chorus
aviation inc.

Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2016

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	As at June 30, 2016 $	As at December 31, 2015 $
Assets		
Current assets		
Cash	21,016	32,677
Restricted cash	2,287	1,829
Accounts receivable – trade and other	72,346	81,357
Inventories	48,058	45,942
Prepaid expenses and deposits	13,542	15,718
Total current assets	157,249	177,523
Property and equipment (note 4)	974,367	863,992
Intangibles	2,851	3,004
Goodwill	7,150	7,150
Deferred income tax asset	35,838	19,644
Other long-term assets	40,040	36,026
	1,217,495	1,107,339
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	166,375	177,313
Current portion of obligations under finance leases	5,543	5,432
Current portion of long-term incentive plan	5,267	5,159
Current portion of long-term debt (note 6)	64,536	54,867
Current portion of consideration payable	6,500	11,319
Dividends payable	4,889	4,889
Income tax payable	2,521	7,270
Total current liabilities	255,631	266,249
Obligations under finance leases	10,130	14,052
Long-term debt (note 6)	597,628	530,390
Consideration payable	11,717	18,849
Deferred income tax liability	116,235	103,202
Other long-term liabilities	98,451	63,801
	1,089,792	996,543
Equity	127,703	110,796
	1,217,495	1,107,339

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

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Contributed surplus $	Total $
Balance - December 31, 2014	5,029	(914,712)	1,039,743	130,060
Net income for the period	—	6,655	—	6,655
Other comprehensive income for the period (net of tax)	—	6,674	—	6,674
Comprehensive income for the period	—	13,329	—	13,329
Dividends	—	(28,479)	—	(28,479)
Expense related to stock-based compensation plans	—	—	319	319
Share issuance for stock-based compensation plans	3,018	—	—	3,018
Share issuance for acquisition of 519222 Ontario Limited	8,772	—	—	8,772
Balance - June 30, 2015	16,819	(929,862)	1,040,062	127,019
Net income for the period	—	18,832	—	18,832
Other comprehensive loss for the period (net of tax)	—	(6,128)	—	(6,128)
Comprehensive income for the period	—	12,704	—	12,704
Dividends	—	(29,335)	—	(29,335)
Expense related to stock-based compensation plans	—	—	408	408
Balance - December 31, 2015	16,819	(946,493)	1,040,470	110,796
Net income for the period	—	79,055	—	79,055
Other comprehensive loss for the period (net of tax)	—	(33,261)	—	(33,261)
Comprehensive income for the period	—	45,794	—	45,794
Dividends	—	(29,335)	—	(29,335)
Expense related to stock-based compensation plans	—	—	448	448
Balance - June 30, 2016	16,819	(930,034)	1,040,918	127,703

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

chorus aviation inc.

Unaudited Consolidated Statements of Income

For the three and six-month periods ended June 30, 2016 and 2015

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

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Operating revenue (note 10)				
Passenger	303,976	393,027	618,005	764,548
Other	6,128	7,028	12,649	10,608
	310,104	400,055	630,654	775,156
Operating expenses (note 10)				
Salaries, wages and benefits	106,613	106,595	222,584	224,653
Aircraft fuel	802	71,997	1,621	135,219
Depreciation and amortization	19,847	14,016	38,494	26,155
Food, beverage and supplies	2,846	3,087	5,903	5,872
Aircraft maintenance materials, supplies and services	43,044	51,021	90,013	101,045
Airport and navigation fees	39,090	43,688	78,522	83,666
Aircraft rent	22,095	25,343	45,803	51,052
Terminal handling services	7,996	12,567	19,512	30,122
Other	33,360	33,693	67,006	63,472
	275,693	362,007	569,458	721,256
Operating income	34,411	38,048	61,196	53,900
Non-operating income (expenses)				
Interest revenue	115	274	241	611
Interest expense	(5,378)	(3,755)	(10,535)	(7,388)
Gain on disposal of property and equipment	333	157	370	160
Foreign exchange gain (loss)	1,808	5,671	40,562	(28,190)
Other	313	500	313	500
	(2,809)	2,847	30,951	(34,307)
Income before income taxes	31,602	40,895	92,147	19,593
Income tax expense (note 7)				
Current income tax	(1,848)	(2,379)	(3,431)	(5,593)
Deferred income tax	(6,097)	(7,105)	(9,661)	(7,345)
	(7,945)	(9,484)	(13,092)	(12,938)
Net income	23,657	31,411	79,055	6,655
Earnings per share, basic	0.19	0.26	0.65	0.05
Earnings per share, diluted	0.19	0.25	0.63	0.05

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

chorus aviation inc.

Unaudited Consolidated Statements of Comprehensive Income
For the three and six-month periods ended June 30, 2016 and 2015

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Net income	23,657	31,411	79,055	6,655
Other comprehensive loss				
Items that will not be subsequently reclassified to the statements of income				
Actuarial (loss) gain on employee benefit liabilities, net of tax recovery (expense) of $4,612 and $12,822 (2015 - ($5,464) and ($2,577))	(11,601)	14,150	(33,261)	6,674
Comprehensive income	12,056	45,561	45,794	13,329

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

Unaudited Consolidated Statements of Cash Flows
For the three and six-month periods ended June 30, 2016 and 2015

(expressed in thousands of Canadian dollars)

	Three months ended June 30, 2016 $	Three months ended June 30, 2015 $	Six months ended June 30, 2016 $	Six months ended June 30, 2015 $
Cash provided by (used in)				
Operating activities				
Net income	23,657	31,411	79,055	6,655
Charges (credits) to operations not involving cash				
Depreciation and amortization	19,847	14,016	38,494	26,155
Amortization of prepaid aircraft rent and related fees	(40)	1,918	1,319	2,514
Gain on disposal of property and equipment	(333)	(157)	(370)	(160)
Unrealized foreign exchange (gain) loss	(5,410)	(7,577)	(46,048)	26,100
Realized foreign exchange loss	2,126	3,130	4,823	4,850
Effect of foreign exchange rate changes on cash	426	729	1,143	(2,372)
Deferred income tax expense	6,097	7,105	9,661	7,345
Other	322	(1,136)	263	(1,005)
	46,692	49,439	88,340	70,082
Net changes in non-cash balances related to operations (note 11)	(1,807)	(15,092)	(22,698)	(11,351)
	44,885	34,347	65,642	58,731
Financing activities				
Repayment of obligations under finance leases	(1,255)	(1,050)	(2,586)	(2,078)
Repayment of long-term borrowings	(14,626)	(9,942)	(25,517)	(18,807)
Long-term borrowings	94,056	—	142,520	—
Restricted cash related to aircraft financing	—	5,930	—	5,930
Repayment of consideration payable	(12,438)	—	(12,438)	—
Dividends	(14,668)	(14,550)	(29,335)	(28,098)
	51,069	(19,612)	72,644	(43,053)
Investing activities				
Business acquisition, net of cash acquired	—	(45,474)	—	(45,474)
Additions to property and equipment	(88,282)	(23,139)	(148,829)	(33,582)
Proceeds on disposal of property and equipment	342	157	483	160
(Increase) decrease in restricted cash related to letters	(458)	797	(458)	733
	(88,398)	(67,659)	(148,804)	(78,163)
Effect of foreign exchange rate changes on cash	(426)	(729)	(1,143)	2,372
Net change in cash during the periods	7,130	(53,653)	(11,661)	(60,113)
Cash – Beginning of periods	13,886	108,118	32,677	114,578
Cash – End of periods	21,016	54,465	21,016	54,465

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

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

1 General information

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

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

Chorus' primary business is conducted through Jazz Aviation LP ("Jazz"). In Canada, Jazz operates the largest regional airline and the third largest airline, based on passengers carried. Through Jazz's operations, Chorus provides a significant part of Air Canada’s domestic and transborder network. Chorus and Air Canada are parties to an Amended and Restated Capacity Purchase Agreement, effective January 1, 2006, as most recently amended on January 1, 2015 (collectively, the "CPA"), under which Air Canada purchases substantially all of Jazz’s fleet capacity at pre-determined rates. Chorus is economically and commercially dependent upon Air Canada and one of its subsidiaries, as, in addition to being Chorus’ primary source of revenue, these entities currently provide significant services and aircraft to Chorus.

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

On May 1, 2015, Chorus successfully completed its acquisition of 519222 Ontario Limited, the holding company that owned Voyageur Airways Limited and its related companies (collectively "Voyageur"), a leading provider of specialized aviation services with international operations. On January 1, 2016 Voyageur was re-organized into three entities. Voyageur Aviation Corp. became the parent company for the group and provides common support services to its subsidiaries. Voyageur Aviation Corp. was created by the amalgamation of 519222 Ontario Limited, Hangar 6 Inc. and Voyageur Airport Services Inc. Voyageur Airways Limited is a Transport Canada approved air operator with international and domestic contract flying operations. Voyageur Aerotech Inc. is a Transport Canada approved aircraft maintenance organization with advanced aircraft engineering and maintenance capabilities. On February 2, 2016, Voyageur Avparts Inc. was incorporated as a parts sales company, offering parts for regional aircraft. It was established to grow the parts sales business for Chorus by focusing on Bombardier products, consignment inventories, aircraft part-outs and purchase and sale of bulk or surplus inventories from third parties.

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

Under the CPA, Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year, principally as a result of the high number of leisure travelers and their preference for travel during the summer months. The operations of Voyageur are not affected by seasonality. Seasonality also has little effect on the other lines of business operated by Chorus. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term.

2 Basis of presentation

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

These financial statements have been authorized for issuance by the Board of Directors on August 10, 2016.

3 Significant accounting policies, judgements and estimation uncertainty

Accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2015. Refer to note 3 of Chorus' consolidated financial statements for the year ended December 31, 2015 for information on new accounting standards and amendments not yet effective.

Significant accounting judgements and estimation uncertainty

Operating revenue

In accordance with the terms of the CPA, during the second quarter of 2016, Chorus and Air Canada agreed on detailed rates applicable to the period commencing on January 1, 2016 and ending on December 31, 2016. The new rates are retroactive to January 1, 2016. Chorus and Air Canada have reconciled amounts already recorded in 2016 to these new rates.

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

4 Property and equipment

	Year ended December 31, 2015					Six months ended June 30, 2016			
	Opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing / opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	513,548	294,988	—	(48,709)	759,827	160,609	—	(31,716)	888,720
Facilities	20,620	11,783	—	(905)	31,498	602	—	(878)	31,222
Equipment	9,602	6,004	—	(4,396)	11,210	2,286	—	(2,097)	11,399
Leaseholds	7,978	1,238	—	(2,381)	6,835	—	—	(931)	5,904
Flight equipment under finance leases	2,395	19,479	—	(3,133)	18,741	—	—	(2,719)	16,022
Deposits on aircraft/ engines	40,343	26,156	(30,618)	—	35,881	11,972	(26,753)	—	21,100
Total	594,486	359,648	(30,618)	(59,524)	863,992	175,469	(26,753)	(38,341)	974,367

	At December 31, 2015			At June 30, 2016		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	1,045,210	(285,383)	759,827	1,182,196	(293,476)	888,720
Facilities	39,012	(7,514)	31,498	39,564	(8,342)	31,222
Equipment	65,158	(53,948)	11,210	67,461	(56,062)	11,399
Leaseholds	28,693	(21,858)	6,835	28,270	(22,366)	5,904
Flight equipment under finance leases	19,479	(738)	18,741	19,479	(3,457)	16,022
Deposits on aircraft/engines	35,881	—	35,881	21,100	—	21,100
Total	1,233,433	(369,441)	863,992	1,358,070	(383,703)	974,367

5 Credit facilities

As at June 30, 2016, Chorus' subsidiaries had a combined total of $36,000 in undrawn secured revolving credit facilities and an additional US$6,000 secured facility specifically for letters of credit. Under these facilities, Chorus has provided letters of credit totaling $1,504 to third parties, to indemnify them, in the event that Chorus does not perform its contractual obligations. Chorus has not recorded any additional liability with respect to these letters of credit, as Chorus is not expected to make any payments in excess of what is recorded in the financial statements. The letters of credit mature at various dates ranging from July 2016 to June 2017.

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

6 Long-term debt

Long-term debt consists of the following:

	As at June 30, 2016 $	As at December 31, 2015 $
Term loans - purchased aircraft(1)	638,764	564,222
Term loans - purchased engines(2)	11,400	9,035
Term loan - Halifax facility(3)	12,000	12,000
	662,164	585,257
Less: Current portion	64,536	54,867
	597,628	530,390

(1) 40 individual term loans, repayable in semi-annual or quarterly instalments, ranging from $86 to $1,311, bearing fixed and floating interest at a weighted average rate of 3.277%, maturing between May 2023 and June 2028, each secured primarily by its respective aircraft and engines. At June 30, 2016, the total payable under these term loans in US dollars was US$494,515 (December 31, 2015 - US$407,674), and the net book value of property and equipment pledged as collateral under these term loans was $712,082 (December 31, 2015 - $553,910).

(2) Five individual term loans, repayable in quarterly instalments ranging from $68 to $84, including fixed interest at a weighted average rate of 4.482%, maturing between December 2024 and May 2028, each secured primarily by one PW150A engine. At June 30, 2016, the total Q400 engine financing payable in US dollars was US$8,826 (December 31, 2015 - US$6,528) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $11,802 (December 31, 2015 - $7,859).

(3) Nova Scotia Jobs Fund loan, with a maximum contribution of $12,000, bearing interest at a fixed rate of 3.33% annually. Principal repayments of $1,000 are payable annually commencing on August 31, 2016. Maturing on August 31, 2027, the loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases.

During the three and six months ended June 30, 2016, long-term borrowings were $94,056 and $142,520 respectively (for the three and six months ended June 30, 2015 - $nil). For the three and six months ended June 30, 2016, the total interest expense on long-term debt was $5,097 and $10,002 respectively (for the three and six months ended June 30, 2015 - $3,518 and $7,151 respectively).

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

6 Long-term debt (continued)

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.2917, which was the exchange rate in effect at the end of day closing June 30, 2016.

	$
No later than one year	64,536
Later than one year and no later than five years	280,184
Later than five years	317,444
	662,164

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

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

7 Income taxes

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

	Three months ended June 30,			
	2016	**2016**	**2015**	**2015**
	%	**$**	**%**	**$**
Income tax expense at the Canadian statutory tax rate	29.7	9,399	29.2	11,949
Recognition of previously unrecognized cumulative eligible capital	(6.8)	(2,154)	(5.6)	(2,309)
Net impact of capital items(1)	(3.1)	(990)	(4.4)	(1,799)
Non-deductible expenses	0.5	171	4.0	1,643
Adjustments in respect of prior years	4.8	1,519	—	—
Income tax expense	25.1	7,945	23.2	9,484

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

7 Income taxes (continued)

	Six months ended June 30,			
	2016 %	**2016** $	**2015** %	**2015** $
Income tax expense at the Canadian statutory tax rate	28.8	26,524	27.3	5,345
Recognition of previously unrecognized cumulative eligible capital	(4.7)	(4,289)	(23.6)	(4,618)
Net impact of capital items[1]	(13.5)	(12,430)	47.5	9,314
Non-deductible expenses	1.9	1,768	14.6	2,897
Adjustments in respect of prior years	1.7	1,519	—	—
Income tax expense	14.2	13,092	65.8	12,938

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

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $425,005 as at June 30, 2016, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time as those benefits can be applied to reduce current tax expense. During the three and six months ended June 30, 2016, Chorus utilized a total of $7,708 ($2,154 tax effected) and $15,415 ($4,289 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income. During the three and six months ended June 30, 2015, Chorus utilized a total of $8,288 ($2,309 tax effected) and $16,575 ($4,618 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at June 30, 2016, Chorus had $57,473 (December 31, 2015 - $77,143) of allowable capital losses that have not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

8 Financial instruments and fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; fair value through other comprehensive income; and amortized cost. With the exception of the item noted below, all financial instruments have fair value that approximate carrying value due to their short-term nature.

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, asset backed commercial paper, accounts payable and accrued liabilities, dividends payable, long-term incentive plan liability, consideration payable, obligations under finance leases and long-term debt.

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

- Long-term debt

  At June 30, 2016, the EDC term loans had a fair value of $681,096 compared to a carrying value of $662,164. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

9 Contingencies

As permitted by the CBCA, the bylaws of Chorus provide that each director or officer will be entitled to indemnification from Chorus in respect of any civil, criminal or administrative, investigative or other proceeding which the director or officer is involved because of his or her association with Chorus or any other entity (if applicable) in respect of which he or she serves in a similar capacity at the request of Chorus, provided that the director or officer acted honestly and in good faith with a view to the best interests of Chorus, or in the case of a criminal or administrative action proceeding that is enforced by a monetary penalty, where the director or officer had reasonable grounds for believing that his or her conduct was lawful. The directors and officers are also covered by directors' and officers' liability insurance. No such indemnity claims have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

Various other lawsuits and claims that have arisen in the normal course of business are pending by and against Chorus. The provisions, if any, that have been recorded are not material. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of Chorus.

Chorus enters into various operating agreements and real estate licenses or leases, which in some cases permit Chorus to use certain premises or operate at certain airports, and which in other cases lease space in Chorus' facilities to its tenants. It is common in such commercial license or lease transactions for the licensee or tenant to agree to indemnify the landlord for tort liabilities that arise out of or relate to its use or occupancy of the licensed or leased premises. In certain cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but generally excludes any liabilities caused by their gross negligence or wilful misconduct. In addition, the licensee or tenant, as the case may be, typically indemnifies the landlord for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

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

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

9 Contingencies (continued)

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

10 Economic dependence

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

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

	Three months ended June 30,		Six months ended June 30,	
	2016 $	2015 $	2016 $	2015 $
Operating revenue				
Air Canada	290,671	381,444	593,728	751,510
Operating expenses				
Air Canada	864	882	2,278	1,723
Air Canada Capital Ltd.	19,720	21,511	40,486	45,607

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

	June 30, 2016 $	December 31, 2015 $
Accounts receivable		
Air Canada	35,914	42,923
Accounts payable and accrued liabilities		
Air Canada	4,215	10,252
Air Canada Capital Ltd.	8,181	9,328

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

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

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

11 Statement of cash flows - supplementary information

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Decrease (increase) in accounts receivable – trade and other	15,225	(19,891)	9,011	(10,823)
(Increase) decrease in inventories	(204)	1,381	(2,116)	2,619
Decrease in prepaid expenses	2,154	4,039	2,176	2,192
Increase in other long-term assets	(6,074)	(337)	(6,999)	(4,162)
Decrease in accounts payable and accrued liabilities	(12,272)	(1,295)	(10,938)	(11,671)
(Decrease) increase in current portion of long-term incentive plan	(312)	734	108	2,292
Increase (decrease) in income tax payable	2,051	1,924	(4,749)	5,138
(Decrease) increase in other long-term liabilities	(2,375)	(1,647)	(9,191)	3,064
	(1,807)	(15,092)	(22,698)	(11,351)

b) Other

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Cash payments of interest	5,607	3,833	9,576	7,269
Cash receipts of interest	104	284	241	638
Cash payments of tax	276	251	7,865	251

12 Subsequent event

On August 5, 2016, Chorus took delivery of one Q400 and drew EDC financing. The term loan is repayable by Chorus to EDC in quarterly instalments of approximately US$449, matures in August 2028 and is secured primarily by one Q400 and two PW150A engines.