance overhaul labour) increased by $7.8 million as a result of increased pension costs and the Voyageur operation. As part of a newly ratified pilot collective agreement with ALPA, Chorus incurred a $10.0 million one-time payment in the first quarter of 2015. Stock-based compensation increased primarily as a result of Chorus' increased share price. Employee separation program costs paid during the year were $1.6 million compared to $7.3 million from the same period of 2014. Salaries and wages were also affected by more labour costs being capitalized on owned aircraft for major maintenance overhauls of $1.1 million on a year-over-year comparison.

Aircraft fuel

Aircraft fuel cost decreased by $56.9 million from $192.1 million to $135.2 million. The decrease was primarily attributable to a decline in jet fuel prices which accounted for approximately $53.6 million and a decrease in the volume of fuel consumed due to decreased Block Hours, which accounted for $3.6 million. These decreases were offset by increases related to the Voyageur operation.

Depreciation and amortization

Depreciation and amortization expense decreased by $6.3 million from $32.5 million to $26.2 million. During the three months ended March 31, 2015, Chorus reviewed the estimated useful economic lives and residual values of certain owned aircraft and flight equipment. As a result, the expected estimated useful lives of these assets have been extended. The change in estimate reduced depreciation expense for the six months ended June 30, 2015 by approximately $7.4 million, compared to the same period last year. In addition, capitalized major maintenance overhauls decreased depreciation expense by $0.7 million. These decreases were offset by increased depreciation related to the Voyageur operation of $1.8 million.

Food, beverage and supplies

Food, beverage and supplies decreased by $2.8 million from $8.6 million to $5.9 million. Under the CPA as amended by the January 1, 2015 Amendment, costs for certain services provided to Chorus by Air Canada will no longer be billed. These Air Canada costs were $nil in the period compared to $0.8 million for the same period last year. Chorus negotiated new contracts in late 2014 for catering and commissary services which resulted in decreased costs of $1.5 million. The remaining difference resulted from decreased activity.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense increased by $19.6 million from $81.4 million to $101.0 million. An unfavourable US dollar exchange rate on certain maintenance material purchases accounted for a $9.0 million increase, increased CRJ-200 engine overhauls accounted for $4.3 million, other maintenance costs accounted for $4.2 million and the Voyageur operation accounted for $3.3 million. These increases were offset by decreased Block Hours which accounted for $1.7 million and more maintenance costs being capitalized as a result of increased major maintenance overhauls accounted for a $0.5 million decrease.

Airport and navigation fees

Airport and navigation fees increased by $1.9 million from $81.8 million to $83.7 million. The increase related to rate changes as a result of changes in aircraft deployment and rate increases at certain airports.

Aircraft rent

Aircraft rent increased by $4.4 million from $46.7 million to $51.1 million. The increase was mainly due to an unfavourable US dollar exchange rate and increased costs related to the Voyageur operation. These increases were offset by reduced costs related to the returned CRJ aircraft in the second quarter of 2015 and costs incurred for returned spare engines which were $nil in the year compared to $0.5 million for the same period last year.

Terminal handling services

Terminal handling costs decreased by $25.2 million from $55.3 million to $30.1 million. Under the CPA as amended by the January 1, 2015 Amendment, costs for certain services provided to Chorus by Air Canada, such as ground handling and deicing at the major hubs will no longer be billed. These Air Canada costs were $nil in the period compared to $29.3 million for the same period last year. Also, decreased activity accounted for $1.0 million. These decreases were offset by increased deicing costs of $1.9 million and increased rates as a result of changes in aircraft deployment of $1.2 million. In addition, the outsourcing of passenger handling services resulted in an increase of $2.6 million.

Other

Other expenses increased by $2.5 million from $61.0 million to $63.5 million. The increase was due to increased costs from the Voyageur operation of $2.3 million, increased professional fees of $2.7 million (includes one time advisory fees of $2.1 million related to the January 1, 2015 Amendment) and increased crew costs related to training and travel of $2.1 million. Under the CPA as amended by the January 1, 2015 Amendment, costs for certain services provided to Chorus by Air Canada, such as facilities at major hubs will no longer be billed. These Air Canada costs were $nil in the period compared to $5.2 million for the same period last year.

Non-Operating Income (Expenses)

(unaudited) (expressed in thousands of Canadian dollars)	Six months ended June 30, 2015 $	 2014 $	 Change $
Non-operating income (expenses)			
Net interest expense	(6,777)	(9,612)	2,835
Gain on disposal of property and equipment	160	87	73
Foreign exchange loss	(28,190)	(1,784)	(26,406)
Other	500	500	—
	(34,307)	(10,809)	(23,498)

Non-operating expense increased by $23.5 million from $10.8 million to $34.3 million.

Over the course of the first and second quarters of 2014, Chorus redeemed all of the Debentures, which accounted for a decrease in interest expense of $3.2 million related to the Debentures for the six months ended June 30, 2015. Interest expense related to long-term debt increased by $0.2 million related to an unfavourable US dollar exchange rate for the six months ended June 30, 2015.

The weakening of the Canadian dollar for the six months ended June 30, 2015 contributed to a foreign exchange loss of $28.2 million, compared to a foreign exchange loss of $1.8 million in the previous year. The US dollar exchange rate at June 30, 2015 was $1.2490 while the US dollar exchange rate at December 31, 2014 was $1.1601. The US dollar exchange rate at June 30, 2014 was $1.0670 while the US dollar exchange rate at December 31, 2013 was $1.0636. These rates are based on the closing day rate from the Bank of Canada.

In 2014 and 2015, Chorus met certain employment conditions required in order to obtain the maximum annual forgiveness of a portion of a forgivable loan from the province of Nova Scotia for both years, and as such $0.5 million was recorded in other income.

7 FLEET

The following table provides the number of aircraft in Chorus' fleet of Operating Aircraft as at June 30, 2015 and December 31, 2014.

	December 31, 2014	First Six Months 2015 Fleet Changes		June 30, 2015
		Additions	Removals	
Regional Jets				
Canadair Regional Jet CRJ200	26	7	(1)	32
Canadair Regional Jet CRJ705	16	—	—	16
Turboprop Aircraft				
Beechcraft King Air 100	—	2	—	2
De Havilland Dash 7-100	—	2	—	2
De Havilland Dash 8-100	34	—	—	34
De Havilland Dash 8-300	28	6	—	34
Bombardier Q400	21	—	—	21
	125	17	(1)	141

As of June 30, 2015, Chorus' fleet of Operating Aircraft consisted of 120 Covered Aircraft under the CPA,17 aircraft under Voyageur and four aircraft under Jazz charter.

On November 6, 2014, upon landing at Edmonton International Airport, a Q400 aircraft sustained significant damage. The aircraft is currently undergoing repair and major maintenance overhaul. Chorus expects to recover the cost of these repairs from its insurers or through warranty. Chorus has worked with Air Canada to minimize the impact on the flight schedule by increasing utilization of the remaining fleet. This Q400 aircraft has been included in the above table and is expected to return to service in August 2015.

8 SUMMARY OF FINANCIAL RESULTS

The following table summarizes quarterly financial results and major operating statistics of Chorus for the previous eight quarters.

(unaudited)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Total revenue ($000)	400,055	375,101	401,298	432,576	417,836	414,581	413,227	432,256
Net income (loss) ($000)	31,411	(24,756)	11,338	11,252	36,498	5,622	8,755	36,032
Adjusted net income(1) ($000)	23,834	8,921	23,697	29,004	22,197	20,334	20,811	27,708
Adjusted net income(1), excluding other items ($000)	25,454	21,000	25,022	32,281	26,698	23,173	22,052	28,436
Billable Block Hours	91,559	89,104	89,674	96,776	91,770	92,643	92,610	98,668
Adjusted EBITDA(1) ($000)	52,064	27,991	49,823	56,153	50,663	47,319	48,932	55,762
Adjusted EBITDA(1), excluding other items ($000)	53,684	40,070	51,148	59,430	55,164	50,158	50,173	56,490
Net income (loss) per Share, basic ($)	0.26	(0.21)	0.09	0.09	0.30	0.05	0.07	0.29
Net income (loss) per Share, diluted ($)	0.25	(0.21)	0.09	0.09	0.29	0.05	0.07	0.27
Adjusted net income(1) per Share, basic ($)	0.20	0.07	0.20	0.24	0.18	0.17	0.17	0.23
Adjusted net income(1), excluding other items per Share - basic ($)	0.21	0.17	0.21	0.27	0.22	0.19	0.18	0.23

(1) This is a non-GAAP measurement. Refer to Section 20 – Non-GAAP Financial Measures.

Under the CPA, Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year, principally as a result of the high number of leisure travelers and their preference for travel during the summer months. The operations of Voyageur are not 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.

9 PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2015 to 2019:

(unaudited) (expressed in thousands of Canadian dollars)	2015 $	2016 $	2017 $	2018 $	2019 $
Defined benefit pension plans, current service	26,000	26,700	26,000	23,800	21,500
Defined benefit pension plan, past service	12,100	9,200	9,200	9,200	9,200
Defined contribution pension plans	9,200	10,800	11,200	11,700	12,300
Projected pension funding obligations	47,300	46,700	46,400	44,700	43,000

The estimated pension funding obligations shown in the above table are in respect of the defined benefit and defined contribution pension plans sponsored by Chorus. Defined benefit pension plans include the Chorus pilots' registered defined benefit pension plan ("Pilot DB Plan") as well as an unregistered defined benefit supplemental executive retirement plan ("SERP DB Plan") that Chorus sponsors for eligible employees. Defined contribution pension plans include a number of defined contribution pension arrangements that Chorus contributes to for its eligible employees.

The funding requirements for the Pilot DB Plan are based on the January 1, 2015 financial position of the plan for funding purposes and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the SERP DB Plan are based on a funding policy adopted by Chorus and the January 1, 2015 financial position of the plan for funding purposes.

The estimated Pilot DB Plan current service funding obligations have increased over previous estimates as a result of the January 1, 2015 funding valuation which reflects a decrease in the going concern discount rate from 5.75% to 4.25%. The decrease in the discount rate is related to changes in the investment policy to reduce equity and interest rate risk by increasing the fixed income portion of the invested assets, and further by increasing the duration of the fixed income investments to more closely align with the liability duration.

The solvency deficiency for the Pilot DB Plan as at January 1, 2015 was $50.3 million compared with $13.3 million as at January 1, 2014. The increase in the solvency deficiency is due to the decrease in the solvency discount rate from 3.8% to 2.9% during the year, offset by past service contributions of $14.0 million and favorable investment returns at 10.7%.

The January 1, 2015 financial position of the Pilot DB Plan for funding purposes applies an average of the solvency ratio over a three year period.

The foregoing contains forward-looking information and actual pension funding obligations may vary. These projections are based on certain assumptions including actuarial determinations, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees, and are subject to certain risks including changes in economic conditions, investment returns generated by the plan assets and interest rates, each of which may impact the financial position of the pension plans sponsored by Chorus and future required contributions. Please refer to Section 3 - Introduction, "Caution regarding forward-looking information", Section 15 - Critical Accounting Estimates, and Section 21 - Risk Factors for further risks related to this forward-looking information. The current estimated pension funding obligations differ from previous estimates as a result of, among other things, the factors listed above.

10 LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At June 30, 2015, Chorus had $54.5 million in cash and cash equivalents and $2.5 million of restricted cash (letters of credit), for a total of $57.0 million, a decrease of $60.8 million from December 31, 2014. This decrease is primarily attributable to the net cash consideration of $45.5 million ($47.0 million used at closing, net of $1.5 million available at Voyageur covering the performance obligation assumed on acquisition related to the deferred revenue recognized on certain contracts) used in connection with the acquisition of Voyageur on May 1, 2015, a $10.0 million one-time pilot signing bonus paid in the first quarter of 2015, as part of a newly ratified pilot collective agreement with ALPA, $2.1 million advisory fees related to the January 1, 2015 Amendment, deposits made for additional Q400 aircraft and the ESP program of $15.5 million and the impact of acquisition-related transaction costs.

Chorus' current liquidity needs are primarily related to meeting obligations associated with the following: planned capital expenditures, including acquisitions for purposes of business diversification, ongoing operations, covenants in aircraft and engine financing agreements, repayment and interest costs related to long-term debt and generating sufficient cash flow to fund dividends (which are declared at the discretion of the Board of Directors).

The airline business is capital intensive and highly sensitive to uncertain external circumstances (refer to Section 3 - Introduction, "Caution regarding forward-looking information" and Section 21 - Risk Factors). As a result, Chorus' main objectives when managing capital are to provide a strong capital base to maintain Shareholder, creditor and market confidence and to sustain future development of the business. Chorus manages its capital structure and makes adjustments to it in light of changes in economic conditions and Chorus' risk profile.

Cash balances are monitored daily and fluctuations are primarily tied to the CPA payment schedule. The CPA payment schedule allows for a gradual draw-down of cash throughout the month and funds are refreshed in two payment tranches. The January 1, 2015 Amendment resulted in some expenses moving to Pass-Through Costs that were previously Controllable Costs and some costs now being borne by Air Canada. As a result, there was an impact on timing of payments by Air Canada. Controllable Revenue is still paid in advance on the first business day of the month. Pass-Through Revenue (excluding fuel) is now paid on the 23rd of the month or the business day prior if the 23rd is a non-business day. Revenue associated with fuel and the reconciliation of Controllable Revenue continues to be paid on the 30th of the month or the business day prior if the 30th is a non-business day. This payment timing means that Chorus typically has its highest cash balances at the beginning of the month and the lowest cash balance is the day before the fuel revenue and the reconciliation of Controllable Revenue is paid.

Working capital

The following table provides information on Chorus' working capital balances as at June 30, 2015 and as at December 31, 2014:

(unaudited) (expressed in thousands of Canadian dollars)	June 30, 2015 $	December 31, 2014 $	Change $
Cash and cash equivalents	54,465	114,578	(60,113)
Accounts receivable	91,626	66,229	25,397
Other current assets	64,873	60,250	4,623
Accounts payable and accrued liabilities	(209,794)	(215,325)	5,531
Dividends payable	(4,889)	(4,509)	(380)
Current portion of long-term debt and finance leases	(40,241)	(38,728)	(1,513)
Current portion of long-term incentive plan	(5,632)	(6,358)	726
Current portion of consideration payable	(11,319)	—	(11,319)
Income tax payable	(5,269)	—	(5,269)
Net working deficit	(66,180)	(23,863)	(42,317)

As at June 30, 2015, the working capital deficit increased to $66.2 million, from the December 31, 2014 deficit of $23.9 million. This change was primarily as a result of the Voyageur acquisition (additional information was discussed above) and increased long-term debt resulting from an unfavourable US dollar exchange rate. This was offset by decreased accounts payable and increased accounts receivable, both primarily as a result of the January 1, 2015 Amendment.

Sources and uses of cash

The following table provides information on Chorus' cash flows for the three and six months ended June 30, 2015 and June 30, 2014.

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 $	2014 $	Change $	Six months ended June 30, 2015 $	2014 $	Change $
Sources of Cash:						
Cash provided by operating activities before net changes in non-cash balances related to operations	49,439	47,929	1,510	70,082	94,935	(24,853)
Restricted cash related to aircraft financing	5,930	—	5,930	5,930	—	5,930
Other	954	71	883	893	87	806
Total sources	**56,323**	**48,000**	**8,323**	**76,905**	**95,022**	**(18,117)**
Uses of Cash:						
Net changes in non-cash balances related to operations	(15,092)	(1,157)	(13,935)	(11,351)	(2,428)	(8,923)
Repayment of long-term debt and obligations under finance leases	(10,992)	(8,653)	(2,339)	(20,885)	(16,404)	(4,481)
Redemption of convertible debentures	—	(20,201)	20,201	—	(80,201)	80,201
Repurchase of Shares under normal course issuer bid	—	(7,294)	7,294	—	(7,294)	7,294
Dividends	(14,550)	(13,786)	(764)	(28,098)	(27,572)	(526)
Business acquisition, net of cash acquired	(45,474)	—	(45,474)	(45,474)	—	(45,474)
Additions to property and equipment	(23,139)	(7,906)	(15,233)	(33,582)	(14,606)	(18,976)
Total usage	**(109,247)**	**(58,997)**	**(50,250)**	**(139,390)**	**(148,505)**	**9,115**
Effect of foreign exchange on cash and cash equivalents	**(729)**	**—**	**(729)**	**2,372**	**—**	**2,372**
Net change in cash and cash equivalents during the periods	**(53,653)**	**(10,997)**	**(42,656)**	**(60,113)**	**(53,483)**	**(6,630)**
Cash and cash equivalents – Beginning of periods	**108,118**	**117,415**	**(9,297)**	**114,578**	**159,901**	**(45,323)**
Cash and cash equivalents – End of periods	**54,465**	**106,418**	**(51,953)**	**54,465**	**106,418**	**(51,953)**

Sources of cash

Sources of cash for the three months ended June 30, 2015 were $56.3 million, an increase of $8.3 million. The increase was mainly the result of the return of restricted cash for the release of security related to Q400 aircraft financing and a higher operating income.

Sources of cash for the six months ended June 30, 2015 were $76.9 million, a decrease of $18.1 million. The decrease was mainly the result of a lower operating income; offset by the return of restricted cash for the release of security related to Q400 aircraft financing.

Uses of cash

Uses of cash for the three months ended June 30, 2015 was $109.2 million, an increase of $50.3 million. On May 1, 2015, Chorus acquired Voyageur with net cash consideration of $45.5 million paid at closing. For the three months ended June 30, 2015 there were capital expenditures of $23.1 million, compared to $7.9 million in the same period of 2014. The increase related to deposits made for additional aircraft, and major maintenance overhauls; offset by decreased expenditures for ongoing spare part replacements for the fleet, equipment and leasehold improvements. Refer to the table below entitled capital expenditures for further detail. Additional uses of cash consisted of negative changes in non-cash working capital and payments related to long-term debt and obligations under finance leases increased by $2.3 million. In the second quarter of 2014, Chorus redeemed Debentures in the amount of $20.2 million and repurchased Shares under the normal course issuer bid ("NCIB") of $7.3 million.

Uses of cash for the six months ended June 30, 2015 was $139.4 million, a decrease of $9.1 million. On May 1, 2015, Chorus acquired Voyageur for net cash consideration of $45.5 million. For the six months ended June 30, 2015 there were capital expenditures of $33.6 million, compared to $14.6 million in the same period of 2014. The increase was related to deposits made for additional aircraft and increased major maintenance overhauls. Refer to the table below entitled capital expenditures for further details. Additional uses of cash consisted of negative changes in non-cash working capital and payments related to long-term debt and obligations under finance leases increased by $4.5 million. In the first six months of 2014, Chorus redeemed Debentures in the amount of $80.2 million and repurchased Shares under the NCIB of $7.3 million.

Contractual obligations and other commitments

Please refer to Chorus' annual MD&A dated February 18, 2015 for information regarding Chorus' contractual obligations and other commitments.

Long-term debt

The terms and conditions of the Q400 aircraft and engine financing are consistent with those disclosed in Section 11 of Chorus' annual MD&A dated February 18, 2015. As at June 30, 2015, Chorus was in compliance with all the required covenants.

Credit facilities

Chorus' subsidiaries have a combined total of $36.0 million in secured revolving credit facilities plus another US$6.0 million secured facility specifically for letters of credit. A portion of one of the revolving credit facilities can also facilitate the issuance of letters of credit. As of August 11, 2015, Chorus had issued one letter of credit in the amount of US $0.6 million against one of the revolving credit facilities and several letters of credit totaling US$3.2 million against the letters of credit facility.

Capital expenditures

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 $	2014 $	Change $	Six months ended June 30, 2015 $	2014 $	Change $
Capital expenditures, excluding capitalized major maintenance overhauls	17,491	3,510	13,981	24,888	7,006	17,882
Capitalized major maintenance overhauls	5,648	4,396	1,252	8,694	7,600	1,094
Total capital expenditures	23,139	7,906	15,233	33,582	14,606	18,976

Capital expenditures consist of expenditures incurred to sustain operations or Chorus' productive capacity, such as leasehold improvements (includes improvements made to leased aircraft), aircraft-related (includes aircraft, aircraft related communication, equipment and tooling, spare part replacements for the fleet, and major maintenance overhaul expenditures), facilities and owned buildings, the purchase of aircraft and engines and deposits made for the planned Dash 8-300 ESP with Bombardier.

For the three months ended June 30, 2015, capital expenditures were $23.1 million (2014 - $7.9 million), which included $5.6 million for capitalization of major maintenance overhauls. Capital expenditures, excluding capitalized major maintenance overhauls consisted of ongoing spare part replacements for the fleet, equipment and leasehold improvements, deposits made of $12.2 million for additional Q400 aircraft as required under the purchase agreement and $2.6 million for the purchase of a Dash 8-100 aircraft previously leased from Air Canada.

For the six months ended June 30, 2015, capital expenditures were $33.6 million (2014 - $14.6 million), which included $8.7 million for capitalization of major maintenance overhauls. Capital expenditures, excluding capitalized major maintenance overhauls consisted of ongoing spare part replacements for the fleet, equipment and leasehold improvements, deposits made for additional Q400 aircraft as required under the purchase agreement of $14.9 million, $0.6 million for the ESP program with Bombardier and $2.6 million for the purchase of a Dash 8-100 aircraft previously leased from Air Canada.

Shares

At August 6, 2015, the issued and outstanding Shares of Chorus, were as follows:

(unaudited)	August 6, 2015	December 31, 2014
Issued and outstanding Shares		
Class A Variable Voting Shares	7,461,431	5,191,462
Class B Voting Shares	114,770,966	115,061,477
Total issued and outstanding Shares	122,232,397	120,252,939
Shares potentially issuable		
Stock-based compensation plans	2,963,529	2,240,202
Total outstanding and potentially dilutive shares	125,195,926	122,493,141

Dividends

For the three and six months ended June 30, 2015, Chorus declared dividends of $14.6 million and $28.5 million, respectively (2014 - $13.6 million and $27.4 million, respectively). For the three and six months ended June 30, 2015, Chorus paid dividends of $14.6 million and $28.1 million, respectively (2014 - $13.8 million and $27.6 million, respectively).

On February 18, 2015, Chorus announced an increase in the monthly dividend from $0.0375 to $0.04 per Share, effective with the March dividend for Shareholders of record at the close of business on March 31, 2015 and payable on April 17, 2014. Chorus' Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board.

11 OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Chorus' off-balance sheet arrangements is disclosed in Section 11 of Chorus' annual MD&A dated February 18, 2015. There have been no material changes to Chorus' off-balance sheet arrangements from what was disclosed at that time.

12 RELATED PARTY TRANSACTIONS

As at June 30, 2015, Chorus had no transactions with related parties as defined in the CPA Canada Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements.

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Chorus has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary. Please refer to Section 13 of Chorus' annual MD&A dated February 18, 2015 for further discussion on interest rate risk, credit risk, liquidity risk and currency risk.

14 ECONOMIC DEPENDENCE

For a detailed description of the CPA with Air Canada, including the January 1, 2015 Amendment, please refer to Section 2 and Section 14 of Chorus' annual MD&A dated February 18, 2015.

15 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates and judgments may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates (refer to Section 3 – Introduction, "Caution regarding forward-looking information"). The significant accounting policies of Chorus are described in note 3 of the audited consolidated financial statements of Chorus for the year ended December 31, 2014. Information regarding Chorus' critical accounting estimates is disclosed in Section 15 of Chorus' annual MD&A dated February 18, 2015. There are no changes regarding critical accounting estimates for the three months ended June 30, 2015, with the exception of those described below:

Operating revenue

Under the CPA as amended by the January 1, 2015 Amendment, 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 $3.4 million.

Depreciation of long-lived assets

In the first quarter of 2015, Chorus reviewed the estimated useful economic lives 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 values. The effect of these changes was a reduction to depreciation expense for the three and six months ended June 30, 2015 of approximately $5.8 million and $10.8 million, respectively. The impact of this change was offset by flight equipment acquired in 2014 and 2015 and capitalized major maintenance overhauls for a net reduction in depreciation period over period and year over year of approximately $4.2 million and $8.1 million, 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 judgment involve the estimated fair values 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.

16 ACCOUNTING POLICIES

The significant accounting policies of Chorus are described in note 3 of the December 31, 2014 consolidated financial statements of Chorus with any changes to these policies noted below.

New accounting policies

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.

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.

17 CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, our certifying officers have limited the scope of their design of disclosure controls and procedures ("DC&P"), and our Company's internal control over financial reporting ("ICFR") to exclude controls, policies and procedures relating to the acquisition of Voyageur (as it was acquired in the second quarter of 2015) and they have not yet performed sufficient procedures to include it in our certifications. National Instrument 52-109 permits a business that an issuer acquires not more than 365 days before the issuer's financial year-end be excluded from the scope of the certifications to allow it sufficient time to perform adequate procedures to ensure controls, policies and procedures are effective. Voyageur will be transitioned to the Company's processes later in 2015 and the related scope limitation will be removed for 2016 certificates. Summary financial information for Voyageur for the period May 1, 2015 to June 30, 2015 includes revenue of $12.7 million and Adjusted EBITDA of $2.3 million. Information concerning assets and liabilities acquired is provided in note 4 of the Chorus June 30, 2015 unaudited interim condensed consolidated financial statements.

Chorus' DC&P have been designed to provide reasonable assurance that information required to be disclosed in any public filings is recorded, processed, summarized and reported on a timely basis. Chorus' ICFR has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Chorus' annual 2014 MD&A dated February 18, 2015, contains a statement that the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have concluded that Chorus' DC&P and ICFR are effective based upon an evaluation of these controls and procedures at December 31, 2014.

Chorus filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators along with the 2014 annual financial statements and MD&A. In those filings, the CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of Chorus' DC&P and the design and effectiveness of ICFR. The CEO and CFO also certified the appropriateness of the financial disclosures in Chorus' interim filings with the Canadian Securities Administrators. In those interim filings, the CEO and CFO certified that both Chorus' DC&P and ICFR have been designed, based on the framework established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of Chorus' financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Due to inherent limitations, ICFR and DC&P can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There has been no change in Chorus' ICFR that occurred during the second quarter of fiscal 2015 that has materially affected, or is reasonably likely to materially affect, Chorus' ICFR.

18 2015 OUTLOOK

The discussion that follows represents forward-looking information (refer to Section 3 - Introduction, "Caution regarding forward-looking information"). This outlook is provided for the purpose of providing information about current expectations for 2015. This information may not be appropriate for other purposes.

The outlook provided below includes the acquisition of 519222 Ontario Limited, a holding company that owns Voyageur Airways Limited and its related companies, a leading provider of specialized aviation services with international operations.

Effective January 1, 2015, Billable Block Hours no longer directly affect CPA compensation, but remain relevant for rate setting. Rates for Controllable Costs will generally be set annually under the CPA as amended by the January 1, 2015 Amendment, with the exception of crew labour rates, which have been set until the end of the CPA term. Based on the 2015 winter schedule, the summer 2015 schedule and updated planning assumptions received from Air Canada, Chorus anticipates billing between 368,000 and 375,000 Block Hours for the year ending December 31, 2015. The actual number of Billable Block Hours for 2015 may vary from this anticipated range due to a number of factors. See Section 21 - Risk Factors.

Capital Expenditures for 2015, excluding those for the acquisition of aircraft and the ESP program, are expected to be between $33.0 million and $40.0 million. The increase in 2015 reflects higher anticipated major maintenance overhauls and additional spend for Voyageur.

(unaudited) (expressed in thousands of Canadian dollars)	Planned 2015 $	Actual Year to date June 30, 2015 $	Actual Year ended December 31, 2014 $
Capital expenditures, excluding aircraft acquisitions and ESP Program	15,000 to 18,000	6,771	12,693
Capitalized major maintenance overhauls	18,000 to 22,000	8,694	12,857
Aircraft acquisitions and ESP program(1)	200,000 to 204,000	18,117	40,343
	233,000 to 244,000	33,582	65,893

(1) Includes the acquisition of: five Dash 8-100's, two Dash 8-300's, two Beechcraft King Air 200's, six Q400 aircraft and ongoing deposits for the Q400 aircraft and ESP program. All amounts have been converted using a foreign exchange rate of $1.3000 with the exception of the Dash 8-100's and King Air 200's which will be acquired in Canadian dollars.

Approximately $170.0 million to $173.0 million of the aircraft acquisitions relates to ongoing pre-delivery payments on all 13 Q400 aircraft and the net cost at delivery on six of the Q400 aircraft scheduled delivery before December 31, 2015. Chorus has committed financing of approximately $146.0 million related to the 2015 deliveries while $15.5 million has been made as of June 30, 2015 toward $27.5 million in pre-delivery payments planned for all of 2015.

Of the approximately $31.0 million to $33.0 million remaining in aircraft acquisitions and ESP pre-delivery deposits, Chorus has a non-binding indicative offer for long-term financing on the aircraft from a financial institution for approximately $26.0 million. Chorus plans to conclude these negotiations in the second half of 2015 and draw on this facility.

19 ADDITIONAL INFORMATION

Additional information relating to Chorus, including Chorus' Annual Information Form is available on SEDAR at www.sedar.com or on Chorus' website at www.chorusaviation.ca, under Reports.

20 NON-GAAP FINANCIAL MEASURES

Chorus uses certain non-GAAP financial measures, described below, to evaluate and assess performance. These non-GAAP measures are generally numerical measures of a company's financial performance, financial position or cash flows, that include or exclude amounts from the most comparable GAAP measure. As such, these measures are not recognized for financial statement presentation under GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDA and Adjusted EBITDA

EBITDA is defined as earnings before net interest expense, income taxes, and depreciation and amortization and is a non-GAAP financial measure. Adjusted EBITDA (net income before net interest expense, income taxes, depreciation and amortization and other items such as asset impairment and foreign exchange gains or losses) is a non-GAAP financial measure used by Chorus, and commonly by other regional airlines in the industry, as a supplemental financial measure of operational performance. Management believes Adjusted EBITDA assists investors in comparing Chorus' performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and factors such as historical cost. Adjusted EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements. While the one-time pilot signing bonus, CPA advisory fees and employee separation program costs have been included within our definition of adjusted EBITDA, it is shown separately below to facilitate transparency and comparability.

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2015 $	2014 $	Change $	Six months ended June 30, 2015 $	2014 $	Change $
Net income	31,411	36,498	(5,087)	6,655	42,120	(35,465)
Add:						
Net interest expense	3,481	3,768	(287)	6,777	9,612	(2,835)
Income tax expense	9,484	6,390	3,094	12,938	12,571	367
Depreciation and amortization(1)	14,016	16,395	(2,379)	26,155	32,482	(6,327)
EBITDA	**58,392**	**63,051**	**(4,659)**	**52,525**	**96,785**	**(44,260)**
Gain on disposal of property and equipment	(157)	(71)	(86)	(160)	(87)	(73)
Foreign exchange (gain) loss	(5,671)	(11,817)	6,146	28,190	1,784	26,406
Other	(500)	(500)	—	(500)	(500)	—
Adjusted EBITDA	**52,064**	**50,663**	**1,401**	**80,055**	**97,982**	**(17,927)**
Other items:						
One-time pilot signing bonus	—	—	—	10,000	—	10,000
CPA advisory fees	—	—	—	2,079	—	2,079
Employee separation program	1,620	4,501	(2,881)	1,620	7,340	(5,720)
Adjusted EBITDA, excluding other items	*53,684*	*55,164*	*(1,480)*	*93,754*	*105,322*	*(11,568)*

(1) Includes depreciation and amortization of $3.5 million and $7.0 million for the three and six months ended June 30, 2015, respectively (2014 - $3.5 million and $7.1 million, respectively) related to major maintenance overhauls.

Adjusted Net Income

Adjusted net income and Adjusted net income per Share are used by Chorus to assess performance without the effects of unrealized foreign exchange gains or losses on long-term debt and finance leases related to aircraft. Chorus manages its exposure to currency risk on such long-term debt by billing the lease payments within the CPA in the underlying currency (US dollars) related to the aircraft debt. These items are excluded because they affect the comparability of our financial results, period over period, and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are non-recurring due to ongoing currency fluctuations between the Canadian and US dollar. While the one-time pilot signing bonus, CPA advisory fees and employee separation program costs have been included within our definition of adjusted net income, it is shown separately to facilitate transparency and comparability.

(unaudited) (expressed in thousands of Canadian dollars, except per Share amounts)	**Three months ended June 30,**			**Six months ended June 30,**		
	2015 **$**	**2014** **$**	**Change** **$**	**2015** **$**	**2014** **$**	**Change** **$**
Net income for the periods	31,411	36,498	(5,087)	6,655	42,120	(35,465)
Unrealized foreign exchange (gain) loss	(7,577)	(14,301)	6,724	26,100	411	25,689
Adjusted net income	**23,834**	**22,197**	**1,637**	**32,755**	**42,531**	**(9,776)**
Adjusted net income per Share - basic	**0.20**	**0.18**	**0.02**	**0.27**	**0.35**	**(0.08)**
Other items:						
One-time pilot signing bonus	—	—	—	10,000	—	10,000
CPA advisory fees	—	—	—	2,079	—	2,079
Employee separation program	1,620	4,501	(2,881)	1,620	7,340	(5,720)
Adjusted net income, excluding other items	*25,454*	*26,698*	*(1,244)*	*46,454*	*49,871*	*(3,417)*
Adjusted net income, excluding other items per Share - basic	*0.21*	*0.22*	*(0.01)*	*0.38*	*0.41*	*(0.03)*

Return on Invested Capital

Return on Investment Capital is a non-GAAP measure commonly used to assess the efficiency with which a company allocates its capital to generate returns. Return is calculated based on Chorus' earnings before tax, excluding special items, finance costs and implied interest on off-balance sheet aircraft leases for aircraft for which Chorus holds the head lease. Invested capital includes average long-term debt, average finance lease obligations, average Shareholders' equity and off-balance sheet aircraft operating leases for aircraft for which Chorus holds the head lease.

(unaudited) (expressed in thousands of Canadian dollars)	Trailing twelve months ended June 30, 2015 $	 December 31, 2014 $	Change $
Income before income taxes	59,420	94,518	(35,098)
Unrealized foreign exchange on long-term debt and finance leases	56,211	30,522	25,689
Income before income taxes (and unrealized foreign exchange on long-term debt and finance leases)	115,631	125,040	(9,409)
Add:			
Finance costs	14,134	16,895	(2,761)
Implicit interest in operating leases (1)	4,029	3,816	213
	133,794	145,751	(11,957)
Invested capital:			
Average long-term debt (2)	401,840	442,696	(40,856)
Average obligations under finance leases (3)	3,154	4,891	(1,737)
Average consideration payable(4)	14,827	—	14,827
Average Shareholders' equity	149,777	158,021	(8,244)
Off-balance sheet aircraft leases (5)	57,564	54,514	3,050
	627,162	660,122	(32,960)
Return on invested capital(6)	21.3%	22.1%	(0.8)%

(1) Interest implicit in operating leases is equal to 7.0 percent of 7.5 times the trailing 12 months of aircraft lease expense. 7.0 percent is a proxy and does not necessarily represent actual for any given period.
(2) Average long-term debt includes the current portion and long-term portion.
(3) Average obligations under finance leases include the current portion and long-term portion.
(4) Average obligations under consideration payable include the current portion and long-term portion.
(5) Off-balance sheet aircraft leases are calculated by multiplying the annual aircraft leasing expense by 7.5 only for aircraft which Chorus holds the head lease. For the trailing twelve months ended June 30, 2015 and December 31, 2014, these aircraft lease expenses totaled $7.7 million and $7.3 million, respectively.
(6) Aircraft rent was $97.7 million and $93.4 million for the trailing twelve months ended June 30, 2015 and December 31, 2014, respectively. The majority of Chorus' aircraft under operating leases are subleased from Air Canada, or its subsidiary, who hold the head lease or own the aircraft. Aircraft rent related to these aircraft of $90.1 million and $86.1 million for the trailing twelve months ended June 30, 2015 and December 31, 2014, respectively, have been removed from the calculation due to Air Canada's offsetting liability under the CPA for rental payments and return condition obligations. If these Air Canada operating leases were included, return on invested capital would be 13.9% and 14.6%, respectively.

Adjusted net debt

The following table reflects Chorus' adjusted net debt balances as at June 30, 2015 and as at December 31, 2014:

(unaudited) (expressed in thousands of Canadian dollars)	June 30, 2015 $	December 31, 2014 $	Change $
Long-term debt, finance leases	416,729	407,410	9,319
Consideration payable	29,653	—	29,653
Total long-term debt and finance leases (including current portion)	446,382	407,410	38,972
Less: Cash and cash equivalents	(54,465)	(114,578)	60,113
Net debt	391,917	292,832	99,085
Capitalized operating leases	57,564	54,514	3,050
Adjusted net debt	449,481	347,346	102,135

Adjusted net debt is a non-GAAP financial measure used by Chorus and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of capital management by Chorus and provides management with a measure of its net indebtedness. Chorus includes capitalized operating leases which is a measure commonly used in the airline industry to ascribe a value to obligations under operating leases. Common industry practice is to multiply annualized aircraft rent by 7.5. This definition of capitalized operating leases is used by Chorus and may not be comparable to similar measures presented by other public companies. Aircraft rent was $97.7 million and $93.4 million for the trailing twelve months ended June 30, 2015 and December 31, 2014, respectively. The majority of Chorus' aircraft under operating leases are subleased from Air Canada, or its subsidiary, who hold the head lease or own the aircraft. Aircraft rent related to these aircraft of $90.1 million and $86.1 million for the trailing twelve months ended June 30, 2015 and December 31, 2014, respectively, have been removed from the calculation due to Air Canada's offsetting liability under the CPA for rental payments and return condition obligations. If these Air Canada operating leases were included in the above definition, adjusted net debt would be $1,125.0 million and $993.0 million, respectively.

As at June 30, 2015, adjusted net debt increased from $347.3 million to $449.5 million, representing an increase of $102.1 million or 29.4% from December 31, 2014. This increase was a result of a higher US dollar exchange rate which increased long-term debt by approximately $30.0 million, consideration payable related to the Voyageur acquisition of $29.7 million, net cash used for the Voyageur acquisition of $45.5 million, cash to make a $10.0 million one-time pilot signing bonus in the first quarter of 2015, as part of a newly ratified pilot collective agreement with ALPA, $2.1 million related to advisory fees for the January 1, 2015 Amendment and deposits made on additional Q400 aircraft and the ESP program of $18.1 million. These increases were offset by debt repayments of $18.8 million.

21 RISK FACTORS

For a detailed description of the possible risk factors associated with Air Canada, Chorus, the industry, the structure of Chorus and current legal proceedings refer to the Section entitled "Risk Factors" in Chorus' 2014 Annual MD&A dated February 18, 2015, and Chorus' Annual Information Form dated March 30, 2015.

There have been no material changes to the risk factors disclosed in those documents, other than as described below.

The risk factors described below are additional risk factors associated with Chorus as a result of the acquisition of the Voyageur business.

International operations and doing business in foreign countries

As a result of the acquisition of Voyageur, Chorus has expanded its footprint to include international contract flying operations in Africa, Central Asia and Antarctica. As a result, Chorus has become exposed to increased operational complexity and new regulatory requirements. In addition, operating in these diverse regions increases the risk of Chorus being exposed to political instability and military and/or civil conflict. Should Chorus not be able to effectively mitigate the impact on its business of these additional complexities, regulatory requirements and other risks, this may have an adverse effect on Chorus' business, results of operations and financial condition.

Renewal of customer agreements and competition

There can be no assurance that any of Voyageur's agreements with customers can or will be renewed on the same terms and conditions, or in the same amounts as are currently in effect. If such agreements are renewed, the terms and conditions will be subject to negotiation between Voyageur and each customer at the time of renewal. Voyageur competes for this business with contract air carriers from around the world.

22 GLOSSARY OF TERMS

"**ALPA**" means the Air Line Pilots Association;

"**Annual Delivered Block Hours**" has the meaning given in the CPA;

"**Aviation GP**" means Aviation General Partner Inc., a corporation incorporated under the *Business Corporations Act (Ontario)* on November 18, 2010 to act as the general partner of Jazz Aviation LP;

"**Billable Block Hours**" mean actual Block Hours flown and Block Hours related to weather and air traffic control cancellations, and commercial cancellations and commercial ferry flights;

"**Block Hours**" mean the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60;

"**CBCA**" means the *Canada Business Corporations Act*, as amended;

"**Chorus**" references herein to Chorus or the Company in this MD&A refer to, as the context may require, one or more of Chorus Aviation Inc. and its current and former subsidiaries;

"**Chorus Airport Services Inc.**" or "**CASI**" means Chorus Airport Services Inc., a corporation incorporated under the CBCA on November 28, 2013;

"**Chorus Aviation Holdings Inc.**" or "**CAHI**" means Chorus Aviation Holdings Inc., a corporation incorporated under the CBCA on November 28, 2013;

"**Compensating Mark-Up**" has the meaning formerly given in the CPA, before the January 1, 2015 CPA Amending Agreement;

"**Controllable Costs**" mean for any period, all costs and expenses incurred and paid by Chorus other than Pass-Through Costs;

"**Controllable Revenue**" means revenue received from Air Canada in payment of various rates established under the CPA from time to time;

"**Covered Aircraft**" means Chorus' aircraft subject to the CPA;

"**CPA**" means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and Jazz, as amended by the Rate Amending Agreements and the CPA Amending Agreements, and as may be further amended;

"**CPA Amending Agreements**" means the agreements to amend the CPA dated September 22, 2009, March 8, 2011, June 21, 2012, June 6, 2013 and January 1, 2015;

"**CPA Canada Handbook**" means the Chartered Professional Accountants of Canada Handbook - Accounting - Part 1, which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB");

"**Debentures**" mean the $80.2 million principal amount of 9.50% convertible unsecured subordinated debentures of Chorus fully redeemed during 2014;

"**Departure**" means one take off of an aircraft;

"**EDC**" means Export Development Canada;

"**ESP**" means the agreement entered into by Chorus with Bombardier to be the launch customer for the Dash 8-300 Extended Service Program to extend the service life of the Dash-8-300 aircraft;

"**Fixed Margin per Covered Aircraft**" has the meaning given in the CPA;

"**Flight Completion**" means the percentage of flights completed from flights originally scheduled;

"**FTE**" means full-time equivalents in respect of employee staffing levels;

"**GAAP**" means generally accepted accounting principles in Canada after the adoption of IFRS;

"**IASB**" means the International Accounting Standards Board;

"**IFRS**" means International Financial Reporting Standards;

"**Infrastructure Fee per Covered Aircraft**" has the meaning given in the CPA;

"**Jazz**" means Jazz Aviation LP, a limited partnership established under the laws of the Province of Ontario on November 18, 2010;

"**Jazz Aircraft Financing Inc.**" or "**JAFI**" means Jazz Aircraft Financing Inc., a corporation incorporated under the CBCA on November 28, 2013;

"**Jazz Aviation Holdings Inc.**" or "**JAHI**" means Jazz Aviation Holdings Inc., a corporation incorporated under the CBCA on November 28, 2013;

"**Jazz Leasing Inc.**" or "**JLI**" means Jazz Leasing Inc., a corporation incorporated under the CBCA on November 28, 2013;

"**Maintenance Capital Expenditures**" represent expenditures incurred to sustain operations or Chorus' productive capacity, which excludes Q400 aircraft and engine purchases;

"**MD&A**" means Chorus' management's discussion and analysis of results of operations and financial condition;

"**Operating Aircraft**" means the aircraft in Chorus' fleet, less new aircraft deliveries which have not yet entered commercial service;

"**On-time performance**" means the percentage of flights that arrive within 15 minutes of their scheduled time;

"**Pass-Through Costs**" has the meaning given in the CPA;

"**Pass-Through Revenue**" means revenue received from Air Canada under the CPA in payment of Pass-Through Costs;

"**Q400 aircraft**" means Bombardier Q400 NextGen turboprop aircraft;

"**Rate Amending Agreements**" means the agreements to amend and re-set the rates between Jazz and Air Canada dated July 6, 2009, August 6, 2012, and June 3, 2013;

"**Scheduled Flights**" has the meaning given in the CPA;

"**Shareholders**" mean holders of Shares;

"**Shares**" mean common shares of Chorus Aviation Inc., which includes Class A Variable Voting Shares and Class B Voting Shares;

"**TSX**" means the Toronto Stock Exchanges;

"**Unit Costs**" has the meaning given in the CPA; and

"**Voyageur**" means 519222 Ontario Limited, a holding company incorporated under the Business Corporations Act (Ontario) on December 23, 1982 that owns Voyageur Airways Limited and its related companies.