chorus aviation inc.

2014
Management's Discussion and Analysis of Results of Operations and Financial Condition

February 18, 2015

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1. OVERVIEW

The financial and operating highlights for Chorus are as follows:

Financial information

	Three months ended December 31,			Year ended December 31,		
	2014	2013	Change	2014	2013	Change
Operating revenue ($000)	401,298	413,227	(11,929)	1,666,291	1,672,060	(5,769)
Operating expenses ($000)	368,314	380,752	(12,438)	1,528,390	1,547,798	(19,408)
Operating income ($000)	32,984	32,475	509	137,901	124,262	13,639
Net income for the period ($000)	11,338	8,755	2,583	64,710	61,866	2,844
Adjusted EBITDA(1) ($000)	49,823	48,932	891	203,958	186,864	17,094
Adjusted net income(1) ($000)	23,697	20,811	2,886	95,232	84,693	10,539
Net income per Share, basic ($)	0.09	0.07	0.02	0.53	0.50	0.03
Adjusted net income per Share, basic(1) ($)	0.20	0.17	0.03	0.78	0.69	0.09

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

Chorus' financial and operational performance in 2014 was strong. During the year ended December 31, 2014, Chorus delivered in three key areas: shareholder value, cost control and operational performance. Chorus has maintained consistent profitability since 2006, converted to a monthly dividend beginning with the August 2014 dividend payment, and repurchased Shares pursuant to its normal course issuer bid. In addition, Chorus strengthened its financial position and increased capital structure flexibility by the early redemption of the Debentures in the first and second quarters of 2014.

A $13.6 million improvement in operating income for the year ended 2014 compared to 2013 was supported by: the application of the Compensating Mark-Up formula contained in the CPA due to reduced Block Hours for an increase of $5.0 million in operating revenue (Refer to Section 14 - Economic Dependence); incentive revenue was $1.8 million higher due to better operational performance; aircraft leasing operations under the CPA generated an additional $6.4 million in operating income ($38.1 million in 2014 versus $31.7 million in 2013) due to additional Q400 aircraft and a favourable US dollar exchange rate; and an additional $0.4 million in operating income due to lower costs under the CPA rates due to ongoing cost reduction programs such as the consolidation of heavy maintenance in Halifax, Nova Scotia and outsourcing of some airport services; offset by employee separation program costs and stock based compensation due to a change in accounting policy.

The $17.1 million increase in Adjusted EBITDA was achieved through the operating income previously described together with a $3.5 million year-over-year increase in depreciation and amortization expense. This increase in depreciation and amortization expense was as a result of 2014 being the first year that Chorus incurred full amortization for all 21 Q400 aircraft combined with increased capital expenditures on aircraft rotable parts and other equipment.

Operational information

	Three months ended December 31,			Year ended December 31,		
	2014	2013	Change	2014	2013	Change
Departures	62,535	63,483	(948)	258,518	265,269	(6,751)
Block Hours	87,957	90,304	(2,347)	364,245	375,924	(11,679)
Billable Block Hours	89,674	92,610	(2,936)	370,863	382,542	(11,679)
On-time performance (%)	81.7	79.8	1.9	82.4	82.9	(0.5)
Flight Completion (%)	97.6	98.2	(0.6)	97.7	98.2	(0.5)
FTE employees (end of period)	4,130	4,371	(241)	4,130	4,371	(241)
Number of Operating Aircraft (end of period)	125	127	(2)	125	127	(2)

Contributing to Chorus' positive fourth quarter financial results was strong operational performance, particularly compared to the operational performance results of other Canadian airlines. For the fourth quarter of 2014, Jazz ranked second among Canadian airlines for on-time performance, as reported by FlightStats Inc., a leading global flight and airport information service. For the year 2014, Jazz ranked fourth of all North American regional airlines for on-time performance, as reported by FlightStats Inc.

2 AMENDED CAPACITY PURCHASE AGREEMENT WITH AIR CANADA

On January 13, 2015, Chorus announced that it had reached agreement on an amended and extended CPA (the "amended CPA"), subject to a number of terms and conditions, including the ratification of a new tentative agreement between Jazz and its pilots, represented by the Air Line Pilots Association ("ALPA"), and approval by Chorus' Board of Directors. On February 2, 2015, Chorus announced that all terms and conditions had been met to establish an amended CPA with Air Canada effective January 1, 2015.

The amended CPA is generally retroactively effective January 1, 2015 and has a term ending December 31, 2025. The year 2015 is expected to be transitional as the amended terms are implemented and the Fleet Transition (defined below) begins.

In order to optimize its use of the older Dash 8-100 and Dash 8-300 aircraft, Chorus intends to operate its business through two operating units. The first unit, Jazz, is expected to transition to a mix of larger, newer aircraft comprised of Q400, CRJ200 and CRJ705 aircraft. The second unit is expected to be a second airline with its own regulatory authority and a separate work force.

Prior to the most recent CPA amendments, Chorus was paid rates which were negotiated and set every three calendar years based on Chorus' projected Controllable Costs for the relevant three year period, using certain variables including Block Hours, Flight Hours, Cycles and passengers carried. Chorus was also paid certain variable and fixed aircraft ownership and fixed rates. The rates set for each three year period were not guaranteed to be the same as actual Controllable Costs incurred by Chorus in providing the CPA flying during that period. Once set, for CPA billing purposes, Chorus applied the mark-up (and the Compensating Mark-Up when applicable) to the rates. Chorus was also entitled to repayment of certain defined Pass-through costs, including fuel, navigation, landing and terminal fees and certain other costs. In addition, Chorus was eligible to receive incentive payments each quarter if it achieved certain performance levels related to controllable on-time performance, controllable flight completion, PAWOBS and overall customer satisfaction.

Under the amended CPA Chorus will continue to be entitled to be paid rates, which will generally be set every year, based on Controllable Costs, using the same variables as in prior years such as Block Hours, Flight Hours, Cycles and passengers carried as well as certain variable and fixed aircraft ownership and fixed rates. Certain items provided to Chorus by Air Canada, such as ground handling at the major hubs and facilities will be removed from Controllable Costs. Other costs, such as third party ground handling services and catering and commissary, have been re-classified as Pass-through costs and removed from Controllable Costs. Rates related to crew costs, which are Controllable Costs, have been set for the balance of the term of the CPA, subject to specific adjustments related to pilot flow-up to Air Canada, schedule efficiency, Block Hours and regulatory changes.

In addition, under the amended CPA, Chorus' margin compensation changes from the mark-up on Controllable Cost rates to a fixed fee arrangement. The mark-up and Compensating Mark-up concepts have been eliminated. Chorus will now achieve its margin compensation by the more industry standard approach of fixed fees. The first new fixed fee is called the Fixed Margin per Covered Aircraft in the amended CPA. The Fixed Margin per Covered Aircraft does not vary regardless of network size or complexity, hours flown or any of the other drivers that applied to a majority of the previous rates based on Controllable Costs. Secondly, as Chorus provides additional services that support the CPA regional network such as airport operations, it will also obtain margin compensation through a fixed Infrastructure Fee per Covered Aircraft. These two fixed fees replace the former margin compensation based on a mark-up on rates. The Fixed Margin per Covered Aircraft and the Infrastructure Fee per Covered Aircraft have been set for the period from 2015 to 2020 and set at a lower amount for the period from 2021 to 2025. The word "rates" for purposes of discussion relating to the amended CPA does not include the Fixed Margin per Covered Aircraft or the Infrastructure Fee per Covered Aircraft.

Performance incentives will continue to be available under the amended CPA for achieving established performance targets for the same categories identified under the CPA prior to these amendments, being: controllable on-time performance, controllable flight completion, PAWOBs and customer satisfaction. Under the amended CPA, the opportunity to generate the same amount of performance incentives is preserved until 2020 but is then to decrease by approximately 50% over the period January 1, 2021 to December 31, 2025.

The following table summarizes changes between the amended CPA terms and the CPA terms in effect to the end of 2014, for some of the changes in cost categorizations in Controllable Costs (used to establish rates) and Pass-through costs and costs that will be directly borne by Air Canada.

Changes to the CPA Cost Categorization and Rate Periods by Operating Expense and Detailed Description

CPA Cost Categorization	**CPA Prior to 2015**				**Amended CPA**			
	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			3 Years	X			11 years[1]
All other costs	X			3 Years	X			Annually[2]
Aircraft Fuel								
All Costs		X		NA			X	NA
Depreciation and amortization								
All Costs	X			3 Years	X			3 Years
Food, beverage and supplies								
All Costs	X			3 Years		X		NA
Aircraft maintenance, materials and supplies								
All Costs	X			3 Years	X			Annually
Airport and navigation fees								
Greater Toronto Airport Authority			X	NA			X	NA
All other costs		X		NA		X		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 and subsidiary leases to Chorus	X			3 Years	X			3 Years
Terminal handling services								
Groundhandling Services from Air Canada	X			3 Years			X	NA
Groundhandling from 3rd Parties	X			3 Years		X		NA
De-icing-Services from Air Canada		X		NA			X	NA
All other costs	X			3 Years	X			Annually
Other								
Aircraft Parking	X			3 Years		X		NA
Interrupted Trips & Baggage Delivery	X			3 Years		X		NA
Station Supplies for Processing Passengers	X			3 Years		X		NA
Air Canada Facilities Rent	X			3 Years			X	NA
All other costs	X			3 Years	X			Annually

(1) Adjusted for pilot flow, schedule efficiency, Block Hours and regulatory changes.
(2) Reset annually, subject to certain conditions

The requirement for benchmarking based on Chorus' costs in 2015 and the margin adjustment provisions contained in the CPA prior to these recent amendments are no longer applicable.

The overall fleet plan in the amended CPA calls for the addition of 23 Q400s to gradually replace 34 Dash 8-100s, and 25 CRJ200s over the next 11 years. The current fleet of 26 Dash 8-300s is to continue to operate through 2025. Chorus has agreed to gradually reduce the minimum number of Covered Aircraft from 122 to 86 over the term of the amended CPA (the "Fleet Transition"). Through the Fleet Transition, overall capacity as measured by Available Seat Miles is projected to remain relatively flat compared to the current fleet until 2020 and then there is a corresponding decline with the gradual removal of the remaining 15 Dash 8-100s from 2021 to 2025. By the end of 2025, the reduction in ASM's is projected to be less than 3%. These ASM projections are estimates only, based upon the Fleet Transition plan and assumptions supported by schedule information provide by Air Canada. As the fleet transitions, Chorus intends to increase its aircraft leasing revenue over the term of the amended CPA to include a minimum of 34 Q400 aircraft and 19 Dash 8-300 aircraft.

Concurrent with agreeing to the amended CPA, 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 aircraft. Based on the list price for the Q400 aircraft, the firm order for a total of 13 Q400 aircraft is valued at approximately US$424.0 million, and could increase to US$758.0 million if the options to purchase all additional ten aircraft are exercised. Subject to the satisfaction of customary conditions, aircraft deliveries are scheduled to commence in October 2015. As at December 31, 2014, Chorus had recorded $40.3 million in property and equipment for predelivery payments, as required under the purchase agreement with Bombardier. In addition, the purchase agreement requires additional on-going predelivery payments in the aggregate amount of US$25.4 million until July 2016. Chorus has received commitments from EDC to finance up to 80% of the net purchase price for all firm 13 orders.

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 program is anticipated to begin in early 2017. The cost for each aircraft that undergoes the ESP installation is not anticipated to exceed $3.5 million which includes the Bombardier service bulletin and parts and anticipated labour costs to complete the service bulletin. Chorus has received a commitment from Air Canada to finance up to 80% of this anticipated cost.

Please refer to Section 14 - Economic Dependence for further information.

New pilot agreement

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 no strike, no lockout provisions. The ratification of this new collective agreement was a condition to achieving the changes required in the amended CPA with Air Canada. The amended CPA establishes a pilot mobility agreement between Jazz and Air Canada, whereby Jazz pilots are able to access pilot vacancies at Air Canada. In turn, this allows a transition to a less senior pilot demographic by bringing in new pilots at industry competitive rates, thereby reducing operating costs. The pilot mobility agreement provides that the Jazz pilots who have elected to participate in the arrangement have been placed on a pilot mobility list. Air Canada has committed to hire a minimum of 80% of its new pilots from the pilot mobility list and to hire a minimum of 495 of the pilots on this list.

3 INTRODUCTION

In this MD&A, references to Chorus or the Company refer to, as the context may require, Chorus Aviation Inc. and its current and former subsidiaries (including, but not limited to, Jazz, Aviation GP, Chorus Aviation Holdings Inc., Chorus Airport Services Inc., Jazz Aviation Holdings Inc., Jazz Aircraft Financing Inc., and Jazz Leasing Inc.) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries, or Chorus itself. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to 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 audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2014 and December 31, 2013. 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 February 18, 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, 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 amended CPA), competition, insurance issues and costs, supply issues, war, terrorist attacks, 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, secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, dilution of Chorus shareholders, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings, 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 the amended CPA in Section 2 - Amended Capacity Purchase Agreement with Air Canada, insurance recovery in Section 8 - Fleet, projections for Chorus' pension funding obligations from 2015 to 2019 in Section 10 - Pension Plans and the 2015 outlook discussion in Section 18 - 2015 Outlook. The forward-looking statements contained in this discussion represent Chorus' expectations as of February 18, 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 including Jazz Aviation Holdings Inc. ("JAHI") and Chorus Aviation Holdings Inc. ("CAHI").

JAHI was established to hold Chorus' business interests associated with the CPA with Air Canada. Included under this umbrella are Jazz, Jazz Aircraft Financing Inc. ("JAFI") and Jazz Leasing Inc. ("JLI").

Chorus' primary business is conducted through Jazz. Jazz operates the largest regional airline, and the second largest airline in Canada after Air Canada, based on fleet size. Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and transborder network. Jazz and Air Canada are parties to the CPA under which Air Canada currently 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 December 31, 2014, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 736 departures per weekday to 55 destinations in Canada and 18 destinations in the United States, using 122 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 for a description of the risks relating to Chorus' relationship with Air Canada).

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).

JAFI and JLI are two entities which were established for the sole purpose of acquiring and financing Q400 aircraft and related equipment. The financing was provided by EDC. These Q400 aircraft and the related equipment are leased by JLI to Jazz for use in the CPA.

CAHI was established as a holding company to facilitate diversification of Chorus' business. Chorus Airport Services Inc. ("CASI") was established for the purpose of providing airport handling services.

5 SELECTED ANNUAL INFORMATION

The following table provides selected annual information for Chorus for the years 2012 through to 2014.

	Year ended December 31,		
(expressed in thousands of Canadian dollars, except per Share amounts)	2014 $	2013 $	2012 $
Revenue	1,666,291	1,672,060	1,710,686
Operating income	137,901	124,262	127,386
Net income	64,710	61,866	100,223
Cash and cash equivalents	114,578	159,901	118,306
Total assets	881,930	976,925	812,307
Total long-term liabilities	486,950	454,842	355,564
Dividends declared	54,454	50,880	74,408
Cash provided by operating activities	202,769	160,617	142,807
Per Share			
Operating income	1.14	1.01	1.03
Net income, basic	0.53	0.50	0.81
Net income, diluted	0.52	0.50	0.77
Dividends declared	0.45	0.41	0.60

2014 Compared to 2013

Revenue decreased as a result of a reduction in Billable Block Hours and Pass-through revenue. These decreases were offset by rate increases pursuant to the CPA, a favourable US dollar exchange rate, increased aircraft leasing under the CPA, and increased CPA compensation. These increases in revenue were the main factors contributing to the rise in operating income and net income.

Cash and cash equivalents decreased as a result of the redemption of the Debentures, deposits made for additional Q400 aircraft, and the repurchase of Shares under the normal course issuer bid ("NCIB"). These decreases were offset by positive cash flows from operations.

At December 31, 2014, the pilot defined benefit pension plan was in a liability position versus an asset position at December 31, 2013. This was primarily as a result of a decrease in the applicable discount rate.

Total assets decreased as a result of decreased cash, decreased accounts receivable and decreased other assets, which reflects the change in the pilot defined benefit pension plan.

Total long-term liabilities increased as a result of the change mentioned above regarding the pilot defined benefit pension plan.

The 2014 results compared to the 2013 results are discussed in more detail throughout this MD&A.

2013 Compared to 2012

Revenue decreased as a result of no activity for Thomas Cook in 2013 (the Flight Services Agreement was terminated in April 2012) and decreased CPA Billable Block Hours. These decreases were partially offset by passenger revenue increases due to rate increases pursuant to the CPA, which captures the lease rates for the new Q400 aircraft, and higher incentives earned for operational performance under the CPA.

Net income decreased due to the unrealized foreign exchange loss on long-term debt and finance leases and increased interest expense related to the Q400 aircraft and engine financing.

Total assets increased as a result of increased cash, the purchase of consignment inventory and the acquisition of six additional Q400 aircraft and two additional engines.

Total long-term liabilities increased as a result of increased long-term debt related to the purchase of such Q400 aircraft and engines. This increase was partially offset by the reclassification of the Debentures as current due to their maturity in 2014.

Also, at December 31, 2013, the pilot defined benefit pension plan was in an asset position, versus a liability position at December 31, 2012. This was primarily as a result of an increase in discount rate and asset gains.

Cash and cash equivalents increased as a result of lower cash dividend payments and the timing of certain payments.

6 FOURTH QUARTER ANALYSIS

Revenue

	Three months ended December 31,		
	2014	**2013**	**Change**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**
Flight revenue including charter	216,419	212,011	4,408
Aircraft leasing revenue under the CPA	14,648	13,491	1,157
CPA compensation	34,136	32,202	1,934
Pass-through revenue	133,413	152,999	(19,586)
Passenger revenue	398,616	410,703	(12,087)
Other revenue	2,682	2,524	158
	401,298	413,227	(11,929)

Operating revenue decreased from $413.2 million to $401.3 million, representing a decrease of $11.9 million or 2.9% from 2013.

Flight revenue including charter

Flight revenue including charter increased by $4.4 million or 2.0%. $3.5 million of this increase was as a result of rate increases pursuant to the CPA. Rates were set in three year intervals and within that three year period the rates change each year depending on numerous factors. For example salaries, wages and benefits, contract pricing, and other elements may have an increase applied, which can result in a change to revenue. Also, a favourable US dollar exchange rate resulted in a $4.5 million increase in the quarter. These increases were offset by decreased Billable Block Hours of $3.6 million.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $1.2 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 passenger revenue, and is designed to provide compensation to Chorus based on market lease rates.

CPA compensation

	Three months ended December 31,		
	2014	**2013**	**Change**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**
CPA compensation			
Mark-up, excluding Compensating Mark-Up	27,169	26,930	239
Compensating Mark-Up	1,221	—	1,221
Incentives	5,746	5,272	474
	34,136	32,202	1,934

Mark-up, excluding Compensating Mark-Up increased by $0.2 million. A favourable US dollar exchange rate resulted in a $0.6 million increase in the quarter; offset by decreased Billable Block Hours.

In 2014, as actual Annual Delivered Block Hours were 362,530, below the minimum of 367,106, the Compensating Mark-Up formula contained in the CPA was applied and the Controllable Mark-Up was increased to compensate Chorus for its reduced operating margin and increased Unit Costs resulting from the reduced Block Hours. Chorus recorded $1.2 million in Compensating Mark-Up in the quarter as an increase in operating revenue. (Refer to Section 14 - Economic Dependence).

Incentives earned under the CPA increased by $0.5 million in the quarter of which $0.1 million related to a favourable US dollar exchange rate and the remainder to improved operating performance.

Pass-through revenue

Pass-through revenue decreased by $19.6 million or 12.8%, from $153.0 million to $133.4 million, which included a decrease of $10.8 million related to fuel costs driven primarily by a decline in jet fuel prices and $8.5 million related to reduced airport and navigation fees and terminal handling services. A favourable US dollar exchange rate partially offset these decreases by $1.0 million. Effective January 1, 2014, Air Canada entered into a new commercial agreement with the Greater Toronto Airport Authority ("GTAA") that encompasses Chorus' Air Canada Express operations. GTAA costs related to landing, terminal and certain other airport user fees, which are Pass-through costs under the CPA, are now paid directly by Air Canada pursuant to this new agreement.

Expenses

	Three months ended December 31,		
	2014	**2013**	**Change**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**
Operating expenses			
Salaries, wages and benefits	99,231	100,407	(1,176)
Aircraft fuel	79,945	90,854	(10,909)
Depreciation and amortization	16,839	16,457	382
Food, beverage and supplies	4,249	4,588	(339)
Aircraft maintenance materials, supplies and services	45,023	39,411	5,612
Airport and navigation fees	41,490	47,255	(5,765)
Aircraft rent	23,816	22,632	1,184
Terminal handling services	28,984	30,720	(1,736)
Other	28,737	28,428	309
	368,314	380,752	(12,438)

Operating expenses decreased from $380.8 million to $368.3 million, a decrease of $12.4 million. An unfavourable US dollar exchange rate compared to the same period last year increased operating expenses by $5.6 million. Controllable Costs increased from $227.8 million to $234.9 million, an increase of $7.1 million or 3.1%. $4.6 million of this controllable cost increase is attributable to an unfavourable US dollar exchange rate. Pass-through costs decreased from $153.0 million to $133.4 million, a decrease of $19.6 million or 12.8%. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2014 $	2013 $	Change $
Adjusted salaries, wages and benefits	99,181	100,242	(1,061)
Employee separation program costs	1,325	1,241	84
Capitalized major maintenance overhaul labour	(1,275)	(1,076)	(199)
Salaries, wages and benefits	99,231	100,407	(1,176)

Salaries, wages and benefits decreased by $1.2 million from $100.4 million to $99.2 million. Adjusted salaries, wages and benefits (adjusted for the removal of employee separation program costs and capitalized major maintenance overhaul labour), which includes pension, incentive compensation and other employee benefits decreased $1.1 million. During the quarter, Chorus incurred $1.3 million for employee separation program costs, an increase of $0.1 million from the same period in 2013. Salaries and wages were also affected by more labour costs being capitalized on owned aircraft for major maintenance overhauls of $0.2 million.

Aircraft fuel

Aircraft fuel cost decreased by $10.9 million from $90.9 million to $79.9 million. The decrease was primarily attributable to a decline in jet fuel prices which accounted for approximately $9.1 million and a decrease in the volume of fuel consumed due to decreased Block Hours, which accounted for $1.8 million.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense increased by $5.6 million from $39.4 million to $45.0 million. An unfavourable US dollar exchange rate on certain maintenance material purchases accounted for a $3.0 million increase, and increased other maintenance costs accounted for $3.7 million. These increases were offset by decreased Block Hours which accounted for $0.8 million and higher maintenance costs being capitalized as a result of major maintenance overhauls accounted for $0.3 million of the decrease.

Airport and navigation fees

Airport and navigation fees decreased by $5.8 million from $47.3 million to $41.5 million. Costs incurred at the GTAA by Chorus were $nil in the quarter compared to $7.3 million for the same quarter last year. This decrease was offset by an increase of $1.5 million related to rate changes as a result of changes in aircraft deployment.

Aircraft rent

Aircraft rent increased by $1.2 million from $22.6 million to $23.8 million. The increase was mainly due to an unfavourable US dollar exchange rate which accounted for $1.7 million. This increase was offset by costs incurred for returned Dash 8-100 aircraft and spare engines which were $nil in the quarter compared to $0.5 million for the same period last year.

Terminal handling services

Terminal handling costs decreased by $1.7 million from $30.7 million to $29.0 million. Deicing costs for the quarter decreased by $2.3 million. Costs incurred at the GTAA by Chorus were $nil in the quarter compared to $1.3 million for the same quarter last year and decreased Block Hours accounted for $0.4 million. The commencement of outsourcing of passenger handling services resulted in an increase of $1.4 million and increases related to rates as a result of changes in aircraft deployment were $0.9 million.

Non-operating income (expenses)

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2014 $	2013 $	Change $
Non-operating income (expenses)			
Net interest expense	(3,058)	(5,184)	2,126
Gain on disposal of property and equipment	42	97	(55)
Foreign exchange loss	(10,564)	(11,221)	657
Other	—	1,662	(1,662)
	(13,580)	(14,646)	1,066

Non-operating expenses decreased by $1.1 million from $14.6 million to $13.6 million.

Over the course of the first and second quarters of 2014, Chorus redeemed the Debentures, which accounted for a decrease in interest accretion of $0.5 million and a decrease in interest expense of $1.9 million related to the Debentures in the fourth quarter. Interest expense related to long-term debt increased by $0.1 million.

The weakening of the Canadian dollar during the quarter contributed to a foreign exchange loss of $10.6 million compared to a foreign exchange loss of $11.2 million in the same period last year. The US dollar exchange rate at December 31, 2014 was $1.1601 while the US dollar exchange rate at September 30, 2014 was $1.1200. The US dollar exchange rate at December 31, 2013 was $1.0636 while the US dollar exchange rate at September 30, 2013 was $1.0303. These rates are based on the closing day rate from the Bank of Canada.

In 2013, Chorus recorded $1.3 million in other income related to non-repayable government assistance. Also, in 2013 Chorus recorded a gain related to ABCP of $0.4 million.

7 YEAR-TO-DATE ANALYSIS

Revenue

(expressed in thousands of Canadian dollars)	Year ended December 31, 2014 $	2013 $	Change $
Flight revenue including charter	875,110	858,757	16,353
Aircraft leasing under the CPA	56,944	49,780	7,164
CPA compensation	139,541	128,956	10,585
Pass-through revenue	582,121	624,527	(42,406)
Passenger revenue	1,653,716	1,662,020	(8,304)
Other revenue	12,575	10,040	2,535
	1,666,291	1,672,060	(5,769)

Operating revenue decreased from $1,672.1 million to $1,666.3 million, representing a decrease of $5.8 million or 0.3%.

Flight revenue including charter

Flight revenue including charter increased by $16.4 million or 1.9%. $13.4 million of this increase was as a result of rate increases pursuant to the CPA. Rates were set in three year intervals and within that three year period the rates change each year depending on numerous factors. For example salaries, wages and benefits, contract pricing and other elements may have an increase applied, which can result in a change to revenue. Also, a favourable US dollar exchange rate resulted in an increase of $15.7 million in the year. These increases were offset by a decrease in Billable Block Hours of $12.7 million.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $7.2 million. $3.7 million of this increase was related to a favourable US dollar exchange rate. In the first six months of 2013, Chorus acquired six additional Q400 aircraft, as such, 2014 is the first year that Chorus had a full year of leasing revenue for all 21 Q400 aircraft, which resulted in a $3.5 million increase. 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 compensation

(expressed in thousands of Canadian dollars)	Year ended December 31, 2014 $	2013 $	Change $
CPA compensation			
Mark-up, excluding Compensating Mark-Up	111,993	108,135	3,858
Compensating Mark-Up	4,965	—	4,965
Incentives	22,583	20,821	1,762
	139,541	128,956	10,585

Mark-up, excluding Compensating Mark-Up increased by $3.9 million. A favourable US dollar exchange rate resulted in a $2.2 million increase in the year. The remaining increase would have resulted from the increased rates under the CPA.

In 2014, as actual Annual Delivered Block Hours were 362,530, below 367,106, 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. Chorus recorded $5.0 million in Compensating Mark-Up in the year as an increase in operating revenue. (Refer to Section 14 - Economic Dependence).

Incentives earned under the CPA increased $1.8 million in the year, of which $0.4 million related to a favourable US dollar exchange rate and the remaining increase related to better operational performance.

Pass-through revenue

Pass-through revenue decreased by $42.4 million or 6.8%, from $624.5 million to $582.1 million, which included a decrease of $35.3 million related to reduced airport and navigation fees and terminal handling services and $6.3 million related to fuel costs driven primarily by a decline in jet fuel prices. A favourable US dollar exchange rate partially offset this decrease by $4.0 million. Effective January 1, 2014, Air Canada entered into a new commercial agreement with the GTAA that encompasses Chorus' Air Canada Express operations. GTAA costs related to landing, terminal and certain other airport user fees, which are Pass-through costs under the CPA, are now paid directly by Air Canada pursuant to this new agreement.

Other revenue

Other revenue increased by $2.5 million primarily related to the sale of consignment inventory and increased revenue from groundhandling services.

Expenses

(expressed in thousands of Canadian dollars)	Year ended December 31, 2014 $	2013 $	Change $
Operating expenses			
Salaries, wages and benefits	410,401	411,831	(1,430)
Aircraft fuel	372,345	378,996	(6,651)
Depreciation and amortization	66,057	62,602	3,455
Food, beverage and supplies	17,692	18,130	(438)
Aircraft maintenance materials, supplies and services	169,288	153,592	15,696
Airport and navigation fees	168,550	197,505	(28,955)
Aircraft rent	93,350	89,905	3,445
Terminal handling services	109,184	113,785	(4,601)
Other	121,523	121,452	71
	1,528,390	1,547,798	(19,408)

Operating expenses decreased from $1,547.8 million to $1,528.4 million, a decrease of $19.4 million or 1.3%. An unfavourable US dollar exchange rate compared to the same period last year increased operating expenses by $20.9 million. Controllable Costs increased from $923.3 million to $946.3 million, an increase of $23.0 million or 2.5%. $16.8 million of this controllable cost increase is attributable to an unfavourable US dollar exchange rate. Pass-through costs decreased from $624.5 million to $582.1 million, a decrease of $42.4 million, or 6.8%. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(expressed in thousands of Canadian dollars)	Year ended December 31, 2014 $	2013 $	Change $
Adjusted salaries, wages and benefits	406,094	413,232	(7,138)
Employee separation program costs	11,942	9,893	2,049
Capitalized major maintenance overhaul labour	(7,635)	(11,294)	3,659
Salaries, wages and benefits	410,401	411,831	(1,430)

Salaries, wages and benefits decreased by $1.4 million from $411.8 million to $410.4 million. Adjusted salaries, wages and benefits (adjusted for the removal of employee separation program costs and capitalized major maintenance overhaul labour), which includes pension, incentive compensation and other employee benefits decreased $7.1 million. Employee separation program costs paid during the year ended December 31, 2014 were $11.9 million, an increase of $2.0 million from the same period of 2013. These costs include employee separation program costs of $3.2 million related to the commencement of outsourcing of passenger handling services as permitted by the applicable collective agreement. Salaries and wages were also affected by fewer labour costs being capitalized on owned aircraft for major maintenance overhauls of $3.7 million on a year over year comparison. The reduction in major maintenance overhauls can be attributed to ten fewer events capitalized during this period compared to same period last year.

Aircraft fuel

Aircraft fuel cost decreased by $6.7 million from $379.0 million to $372.3 million. The decrease was primarily attributable to a reduction in the volume of fuel consumed due to decreased Block Hours, which accounted for $11.5 million. This decrease was offset by an increase in jet fuel prices on a year over year basis which accounted for approximately $4.8 million.

Depreciation and amortization

Depreciation and amortization expense increased by $3.5 million from $62.6 million to $66.1 million. In the first six months of 2013, Chorus acquired six additional Q400 aircraft, as such, 2014 is the first year that Chorus had a full year of amortization for all 21 Q400 aircraft, which resulted in a $0.9 million increase. The remainder of the increase was due to increased capital expenditures on aircraft rotable parts and other equipment.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense increased by $15.7 million from $153.6 million to $169.3 million. An unfavourable US dollar exchange rate on certain maintenance material purchases accounted for a $9.9 million increase, increased other maintenance costs accounted for $9.3 million and fewer maintenance costs being capitalized as a result of reduced major maintenance overhauls accounted for a $1.0 million increase. The reduction in major maintenance overhauls can be attributed to ten fewer events capitalized during this period compared to same period last year. These increases were offset by decreased Block Hours which accounted for $4.5 million.

Airport and navigation fees

Airport and navigation fees decreased by $29.0 million from $197.5 million to $168.6 million. Costs incurred at the GTAA by Chorus were $nil in the year compared to $30.7 million for the same period last year. This decrease was offset by an increase of $1.7 million related to rate changes as a result of changes in aircraft deployment.

Aircraft rent

Aircraft rent increased by $3.4 million from $89.9 million to $93.4 million. The increase was mainly due to an unfavourable US dollar exchange rate which accounted for $5.8 million. This increase was offset by costs incurred for returned CRJ100 and Dash 8-100 aircraft and spare engines which were $nil in the year compared to $1.8 million for the same period last year.

Terminal handling services

Terminal handling costs decreased by $4.6 million from $113.8 million to $109.2 million. Costs incurred at the GTAA by Chorus were $nil in the period compared to $4.7 million for the same period last year. Other decreases consisted of deicing costs of $3.1 million and decreased Block Hours which accounted for $3.1 million. These decreases were offset by increased rates as a result of changes in aircraft deployment of $2.9 million. In addition, the commencement of outsourcing of passenger handling services resulted in an increase of $3.4 million.

Non-Operating Income (Expenses)

	Year ended December 31,		
(expressed in thousands of Canadian dollars)	2014 $	2013 $	Change $
Non-operating income (expenses)			
Net interest expense	(15,748)	(20,849)	5,101
Gain on disposal of property and equipment	249	1,521	(1,272)
Foreign exchange loss	(28,384)	(21,465)	(6,919)
Other	500	2,412	(1,912)
	(43,383)	(38,381)	(5,002)

Non-operating expense increased by $5.0 million from $38.4 million to $43.4 million.

Over the course of the first and second quarters of 2014, Chorus redeemed the Debentures, which accounted for a decrease in interest accretion of $0.1 million and a decrease in interest expense of $6.1 million related to the Debentures. Interest expense related to long-term debt increased by $0.8 million related to an unfavourable US dollar exchange rate.

In 2013 Chorus incurred a gain related to the sale of Chorus' office and hangar facility in London, Ontario of $1.3 million, which was recorded as a gain on disposal of property and equipment.

The weakening of the Canadian dollar contributed to a foreign exchange loss of $28.4 million, compared to a foreign exchange loss of $21.5 million in the previous year. The US dollar exchange rate at December 31, 2014 was $1.1601 while the US dollar exchange rate at December 31, 2013 was $1.0636. The US dollar exchange rate at December 31, 2012 was $0.9949. These rates are based on the closing day rate from the Bank of Canada.

In 2014, 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 the year, and as such $0.5 million was recorded in other income. In 2013, Chorus recorded $2.0 million in other income related to non-repayable government assistance. Also, in 2013 Chorus recorded a gain related to ABCP of $0.4 million.

8 FLEET

As at December 31, 2014, Chorus' operating fleet was made up of 125 operating aircraft, of which 42 were regional jets and 83 were turboprop aircraft.

The following table summarizes Chorus' operating fleet as at December 31, 2014:

	Number of Operating Aircraft December 31, 2014	Average Age of Operating Aircraft	Owned	Finance Lease	Operating Lease	Number of Operating Aircraft December 31, 2013
Canadair Regional Jet CRJ200	26	12.5	—	—	26	26
Canadair Regional Jet CRJ705	16	9.4	—	—	16	16
De Havilland Dash 8-300	28	24.4	19	7	2	28
De Havilland Dash 8-100	34	25.9	29	—	5	36
Bombardier Q400	21	2.8	21	—	—	21
Total Operating Aircraft	125	17.0	69	7	49	127

All aircraft in Chorus' operating fleet as of December 31, 2014 were Covered Aircraft under the CPA, except for two Dash 8-300 and one CRJ-200 aircraft allocated for charter purposes. In January 2014, Chorus reduced its operating charter fleet to these three aircraft.

On November 6, 2014, upon landing at Edmonton International Airport, a Q400 aircraft sustained significant damage. As of this date, Chorus plans to repair the aircraft, and fully expects to recover the cost of these repairs from its insurers or through warranty. As repair estimates are not yet completed, no adjustment to the aircraft value has been recorded. Chorus has worked with Air Canada to minimize the impact on the flight schedule by increasing utilization on the remaining fleet. This aircraft has been included in the above table.

9 SUMMARY OF FINANCIAL RESULTS

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

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Total revenue ($000)	401,298	432,576	417,836	414,581	413,227	432,256	410,297	416,280
Net income ($000)	11,338	11,252	36,498	5,622	8,755	36,032	7,899	9,180
Adjusted net income[(1)] ($000)	23,697	29,004	22,197	20,334	20,811	27,708	21,428	14,746
Billable Block Hours	89,674	96,776	91,770	92,643	92,610	98,668	94,062	97,202
ASMs (000's)	1,310,249	1,482,023	1,398,234	1,316,726	1,339,219	1,525,876	1,440,231	1,391,576
Average Stage Length (miles)	390	390	400	391	395	406	406	412
CASM (¢)	28.11	26.53	27.43	29.11	28.43	25.76	26.29	28.42
CASM, excluding fuel (¢)	22.01	19.76	20.52	21.86	21.65	19.07	20.08	21.47
Adjusted EBITDA[(1)] ($000)	49,823	56,153	50,663	47,319	48,932	55,762	47,950	34,220
Standardized Free Cash Flow before growth capital expenditures and dividends[(1)] ($000)	42,136	57,344	38,937	39,051	27,863	40,301	31,093	24,710
Net income per Share, basic ($)	0.09	0.09	0.30	0.05	0.07	0.29	0.06	0.07
Net income per Share, diluted ($)	0.09	0.09	0.29	0.05	0.07	0.27	0.06	0.07
Adjusted net income per Share, basic[(1)] ($)	0.20	0.24	0.18	0.17	0.17	0.23	0.17	0.12

(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. Chorus 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.

10 PENSION PLANS

Projected pension funding obligations

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

(expressed in thousands of Canadian dollars)	2015 $	2016 $	2017 $	2018 $	2019 $
Defined benefit pension plans, current service	20,100	18,800	17,600	16,200	14,600
Defined benefit pension plan, past service	9,300	9,300	9,300	9,300	9,300
Defined contribution pension plans	9,100	10,300	10,700	11,200	11,800
Projected pension funding obligations	38,500	38,400	37,600	36,700	35,700

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.

As at January 1, 2014, the solvency deficit in the Pilot DB Plan was $13.3 million. As at January 1, 2015, based on preliminary estimates, the solvency deficit in the Pilot DB Plan is estimated to be approximately $51.0 million. The final funding obligation for 2015 will be determined based on the January 1, 2015 valuation which will be completed in the first half of 2015. Based on pension funding legislation and regulations as at December 31, 2014, this preliminary estimate of the solvency deficit would be funded over five years requiring approximately $9.3 million in cash funding obligations for 2015. For the years 2016 to 2019 assuming no gains or losses in future years, current funding legislation and regulations would require approximately $9.3 million per year of cash funding. However, several factors may impact required contributions, including regulatory developments, assumptions and methods used and changes in the economic conditions, the return on fund assets and changes in interest rates. There can be no assurance that required contributions will be in line with preliminary estimates provided. These funding projections are updated annually.

The estimated funding requirements for the SERP DB Plan and the Pilot DB Plan are based on Chorus' funding policies and the January 1, 2015 estimated financial position for funding purposes of these plans.

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.

11 LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At December 31, 2014, Chorus had $114.6 million in cash and cash equivalents and $3.3 million of restricted cash (letters of credit), for a total of $117.9 million, a decrease of $45.4 million from December 31, 2013. This decrease is primarily attributable to drawing $80.2 million from cash to redeem the Debentures, deposits made for additional Q400 aircraft of $40.0 million, as well as the repurchase of 2,290,800 Shares under the NCIB at a cost of $9.4 million. These decreases were offset by positive cash flows from operations.

Chorus' current liquidity needs are primarily related to meeting obligations associated with the following: planned capital expenditures, 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. Controllable Revenue is paid in advance on the first business day of the month. The Pass-through revenue and the reconciliation of Controllable Revenue is 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 Pass-through revenue and the reconciliation of Controllable Revenue are paid. As the amended CPA results in some expenses moving to Pass-through costs that were previously Controllable Costs and some costs now being borne by Air Canada, there is a resulting impact on timing of payment by Air Canada. The parties agreed to work together to ensure that the implementation of these changes does not adversely impact Chorus’ cash flow and minimum cash positions.

Working capital

The following table provides information on Chorus' working capital balances as at December 31, 2014 and as at December 31, 2013:

(expressed in thousands of Canadian dollars)	December 31, 2014 $	December 31, 2013 $	Change $
Cash and cash equivalents	114,578	159,901	(45,323)
Accounts receivable	66,229	76,891	(10,662)
Other current assets	60,250	68,017	(7,767)
Accounts payable and accrued liabilities	(215,325)	(207,334)	(7,991)
Dividends payable	(4,509)	(13,786)	9,277
Current portion of long-term debt and finance leases	(38,728)	(34,710)	(4,018)
Current portion of long-term incentive plan	(6,358)	—	(6,358)
Convertible debentures	—	(78,535)	78,535
Income tax payable	—	(1,737)	1,737
Net working capital	(23,863)	(31,293)	7,430

As at December 31, 2014, working capital was a deficit of $23.9 million, an improvement of $7.4 million from the December 31, 2013 deficit of $31.3 million. This improvement was primarily as a result of the early redemption of the Debentures and a change in the timing of payment of dividends from quarterly to monthly; offset by decreased cash, decreased accounts receivable, and increased accounts payable.

Sources and uses of cash

The following table provides information on Chorus' cash flows for the three months and year ended December 31, 2014 and December 31, 2013.

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2014 $	2013 $	Change $	Year ended December 31, 2014 $	2013 $	Change $
Sources of Cash:						
Cash provided by operating activities before net changes in non-cash balances related to operations	49,161	48,455	706	196,259	179,624	16,635
Net changes in non-cash balances related to operations	—	—	—	6,510	—	6,510
Long-term borrowings	—	4,089	(4,089)	—	127,275	(127,275)
Other	85	97	(12)	292	6,756	(6,464)
Total sources	**49,246**	**52,641**	**(3,395)**	**203,061**	**313,655**	**(110,594)**
Uses of Cash:						
Net changes in non-cash balances related to operations	(1,239)	(17,564)	16,325	—	(19,007)	19,007
Repayment of long-term debt and obligations under finance leases	(8,860)	(8,387)	(473)	(33,100)	(27,503)	(5,597)
Redemption of convertible debentures	—	—	—	(80,201)	—	(80,201)
Restricted cash related to Q400 aircraft financing	—	—	—	—	(5,930)	5,930
Repurchase of Shares under normal course issuer bid	(1,015)		(1,015)	(9,372)	(4,006)	(5,366)
Dividends	(13,537)	(9,191)	(4,346)	(63,731)	(55,696)	(8,035)
Additions to property and equipment	(45,823)	(7,112)	(38,711)	(65,545)	(159,918)	94,373
Total usage	**(70,474)**	**(42,254)**	**(28,220)**	**(251,949)**	**(272,060)**	**20,111**
Effect of foreign exchange on cash and cash equivalents	**295**	**—**	**295**	**3,565**	**—**	**3,565**
Net change in cash and cash equivalents during the periods	**(20,933)**	**10,387**	**(31,320)**	**(45,323)**	**41,595**	**(86,918)**
Cash and cash equivalents – Beginning of periods	**135,511**	**149,514**	**(14,003)**	**159,901**	**118,306**	**41,595**
Cash and cash equivalents – End of periods	**114,578**	**159,901**	**(45,323)**	**114,578**	**159,901**	**(45,323)**

Sources of cash

Sources of cash for the three months ended December 31, 2014 were $49.2 million, a decrease of $3.4 million. The decrease was a result of the absence of long-term borrowings in 2014 compared to $4.1 million for the same period in 2013.

Sources of cash for the year ended December 31, 2014 were $203.1 million, a decrease of $110.6 million. The decrease was a result of the absence of long-term borrowings in 2014 compared to $127.3 million for the same period in 2013. This decrease was offset by a higher operating income.

Uses of cash

Uses of cash for the three months ended December 31, 2014 were $70.5 million, an increase of $28.2 million. For the three months ended December 31, 2014 there were growth capital expenditures of $40.0 million, compared to $4.0 million in the same period of 2013 as during the fourth quarter of 2014, Chorus made deposits for additional Q400 aircraft. Maintenance capital expenditures increased by $2.7 million related to ongoing spare parts replacements for the Dash 8-100, Dash 8-300 and Q400 fleets, equipment and leasehold improvements and reduced major maintenance overhauls. Refer to table below under Capital Expenditures. During the fourth quarter of 2014, Chorus paid dividends of $13.5 million, an increase of $4.3 million compared to same period in the prior year due to changes in the dividend policy. These increases in cash usage were offset by positive changes in non-cash working capital.

Uses of cash for the twelve months ended December 31, 2014 were $251.9 million, a decrease of $20.1 million. For the year ended December 31, 2014, there was cash growth capital expenditures of $40.0 million, compared to $121.7 million in the same period of 2013 as during the fourth quarter of 2014, Chorus made purchase deposits for additional Q400 aircraft. In 2013, there were six Q400s and two Q400 engines included in growth capital expenditures. Maintenance capital expenditures decreased by $12.6 million, primarily related to reduced major maintenance overhauls and the completion in 2013 of modifications to both the head office building and hangar facility in Halifax. Refer to table below under Capital Expenditures. Also, usage of cash decreased due to positive changes in non-cash working capital. These decreases were offset by increased usage related to the redemption of the Debentures in the amount of $80.2 million, increased dividend payments of $8.0 million and increased repurchase of Shares under the NCIB of $5.4 million.

Contractual obligations and other commitments

The table below summarizes Chorus' principal and interest cash debt repayments and future minimum lease payments under operating leases for flight equipment and base facilities for the years 2015 through to 2019 and thereafter.

(expressed in thousands of Canadian dollars)	Payments Due by Period						
	Total $	**2015 $**	**2016 $**	**2017 $**	**2018 $**	**2019 $**	**After 5 years $**
Long-term debt	477,703	48,825	49,824	49,791	49,758	49,725	229,780
Finance leases (1)	3,492	3,492	—	—	—	—	—
Operating leases (1)							
Air Canada and its subsidiary (2)	616,120	88,969	80,749	73,545	70,256	69,611	232,990
Other	45,093	12,356	6,116	4,808	4,386	4,085	13,342
	1,142,408	153,642	136,689	128,144	124,400	123,421	476,112

(1) A significant portion of lease payments are payable in US dollars.
(2) Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Chorus. These leases are included in the above table under the heading "Air Canada and its subsidiary". For further discussion, refer to Section 14 - Economic Dependence.

In 2007 and 2010, Chorus entered into common terms agreements ("CTAs") with aircraft lessors which govern three of Chorus' aircraft leases and which will also apply to any future aircraft leases with the same lessors. As at December 31, 2014, Chorus was in compliance with the tangible asset disposal covenants contained in these CTAs.

The foregoing contains forward-looking information and actual contractual obligations and other commitments may vary. These projections are based on certain assumptions including foreign exchange rates and current contractual terms. Please refer to Section 3 - Introduction "Caution regarding forward-looking information" and Section 21 - Risk Factors for risks related to this forward-looking information. The current projections differ from previous projections as a result of the early redemption of Debentures, capital expenditures in the year ended 2014 and new borrowing or leasing, among other things.

Long-term debt

Long-term debt consists of the following:

(expressed in thousands of Canadian dollars)	**December 31, 2014** **$**	**December 31, 2013** **$**
Term loans - purchased aircraft (1)	383,872	382,759
Term loans - purchased engines (2)	8,186	8,040
Term loan - Halifax facility (3)	12,000	12,000
	404,058	402,799
Less: Current portion	35,376	31,354
	368,682	371,445

(1) 21 individual term loans, repayable in semi-annual instalments, ranging from $1.0 million to $1.2 million, bearing fixed interest at a weighted average rate of 3.374%, maturing between May 2023 and March 2025, each secured primarily by one Q400 aircraft and two PW150A engines. At December 31, 2014, the total Q400 aircraft financing payable in US dollars was US$330.9 million (December 31, 2013 - US$359.9 million), and the net book value of property and equipment pledged as collateral under Q400 aircraft financing was $406.5 million (December 31, 2013 - $425.1 million).

(2) Four individual term loans, repayable in quarterly instalments of approximately $0.1 million, including fixed interest at a weighted average rate of 4.878%, maturing between December 2024 and October 2025, each secured primarily by one PW150A engine. At December 31, 2014, the total Q400 engine financing payable in US dollars was US$7.1 million (December 31, 2013 - US$7.6 million) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $8.2 million (December 31, 2013 - $8.6 million).

(3) Nova Scotia Jobs Fund loan, with a maximum contribution of $12.0 million, bearing interest at a fixed rate of 3.33% annually. Principal repayments of $1.0 million 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. As of December 31, 2014, the amount drawn on the loan was $12.0 million (December 31, 2013 - $12.0 million).

Under its financing agreement with EDC (for both aircraft and engines), the Jazz Group 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 December 31, 2014, the Jazz Group was in compliance with these covenants. Failure by the Jazz Group to satisfy 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 several covenants which are specific to Jazz as the lessee of the Q400 aircraft and engines including:

- a tangible asset disposal covenant, and;
- a continuation of business under the CPA covenant.

As at December 31, 2014, Jazz was in compliance with both of these covenants.

As additional security under the EDC financing agreements, the aircraft and 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. In addition, restricted cash recorded under other long-term assets relates to funds required to be held in a segregated account with a financial institution as security for the EDC financing related to the purchase of six Q400 aircraft in 2013.

Convertible Debentures

In November of 2009, Chorus entered into an agreement to sell to a group of underwriters $86.3 million principal amount of 9.50% convertible unsecured subordinated debentures (the "Debentures") paying interest semi-annually in arrears on June 30 and December 31, in each year, commencing on June 30, 2010, maturing on December 31, 2014 (the "Maturity Date"). As such, as at December 31, 2013, the Debentures were shown as a current liability. The net proceeds received by Chorus from the sale of Debentures were $82.3 million after deduction of the underwriters' fee and the expenses of the offering. Upon issuance, the Debentures were separated into liability and conversion components for accounting purposes. On December 14, 2010, $6.0 million of the Debenture principal was converted, leaving $80.2 million outstanding.

On each of February 10, 2014 and June 20, 2014 (the "Early Redemption Dates"), Chorus exercised its right to redeem the Debentures. Chorus redeemed the Debentures by paying the outstanding principal amount of the redeemed Debentures (the "Redemption Price"), together with all accrued and unpaid interest thereon up to but excluding the Early Redemption Dates. The Debentures that were redeemed ceased to bear interest from, and subsequent to, the applicable Early Redemption Dates. Chorus used surplus cash to pay the Redemption Price together with all accrued and unpaid interest thereon as described above. After the early redemption on June 20, 2014 there were no Debentures outstanding.

Off balance sheet arrangements and guarantees

Chorus enters into real estate leases or operating agreements which grant a license to Chorus to use certain premises and/or operate at certain airports in the majority of the cities that it serves. It is common in such commercial lease transactions for Chorus, as the lessee, to agree to indemnify the lessor and other related third parties for tort liabilities arising out of or relating to Chorus' use or occupancy of the leased or licensed 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. Chorus also typically indemnifies such parties for any environmental liability arising out of or relating to its use or occupancy of the leased or licensed premises.

In aircraft financing or leasing agreements, Chorus typically indemnifies the financing parties, trustees acting on their behalf and other related parties and/or lessors against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, except for their gross negligence or wilful misconduct. In addition, in aircraft financing or leasing transactions, including those structured as leveraged leases, Chorus typically provides indemnities in respect of certain tax consequences.

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

Chorus has indemnification obligations to its directors and officers. Pursuant to such obligations, Chorus indemnifies these individuals, to the extent permitted by law, against any and all claims or losses (including amounts paid in settlement of claims) incurred as a result of their service to Chorus.

The maximum amount payable under the foregoing indemnities cannot be reasonably estimated. Chorus carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities). Chorus expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities described above.

Capital expenditures

	Three months ended December 31,			Year ended December 31,		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Capital expenditures, excluding growth capital	3,800	1,547	2,253	12,693	20,648	(7,955)
Capitalized major maintenance overhauls	2,028	1,578	450	12,857	17,523	(4,666)
Maintenance Capital Expenditures	5,828	3,125	2,703	25,550	38,171	(12,621)
Growth capital expenditures	40,343	3,987	36,356	40,343	121,747	(81,404)
Total Capital Expenditures	46,171	7,112	39,059	65,893	159,918	(94,025)

Capital expenditures consist of Maintenance Capital Expenditures and growth capital expenditures. Maintenance Capital Expenditures represent 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, aircraft rotable parts and engines, and major maintenance overhaul expenditures), and facilities and owned buildings. Growth capital expenditures represent all other expenditures incurred, such as the purchase of Q400 aircraft and engines.

For the three months ended December 31, 2014, Maintenance Capital Expenditures were $5.8 million (2013 - $3.1 million), which included: $2.0 million for capitalization of major maintenance overhauls and $3.8 million for ongoing spare parts replacements for the Dash 8-100, Dash 8-300 and Q400 fleet, equipment and leasehold improvements.

For the year ended December 31, 2014, Maintenance Capital Expenditures were $25.6 million (2013 - $38.2 million), which included: $12.9 million for capitalization of major maintenance overhauls and $12.7 million for ongoing spare parts replacements for the Dash 8-100, Dash 8-300 and Q400 fleet, equipment and leasehold improvements.

The 2014 actual Maintenance Capital Expenditures of $25.6 million is in line with the anticipated expenditures of $24.0 million to $27.0 million.

For both the three months and year ended December 31, 2014, growth capital expenditures were $40.3 million, respectively (2013 - $4.0 million and $121.7 million, respectively). $0.3 million of the 2014 amount was a non-cash transaction. During the fourth quarter of 2014, Chorus made purchase deposits for additional Q400 aircraft. The purchase agreement with Bombardier required a predelivery payment in the aggregate amount of $40.0 million.

Shares

At February 12, 2015, the issued and outstanding Shares of Chorus, were as follows:

	February 12, 2015	December 31, 2014
Issued and outstanding Shares		
Class A Variable Voting Shares	5,278,027	5,191,462
Class B Voting Shares	114,974,912	115,061,477
Total issued and outstanding Shares	120,252,939	120,252,939
Shares potentially issuable		
Long-term incentive plan	2,277,341	2,240,202
Total outstanding and potentially dilutive shares	122,530,280	122,493,141

Dividends

For the three months and year ended December 31, 2014, Chorus declared dividends of $13.5 million and $54.5 million, respectively (2013 - $13.8 million and $50.9 million, respectively). For the three months and year ended December 31, 2014, Chorus paid dividends of $13.5 million and $63.7 million, respectively (2013 - $9.2 million and $55.7 million, respectively).

During the third quarter of 2014, Chorus changed from quarterly dividend payments to monthly dividend payments. Chorus declared monthly dividends of $0.0375 per Share which were paid in August, September, October, November and December of 2014 to Shareholders of record at the close of business on each respective month end date. Chorus' Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board.

Repurchase of Shares

On March 27, 2014, Chorus announced that it had received approval from the TSX to implement the NCIB to purchase, for cancellation, up to 12,168,157 Shares, representing 10% of the total public float of Shares calculated in accordance with TSX rules. The NCIB commenced on March 31, 2014 and will expire on March 30, 2015. It will be conducted through the facilities of the TSX and/or alternative trading systems in accordance with the requirements of the TSX.

During the year ended December 31, 2014, Chorus repurchased and cancelled 2,290,800 Shares under its normal course issuer bid at an aggregate cost of $9.4 million. Pursuant to the TSX approval of the NCIB, all Shares purchased under the NCIB are cancelled.

Shareholders may obtain a copy of the notice filed with the TSX in relation to the NCIB, free of charge, by sending a request to the Corporate Secretary, Chorus Aviation Inc. at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia, B3B 1W8.

Stock options

On May 20, 2014, Chorus granted 5,350,000 stock options to certain executive employees of the company (the "Executive Options"). The Executive Options have a three year vesting period and expire five years from the date of grant. The share price at the time of the grant was $3.84 and all Executive Options have a strike price of $4.50. Expected volatility was determined by calculating the historical volatility of the Shares over a period equal to the expected life of the Executive Options, five years. The risk free rate is based on the Government of Canada three to five year monthly average bond yield. Dividend yield is based on the average yield since Chorus announced the current annual dividend rate of $0.45 per share on December 10, 2013.

12 RELATED PARTY TRANSACTIONS

As at December 31, 2014, 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' financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, ABCP, accounts payable and accrued liabilities, dividends payable, obligations under finance leases and long-term debt. At December 31, 2013, Chorus' financial instruments also included the Debentures.

Chorus has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk.

Interest rate risk

Investments included in Chorus' cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Chorus' objective is to maintain these balances in highly liquid investments.

The 25 term loans with EDC and the Nova Scotia Jobs Fund loan bear fixed interest rates. This debt is therefore not subject to interest rate volatility.

A 1% change in the interest rate would not have a significant impact on the net income of Chorus.

Credit risk

Credit risk arises from cash and cash equivalents, restricted cash, deposits, as well as credit exposure to customers, including outstanding receivables. Chorus manages the credit risk on cash and cash equivalents by ensuring that the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. In accordance with its investment policy, Chorus invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 Banks and Schedule 2 Banks rated R-1 high, and commercial paper rated R-1 high.

The maximum exposure to credit risk for cash and cash equivalents, restricted cash, deposits and trade and other receivables approximate the amount recorded on the statement of financial position.

With the exception of trade receivables, Chorus has no financial assets past due. As at December 31, 2014, the total amount of trade receivables was $52.6 million (2013 - $59.7 million), net of allowances for bad debts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The amount of this allowance was $nil (2013 - $nil). At December 31, 2014, trade receivables of $52.3 million (2013 - $59.3 million) were not past due or impaired; $0.3 million (2013 - $0.4 million) were past due, but not impaired, and $nil (2013 - $nil) were impaired. Chorus continues to work with the entities from which it holds past due receivables to recover the full amount outstanding. Approximately $51.9 million (2013 - $58.7 million) of the total receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada. Chorus does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Chorus' objective is to maintain sufficient liquidity to meet liabilities when due. Chorus monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. Cash flow forecasting is performed in respect of each operating entity of Chorus and then aggregated. Chorus monitors rolling forecasts of Chorus' liquidity requirements. Such forecasts take into consideration Chorus' operational cash flow requirements, debt financing plans and compliance with internal balance sheet ratio targets.

Currency risk

Chorus receives revenue and incurs expenses in US and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for services in the underlying currency related to the expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under finance leases, and long-term debt, which are long-term and subject to larger unrealized gains or losses. Chorus mitigates this currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US denominated assets was $54.4 million and US denominated liabilities was $382.8 million at December 31, 2014. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $3.3 million.

Fair value of financial instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and dividends payable approximate fair values based on the immediate or short-term maturities of these financial instruments. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- ABCP

  The ABCP is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis. During the year ended December 31, 2014, a valuation gain of $nil (2013 - $0.4 million) was recorded.

- Long-term debt

  At December 31, 2014, the fixed rate term loans had a fair value of $399.6 million. 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.

- Finance leases

  The repayment terms that Chorus is committed to make have been discounted at the relevant market interest rates applicable at year end. Interest rates used to calculate fair value are based on the change in the risk-free rate at December 31, 2014, compared to the risk-free rates at the inception of the leases.

- Debentures

  The Debentures were listed on the TSX and the fair value was determined using the closing price on the last trading day of the year.

14 ECONOMIC DEPENDENCE

The CPA

Chorus provides capacity for a significant portion of Air Canada's domestic and transborder network. Chorus is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services to Chorus. Chorus and Air Canada are parties to the CPA, under which Air Canada currently purchases the greater part of Chorus' fleet capacity on Covered Aircraft at predetermined rates.

On February 2, 2015, Chorus announced that it had reached a long-term agreement for an amended and extended CPA with Air Canada. The amended CPA is retroactively effective January 1, 2015 and is in effect until December 31, 2025. (Refer to Section 2 - Amended Capacity Purchase Agreement with Air Canada for further discussion).

Minimum Average Daily Utilization Guarantee ("MADUG")

On June 21, 2012, Chorus and Air Canada agreed to amend the CPA to support the continued fleet renewal program with the acquisition of six additional Q400 aircraft and the removal of nine CRJ aircraft from the Chorus fleet. Pursuant to this agreement, the number of Covered Aircraft was reduced from 125 to 122. The June 6, 2013 CPA Amending Agreement finalized the details of the changes. Effective February 2013, the Annual Minimum Block Hours of 339,000 Block Hours was reduced to 331,106 Block Hours to reflect the reduced number of Covered Aircraft. The amendments did not change the Controllable Mark-Up or rates, but established certain new metrics. Until December 31, 2014, the Compensating Mark-Up was applied based on the range between the reduced Annual Delivered Block Hours of 367,106 and the revised Annual Minimum Block Hours of 331,106 Block Hours.

The 331,106 Annual Minimum Block Hours was calculated based on the MADUG for each individual aircraft type within the fleet based on the number of Covered Aircraft for each scheduled period. There are currently two schedule periods: Winter (from approximately November 1 to March 31) and Summer (from approximately April 1 to October 31) (each a "Schedule Period").

At the end of each Schedule Period, a reconciliation from the previous Schedule Period is prepared by Chorus and is provided to Air Canada. In the event Air Canada went below the MADUG on any aircraft type, Chorus was entitled to be paid by Air Canada for the shortfall for that period.

Effective January 1, 2015, the MADUG no longer affects fixed rates or performance incentives compensation. Under the amended CPA, Air Canada and Chorus have agreed to a long-range fleet plan, annual Block Hours for the limited purpose of adjusting flight crew and cabin crew labour rates, and MADUG calculated across the fleet of Covered Aircraft for each Schedule Period during the term of the CPA. MADUG is now set across the entire fleet of Covered Aircraft for the period up until December 31, 2020 at 7.5 hours per day as a total average daily utilization calculated across the entire fleet of Covered Aircraft, and set from January 1, 2021 to December 31, 2025 at 7.0 hours per day as a total average daily utilization calculated across the entire fleet of Covered Aircraft on an annual basis.

Compensating Mark-Up

In the event the Annual Delivered Block Hours fell below 367,106, the Compensating Mark-Up formula contained in the CPA would have been applied and the Controllable Mark-Up would have been increased to compensate Chorus for reduced operating margin and increased Unit Costs resulting from the reduced Block Hours. The Compensating Mark-Up percentage applied to all fixed and variable rates billed to Air Canada during the affected calendar year. This incremental mark-up amount (above the Controllable Mark-Up) would have been calculated and billed to Air Canada in the fourth quarter of each calendar year in which the Compensating Mark-Up was triggered. This Compensating Mark-Up for the year ended December 31, 2014 of $5.0 million (2013 - $nil) was accounted for as an increase in revenue. Chorus and Air Canada agreed to eliminate the Compensating Mark-Up effective January 1, 2015.

Margin adjustment

Until December 31, 2014, the controllable target margin was 11.11% and if the annual margin for flights provided under the CPA was greater than 11.11%, Chorus would have paid Air Canada an amount equal to 50% of the dollar value of the margin exceeding 11.11%. Margin represented the total operating revenue from scheduled flights under the CPA less expenses incurred related to such flights; however, it excluded incentive and pass-through revenue. Chorus and Air Canada agreed to eliminate this margin adjustment effective January 1, 2015.

Master services agreement

Under a master services agreement dated September 24, 2004, between Chorus and Air Canada, Air Canada provides certain services to Chorus for a fee. These services include information technology services, French language training and insurance claims services. The master services agreement will continue in effect until the termination or expiration of the CPA, but individual services can be amended or terminated earlier in accordance with the terms of the master services agreement. Effective January 1, 2015, Air Canada assumed responsibility for all services provided to Chorus under this agreement.

Other

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

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

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

Chorus has a significant amount of transactions with Air Canada and its subsidiary. Air Canada and its subsidiary represented 98.6% of Chorus' operating revenues for the year ended December 31, 2014 (98.7% for the year ended December 31, 2013). Approximately 10.2% and 9.9% of Chorus' operating expenses for the years ended December 31, 2014 and 2013, respectively, were incurred with Air Canada and one of its subsidiaries.

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. 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 December 31, 2014 consolidated financial statements of Chorus.

Other Future Employee Benefits

Chorus' significant policies related to the Pilot DB Plan, and the SERP DB Plan (collectively referred to as "Pension Benefits"), and the Other Future Employee Benefits are as follows:

- The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees. Obligations are attributed to the period beginning on the date the employee joins the plan and ending on the earlier of the date of termination, death or retirement. Actuarial gains and losses on the pension benefits are recognized in full in the period in which they occur in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the interest income on plan assets and the interest arising on the pension liability are included in salaries, wages and benefits in the statement of income.
- Other employee benefits consist of two categories of benefits:
  - Medical and dental benefits provided to employees while on long-term disability, and Worker's Compensation and Workers Safety Insurance Board benefits in respect of Ontario employees, are collectively referred to as other long-term benefits. The actuarial gains and losses for this component of other employee benefits are charged to operating expense in the year they occur.
  - Sick leave benefits are paid to certain employees upon or just prior to retirement. The actuarial gains and losses on this component of other employee benefits are charged to other comprehensive income in the year they occur.
- The cost of the other employee benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation, as applicable to each of the categories of benefits.
- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan and other employee benefit plans are recognized immediately in income.
- The registered pension plan is subject to certain minimum funding requirements. The liability, where applicable, in respect of the minimum funding requirement is determined using the projected minimum funding requirements based on actuarial forecasts. The liability in respect of the minimum funding requirement and any subsequent re-measurement of that liability is recognized in other comprehensive income without subsequent reclassification to income.
- The measurement date of each of the plans' assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement. The obligations relating to other employee benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).
- Chorus also maintains several defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable.

The following assumptions were used in valuing the benefit obligations under the plans and the employer's net periodic pension or benefit cost:

- The discount rate used to determine the pension and benefit obligation and the interest income on assets was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.

- The health care inflation used to determine cost of Other Future Employee Benefits costs is based on recent industry experience and long-term expectations. The weighted average health care inflation assumption used for the health care plans is 6.3% per annum for 2014 and 4.5% per annum for 2029 and later years.
- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, which is recognized each period through other comprehensive income.

The following table contains assumptions used in valuing the benefit obligations under this plan and the employer's net periodic pension or benefit cost:

	Fiscal year ended December 31,	
	2014	**2013**
Weighted average assumptions used to determine accrued benefit obligation		
- Discount rate	3.5% - 4.1%	4.4% - 5.0%
- Rate of compensation increase	2.0% - 4.5%	2.3% - 4.5%
- Health care inflation - Select	6.1%	6.3%
- Health care inflation - Ultimate	4.5%	4.5%
- Year ultimate trend reached	2029	2029
Weighted average assumptions used to determine pension and benefit costs		
- Discount rate	4.4% - 5.0%	3.7% - 4.4%
- Rate of compensation increase	2.3% - 4.5%	2.3% - 4.5%
- Health care inflation - Select	6.3%	6.4%
- Health care inflation - Ultimate	4.5%	4.5%
- Year ultimate trend reached	2029	2029

Depreciation of long-lived assets

Management makes estimates and judgements about the expected useful life and the expected residual value of long-lived assets. Depreciation methods for long-lived assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit. Useful life and residual values are based on estimates of future fair values and can vary significantly from actual. Management revises depreciation estimates and patterns regularly and makes any changes on a prospective basis. A 25% reduction to the residual values of aircraft would result in an increase of $15.8 million to annual depreciation expense.

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.

Update to accounting policies

Stock-based compensation

Long-term incentive plan

Beginning in the first quarter of 2014, eligible employees were given the option, prior to the vesting of their RSUs to receive cash or Shares. As a result, effective February 24, 2014 the RSU obligation changed from an equity settled obligation, to a cash settled obligation, recognized in the appropriate short and long-term liability accounts in the Statement of Financial Position. The RSU liability is adjusted quarterly to reflect the number of RSUs expected to vest and the fair market value of the RSUs at the end of the reporting period. Changes to the outstanding RSU liability are accounted for in salaries, wages and benefits expense in the Statement of Income.

Stock options

In the second quarter of 2014, the Board of Directors granted equity-settled stock options with a three year vesting period. The fair value of the stock options are determined at the time of the grant using a Black-Scholes option pricing model. The fair value of the options are recognized as expense over the vesting period, based on the number of options expected to vest, with a corresponding entry to equity. The number of options expected to vest is reviewed at least annually with any impact on previously recognized expense being unrecognized immediately.

Amendments to standards

IFRS 9, Financial Instruments, has been amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect the risk management activities in their financial statements. Chorus early adopted the amendments to this standard effective January 1, 2014. The amendments to this standard have no impact on Chorus' consolidated financial statements.

Accounting standards issued but not yet applied

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

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") effective for annual periods beginning on or after January 1, 2017. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. Chorus is currently evaluating the impact of the new standard on its consolidated financial statements.

17 CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

Chorus' disclosure controls and procedures ("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' internal controls over financial reporting ("ICFR") have 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. They were both designed based on the framework established in the Internal Control - Integrated Framework (2003) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"),

An evaluation of the design and effectiveness of Chorus' DC&P and ICFR has been conducted by management, under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2014, Chorus' disclosure controls and procedures and internal control over financial reporting, as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, are operating effectively.

Because of 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' internal control over financial reporting that occurred during the year ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, Chorus' ICFR.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A, and the consolidated financial statements of Chorus for December 31, 2014, and Chorus' Board of Directors approved these documents prior to their release.

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 year 2015 is expected to be transitional as the amended CPA is implemented and the Fleet Transition begins.

Effective January 1, 2015, Billable Block Hours no longer directly affect CPA compensation but remain relevant for rate setting. Controllable rates will generally be set annually under the amended CPA, with the exception of crew labour rates, which have been set until the end of the CPA term. Based on the 2014 - 2015 winter Schedule Period, and the summer 2015 schedule and planning assumptions received from Air Canada, Chorus anticipates between 361,000 and 371,000 Billable Block Hours for 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 for risks related to this forward-looking information.

Under the amended CPA, Chorus' margin compensation changes from a mark-up on rates based on estimated Controllable Costs to a fixed fee arrangement. The mark-up and Compensating Mark-up concepts have been eliminated. Chorus will now achieve its margin compensation by the more industry standard approach of fixed fees. The first new fixed fee is called the Fixed Margin per Covered Aircraft in the amended CPA. The Fixed Margin per Covered Aircraft does not vary regardless of network size or complexity, hours flown or any of the other drivers that applied to a majority of the previous rates based on Controllable Costs. Secondly, as Chorus provides additional services that support the

CPA regional network such as airport operations, it will also obtain margin compensation through a fixed Infrastructure Fee per Covered Aircraft. These two fixed fees replace the former margin compensation based on a mark-up on rates. The Fixed Margin per Covered Aircraft and the Infrastructure Fee per Covered Aircraft have been set for the period from 2015 to 2020 and set at a lower amount for the period from 2021 to 2025. Performance incentives will continue to be paid for achieving established performance targets for the same categories identified under the CPA prior to these amendments, being: controllable on-time performance, controllable flight completion, PAWOBs and customer satisfaction. Under the amended CPA, the opportunity to generate the same amount of performance incentives is preserved until 2020 but then decreases by approximately 50% over the period January 1, 2021 to December 31, 2025. The word "rates" for purposes of discussion relating to the amended CPA does not include the Fixed Margin per Covered Aircraft or the Infrastructure Fee per Covered Aircraft.

Based on the current fleet plan and the terms of the amended CPA, CPA compensation for 2015 to 2020 is contractually set at $109.7 million annually, compared to the $112.0 million recorded in 2014. There is no longer a Compensating Mark-Up nor a margin adjustment in the amended CPA and the benchmarking provision has been eliminated. Chorus recorded a Compensating Mark-Up of $5.0 million in 2014.

Performance incentives available under the amended CPA are also now calculated based on a fixed amount per aircraft. Total performance incentives available for 2015 are $23.3 million. Under the amended CPA, performance incentive revenues may become increasingly difficult for Chorus to earn as the utilization of the Covered Aircraft increases.

As discussed in Section 2 - Amended Capacity Purchase Agreement with Air Canada, Chorus expects to purchase six new Q400 aircraft from Bombardier during 2015, with the delivery of three aircraft in October 2015, two in November 2015 and one in December 2015. These six Q400 aircraft will increase the total number of Q400s that Chorus currently owns to 27, and contribute additional aircraft leasing revenue under the amended CPA. Chorus has received commitments from EDC to finance up to 80% of the net purchase price for these aircraft.

As part of a newly ratified pilot collective agreement with ALPA, Chorus will also incur a $10.0 million one-time payment in the first quarter of 2015.

Maintenance Capital Expenditures for 2015 are expected to be between $31.0 million and $37.0 million. The increase in 2015 reflects higher anticipated major maintenance overhauls.

		Actual	
(expressed in thousands of Canadian dollars)	**Planned 2015 $**	**Year ended December 31, 2014 $**	**Year ended December 31, 2013 $**
Capital expenditures, excluding growth capital	12,000 to 15,000	12,693	20,648
Capitalized major maintenance overhauls	19,000 to 22,000	12,857	17,523
	31,000 to 37,000	25,550	38,171

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 their discretion.

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.

	Three months ended December 31,			Year ended December 31,		
	2014	2013	Change	2014	2013	Change
(expressed in thousands of Canadian dollars)	$	$	$	$	$	$
Net income	11,338	8,755	2,583	64,710	61,866	2,844
Add:						
Net interest expense	3,058	5,184	(2,126)	15,748	20,849	(5,101)
Income tax expense	8,066	9,074	(1,008)	29,808	24,015	5,793
Depreciation and amortization(1)	16,839	16,457	382	66,057	62,602	3,455
EBITDA	**39,301**	**39,470**	**(169)**	**176,323**	**169,332**	**6,991**
EBITDA margin (%)(2)	**9.8**	**9.6**	**0.2**	**10.6**	**10.1**	**0.5**
Gain on disposal of property and equipment	(42)	(97)	55	(249)	(1,521)	1,272
Foreign exchange loss	10,564	11,221	(657)	28,384	21,465	6,919
Other	—	(1,662)	1,662	(500)	(2,412)	1,912
Adjusted EBITDA	**49,823**	**48,932**	**891**	**203,958**	**186,864**	**17,094**
Adjusted EBITDA margin (%)(3)	**12.4**	**11.8**	**0.6**	**12.2**	**11.2**	**1.0**

(1) Includes depreciation and amortization of $3.7 million and $14.4 million for the three months and year ended December 31, 2014, respectively ($3.6 million and $14.6 million for the three months and year ended December 31, 2013, respectively) related to major maintenance overhauls.
(2) EBITDA margin is calculated as EBITDA divided by operating revenues.
(3) Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by operating revenues.

Standardized Free Cash Flow

Standardized Free Cash Flow is a non-GAAP measure used as an indicator of financial strength and performance. Chorus believes that this measurement is useful as an indicator of its ability to service its debt, meet other ongoing obligations and reinvest in the Company. Readers are cautioned that Standardized Free Cash Flow does not represent residual cash flow available for discretionary expenditures.

The following table provides a reconciliation of Standardized Free Cash Flow to cash flows from operating activities, which is the most comparable financial measure calculated and presented in accordance with GAAP:

	Three months ended December 31,			**Year ended December 31,**		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Cash flows from operating activities	47,922	30,891	17,031	202,769	160,617	42,152
Maintenance Capital Expenditures [1]	(5,828)	(3,125)	(2,703)	(25,550)	(38,171)	12,621
Gain on disposal of property and equipment	42	97	(55)	249	1,521	(1,272)
Maintenance Capital Expenditures, net of gain on disposal	(5,786)	(3,028)	(2,758)	(25,301)	(36,650)	11,349
Standardized Free Cash Flow before growth capital expenditures and dividends	42,136	27,863	14,273	177,468	123,967	53,501
Growth capital expenditures[1]	(40,343)	(3,987)	(36,356)	(40,343)	(121,747)	81,404
Dividends paid	(13,537)	(9,191)	(4,346)	(63,731)	(55,696)	(8,035)
Standardized Free Cash Flow	**(11,744)**	**14,685**	**(26,429)**	**73,394**	**(53,476)**	**126,870**

(1) Refer to Section 11 - Liquidity and Capital Resources, "Capital Expenditures".

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 employee separation program costs have not been included within our definition of adjusted net income, it is shown separately to facilitate transparency and comparability.

(expressed in thousands of Canadian dollars, except per Share amounts)	Three months ended December 31, 2014 $	2013 $	Change $	Year ended December 31, 2014 $	2013 $	Change $
Net income for the periods	11,338	8,755	2,583	64,710	61,866	2,844
Unrealized foreign exchange loss	12,359	12,056	303	30,522	22,827	7,695
Adjusted net income	**23,697**	**20,811**	**2,886**	**95,232**	**84,693**	**10,539**
Adjusted net income per Share - basic	**0.20**	**0.17**	**0.03**	**0.78**	**0.69**	**0.09**
Other items:						
Employee separation program	*1,325*	*1,241*	*84*	*11,942*	*9,893*	*2,049*
Adjusted net income, after other items	*25,022*	*22,052*	*2,970*	*107,174*	*94,586*	*12,588*
Adjusted net income after other items per Share - basic	*0.21*	*0.18*	*0.03*	*0.88*	*0.77*	*0.11*

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 head lease.

(expressed in thousands of Canadian dollars)	Trailing twelve months ended December 31, 2014 $	December 31, 2013 $	Change $
Income before income taxes	94,518	85,881	8,637
Unrealized foreign exchange on long-term debt and finance leases	30,522	22,827	7,695
Income before income taxes (and unrealized foreign exchange on long-term debt and finance leases)	125,040	108,708	16,332
Add:			
Finance costs	16,895	22,182	(5,287)
Implicit interest in operating leases (1)	3,816	4,994	(1,178)
	145,751	135,884	9,867
Invested capital:			
Average long-term debt (2)	442,696	417,775	24,921
Average obligations under finance leases (3)	4,891	7,659	(2,768)
Average Shareholders' equity	158,021	159,048	(1,027)
Off-balance sheet aircraft leases (4)	54,514	71,348	(16,834)
	660,122	655,830	4,292
Return on invested capital(5)	22.1%	20.7%	1.4%

(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) 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 December 31, 2014 and December 31, 2013, these aircraft lease expenses totaled $7.3 million and $9.5 million, respectively.
(5) Aircraft rent was $93.4 million and $89.9 million for the trailing twelve months ended December 31, 2014 and December 31, 2013, 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 $86.1 million and $80.4 million for the trailing twelve months ended December 31, 2014 and December 31, 2013, 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 14.6% and 14.1%, respectively.

Adjusted net debt

The following table reflects Chorus' adjusted net debt balances as at December 31, 2014 and as at December 31, 2013:

(expressed in thousands of Canadian dollars)	December 31, 2014 $	December 31, 2013 $	Change $
Total long-term debt and finance leases	368,682	374,518	(5,836)
Current portion of long-term debt and finance leases	38,728	34,710	4,018
Convertible debentures	—	78,535	(78,535)
Total long-term debt and finance leases (including current portion) and convertible debentures	407,410	487,763	(80,353)
Less: Cash and cash equivalents	(114,578)	(159,901)	45,323
Net debt	292,832	327,862	(35,030)
Capitalized operating leases	54,514	71,348	(16,834)
Adjusted net debt	347,346	399,210	(51,864)

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 $93.4 million and $89.9 million for the trailing twelve months ended December 31, 2014 and December 31, 2013, 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 $86.1 million and $80.4 million for the trailing twelve months ended December 31, 2014 and December 31, 2013, 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 $993.0 million and $1,002.2 million, respectively.

As at December 31, 2014, adjusted net debt decreased from $399.2 million to $347.3 million, representing a decrease of $51.9 million or 13.0% from December 31, 2013. This decrease was primarily as a result of the Debenture redemption of $78.5 million, debt repayments of $33.1 million and a decrease in capitalized operating lease payments due to the return of CRJ100 aircraft; offset by a higher US dollar exchange rate which resulted in an increase in long-term debt of approximately $30.9 million and cash used to make deposits on additional Q400 aircraft of $40.0 million.

21 RISK FACTORS

The risks described below are not intended to be an exhaustive list of all risks facing Chorus. Other risks of which Chorus is not currently aware or which Chorus currently deems immaterial may arise and have a material adverse impact on Chorus' business, results from operations and financial condition.

Risks Relating to the Relationship with Air Canada

Dependence on Air Canada

Chorus is directly affected by the financial and operational strength of Air Canada and its competitive position. Air Canada has, like other network carriers, sustained significant operating losses in the past and may sustain significant losses in the future. Air Canada’s business, results from operations and financial condition are subject to a number of risks, including:

- Air Canada has substantial commitments for capital expenditures, including for the acquisition of new aircraft;
- fuel costs, which continue to fluctuate and constitute a significant portion of Air Canada’s operating expenses;
- labour conflicts or disruptions;
- the airline industry is highly competitive and subject to price discounting; and
- the risk factors described under “Risks Relating to the Industry”.

In the event of any material decrease in its financial or operational strength, Air Canada’s ability to make full payment of amounts owing to Chorus may be adversely affected. Such events could result in the inability of Air Canada to pay all amounts owing to Chorus under the CPA or other defaults by Air Canada of its obligations under the CPA or other contracts with Chorus, which would have a material adverse effect on Chorus’ business, results from operations and financial condition.

Liquidity

Air Canada has significant ongoing capital and liquidity requirements and has in the past, among other things, issued new equity, entered into or amended credit facilities and sought cost cutting or containment changes to its arrangements with its workforce, suppliers and other stakeholders in order to improve its liquidity position. There can be no assurance that these measures will provide Air Canada with sufficient liquidity to continue operations in the longer term. The failure of Air Canada to satisfy its liquidity requirements could have a material adverse effect on Chorus’ business, results from operations and financial condition. Such material adverse effect could arise as a result of any inability of Air Canada to pay all amounts owing to Chorus under the CPA or other defaults by Air Canada of its obligations under the CPA or other contracts with Chorus.

Termination of the CPA

Substantially all of Chorus’ current revenues are received pursuant to the CPA, which currently covers all of Chorus’ existing operating fleet (except two Dash 8-300 aircraft and one CRJ aircraft). Over the course of the term of the CPA, which expires December 31, 2025, the non-defaulting party is entitled to terminate the CPA at any time upon the occurrence of an event of default by the other party. Events of default include, without limitation:

- bankruptcy or insolvency of the other party;
- suspension or revocation of any of Chorus’ regulatory authorizations and licenses required for Chorus to perform the air services required by the CPA;
- failure by Air Canada or Chorus to pay amounts when due where such default continues for a period of 30 days after notice;
- failure by Air Canada or Chorus to comply with any of its obligations under the CPA, where such default continues for a period of 30 days after notice;

- more than 50% of the Aircraft do not operate any Scheduled Flights for more than seven consecutive days or 25% of the Aircraft do not operate any Scheduled Flights for more than 21 consecutive days, other than as a result of an order of a governmental authority affecting the industry generally or as a result of any action by Air Canada, any strike by Air Canada employees or any force majeure (including any cessation, slow-down, interruption of work or any other labour disturbance);
- default by Chorus with respect to any material term under any other material agreement, if such default continues for more than the applicable period, if any;
- default by Air Canada or Chorus with respect to a material term of any other material agreement between Chorus and Air Canada if such default continues for more than the applicable period, if any;
- failure by Chorus to maintain adequate insurance;
- failure of Chorus to maintain specified critical service levels for four consecutive quarters or five of the prior eight quarters; and
- failure by Chorus to comply with Air Canada's audit and inspection rights.

If the CPA is terminated, Chorus' revenue and earnings would be significantly reduced or eliminated unless Chorus were able to enter into satisfactory substitute arrangements. There is no assurance that Chorus would be able to enter into satisfactory substitute arrangements or that such arrangements would be as favourable to Chorus as the CPA. A termination of the CPA, or any failure of Chorus to enter into satisfactory substitute arrangements in the event of any such termination, would have a material adverse effect on Chorus' business, results from operations and financial condition.

Under the CPA, if a change of control of Jazz occurs without the consent of Air Canada that results in Jazz being directly or indirectly controlled by, or under common control with (a) certain air carriers operating out of Vancouver, Calgary, Toronto, Montreal, or (b) entities which own or operate a loyalty program which provides its members the ability to redeem points in exchange for air transportation services, Air Canada may terminate the CPA. The existence of this right may limit Chorus' ability to negotiate or consummate the sale of all or part of its business to another entity or otherwise participate in any consolidation in the airline industry.

In the event that the CPA is terminated as a result of Chorus' default, all leases from Air Canada (or any affiliate of Air Canada) to Chorus in respect of Covered Aircraft and Spare Engines will not be automatically terminated. In such event, Chorus would remain liable for its obligations under such leases with no corresponding ability to earn income under the CPA to cover its lease obligations, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus owns the Q400 and certain Dash 8-100 and -300 aircraft. There can be no assurance that Chorus will be able to deploy these aircraft on terms as favourable as the terms of the CPA if Air Canada terminates the CPA as a result of Chorus' default. Any inability to redeploy these aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

In the event that the CPA is terminated as a result of Chorus' default, Air Canada has the option to purchase certain of Chorus' Q400 aircraft subject to certain terms and conditions specified in the CPA. If Air Canada were to exercise such option, there can be no assurance that Chorus would be able to purchase replacement Q400 aircraft on favourable terms and Chorus would be prevented from redeploying the affected aircraft. Any inability to purchase replacement aircraft or redeploy the affected aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

If Air Canada terminates the CPA due to Chorus' default, Chorus would be obliged to immediately repay to Air Canada all amounts financed by Air Canada in respect of the ESP (the extended service program discussed in Section 2 - Amended Capacity Purchase Agreement with Air Canada) for the Dash 8-300 aircraft. Such repayment could have a material adverse effect on Chorus' liquidity and financial condition.

Early termination of the CPA constitutes an event of default under Chorus' financing arrangements with EDC in respect of the Q400 aircraft. In the event of such termination, EDC has the right to oblige Chorus to immediately repay all amounts financed in respect of these aircraft. Such repayment would have a material adverse effect on Chorus' liquidity and financial condition.

Upon the expiration or termination of the CPA, Chorus may lose access to airport facilities at key locations where Air Canada supplies facilities and other services to Chorus. Chorus may also lose access to such airport facilities should Air Canada not be able to secure such access to airport facilities in the future. Most of the airport facilities at Chorus' principal domestic destinations are leased by Air Canada from airport authorities. Under the CPA, Chorus is currently entitled to use these facilities to fulfill its obligations to Air Canada. All of Chorus' airport takeoff or landing slots used for Scheduled Flights are under Air Canada's name. Upon the expiry or termination of the CPA, Chorus may lose access to those airport facilities, airport takeoff or landing slots, and Chorus may have to enter into alternative arrangements to use the same or other airport facilities and slots at higher rates. There can be no assurance that Chorus would have access to other airport facilities or slots or as to the terms upon which Chorus could do so. Chorus' inability to secure access to sufficient airport facilities or slots, or ability to do so only with a significant cost increase, could have an adverse effect on Chorus' business, results from operations and financial condition.

Compensation under the amended CPA

The basis for compensation in the amended CPA is fundamentally different from the CPA terms in effect prior to this amendment. Effective January 1, 2015, Chorus is being paid a Fixed Margin per Covered Aircraft. Such arrangements are currently a more common basis for payment in the regional airline capacity provision industry; however, they constitute a significant departure from the previous CPA terms. The Fixed Margin per Covered Aircraft is set for the period from 2015 to 2020, and set at a lower level for the period from 2021 to 2025. In addition, Chorus is paid a Fixed Infrastructure Fee per Covered Aircraft which is also set for both the 2015 to 2020 period and at a lower level for 2021 to 2025 period.

- *Cost Risks* - Except for flight crew and cabin crew labour rates (discussed below), the rates payable to Chorus under the amended CPA are generally set annually and in many cases are subject to certain conditions. If Chorus experiences costs significantly in excess of those anticipated by it, it could have an adverse effect on Chorus' business, results from operations and financial condition.

- *Labour Rate Risks* - Labour costs constitute a significant percentage of Chorus' total operating costs. Under the newly ratified collective agreement with ALPA, flight crew labour rates have been set until December 31, 2025. Chorus does not, however, have collective agreements of a similar duration with its other unions. Chorus has made certain projections with respect to cabin crew labour rates for the duration of the term of the CPA expiring December 31, 2025 and a significant increase in these particular costs above the levels assumed in Chorus' projections could result in a reduction in earnings. All other labour rates payable to Chorus under the amended CPA are set annually and are subject to certain conditions. Labour costs significantly in excess of those anticipated by Chorus in agreeing to the amended CPA could have an adverse effect on Chorus' business, results from operations and financial condition.

- *Other Cost Risks* - Under the amended CPA, Chorus is compensated for certain costs incurred in providing services such as hull insurance, third party ground handling and fuel. With respect to costs that are defined as Pass-through costs, Air Canada is obligated to pay to Chorus the actual amount of the cost (or alternatively, pay the cost directly) without any markup. Under the amended CPA, Air Canada will be directly responsible for many costs formerly incurred by Chorus, and certain expenses formerly defined as Controllable Costs are now Pass-through costs. With respect to the remaining Controllable Costs, Air Canada is obligated to pay amounts based, in part, on pre-determined rates. These rates are generally pre-determined on an annual basis but may not be based on the actual expenses incurred in delivering the associated services. To the extent that Chorus incurs expenses that are greater than the pre-determined reimbursement amounts payable by Air Canada, this could have an adverse effect on Chorus' business, results from operations and financial condition.

Under the amended CPA, performance incentive revenues may become increasingly difficult for Chorus to earn as the utilization of the Covered Aircraft increases.

Pilot Mobility

Approximately 85% of Chorus pilots are at its most senior wage scale. Chorus has entered a pilot mobility agreement with Air Canada, which is expected to be in need of pilots as it continues to grow and itself faces increased pilot retirement. Air Canada has agreed to source at least 80% of its new pilot hires from among Chorus pilots named on the pilot mobility list (discussed in Section 2 - Amended Capacity Purchase Agreement with Air Canada). If Air Canada hires all of the pilots that Chorus anticipates, Chorus will have to replace such pilots, which it anticipates it will be able to do on similar pension and benefit terms as those agreed to in the newly ratified ALPA collective agreement. If Chorus were to have to pay rates materially above those in the new collective agreement, it could have a material adverse effect on Chorus' business, results from operations and financial condition.

Force Majeure

In the event that either Air Canada or Chorus is prevented from performing its obligations under the CPA in whole or in part due to a force majeure event, the affected party shall be temporarily excused from performing its obligations to the extent it is so prevented.

In addition, if Jazz is affected by a force majeure event which prevents it from performing all of its services under the CPA, Air Canada's obligation to pay the agreed rates related to certain limited fixed costs would continue, however Air Canada's obligation to pay the other agreed rates would be temporarily suspended. All other obligations of Air Canada, including, but not limited to, those related to the fleet of Covered Aircraft and MADUG would also be temporarily suspended and inapplicable in respect of the period of the force majeure event. Such force majeure event would also trigger prorated adjustments to be made to Air Canada's payment obligations in respect of the period of the force majeure event to reflect the level of service Jazz provides during such period.

Either of Air Canada and Chorus may terminate the CPA if the other party is prevented from performing all or substantially all of its obligations hereunder for more than 60 days due to a force majeure event.

Replacement of services provided by Air Canada under the CPA and the Master Services Agreement ("MSA")

Air Canada provides a number of important services to Chorus, including information technology, de-icing services and glycol usage, fuel purchasing services and passenger, aircraft and traffic handling services. As well, as Chorus does not sell scheduled air service directly to the public, Chorus does not perform ticket sales, reservations or call centre services. If the CPA is not renewed beyond December 31, 2025, or is otherwise terminated, and Chorus were to determine to operate its own at-risk airline services, it would either need to provide these services internally or contract with third parties for such services. There can be no assurance that Chorus would be able to replace these services on a cost effective or timely basis. In addition, pursuant to the MSA, Air Canada provides certain services to Chorus including information technology services and insurance claims services. If the MSA is terminated and Chorus decided to undertake at risk flying, it would either need to provide these functions internally or contract with third parties for such functions. There can be no assurance that Chorus would be able to replace these services on a cost-effective or timely basis and this may have a material adverse effect on Chorus' business, results from operations or financial condition.

Air Canada Pilots Association ("ACPA") Scope Clauses

Air Canada's collective bargaining agreement with ACPA limits the number of regional jet aircraft which can be operated by any Air Canada Express carrier. These restrictions may prevent Chorus from increasing the capacity it provides Air Canada, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot ensure that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions for Chorus.

Absence of exclusivity arrangements

Chorus does not benefit from exclusivity arrangements preventing Air Canada from allocating some or all of its regional capacity requirements internally or to another carrier under a capacity purchase agreement or other forms of contractual arrangements. Air Canada's use of other regional carriers could negatively impact opportunities for increasing Chorus' flying under the CPA. For example, Air Canada has a capacity purchase agreement with Air Georgian to operate certain regional routes including trans-border routes using aircraft formerly operated by Chorus. The lack of exclusivity arrangements with Air Canada could have an adverse effect on Chorus' business, results from operations or financial condition.

Potential conflicts with Air Canada

Contractual agreements, such as the CPA, are subject to interpretation and conflicts or disputes may arise under such agreements if the parties to an agreement apply different interpretations to that agreement. Conflicts or disputes may arise between Air Canada and Chorus under the CPA in a number of areas, including:

- the nature and quality of the services Air Canada provides to Chorus and the services Chorus provides to Air Canada;
- the terms of Air Canada's and Chorus' respective collective bargaining agreements;
- non-competition provisions (refer to Risks related to Chorus - Diversification and growth); and
- Chorus' and Air Canada's respective rights and obligations under the CPA or other agreements between Chorus and Air Canada, including conflicts based on differing interpretations of the contract language.

Conflicts and disputes may divert management attention and resources from the operation of the business and may result in litigation or other dispute resolution. Chorus may not be able to resolve any potential conflicts with Air Canada and, even if any such conflicts are resolved, the resolution may be on terms and conditions less favourable to Chorus. Any such result could have a material adverse effect on Chorus' business, results from operations and financial condition.

Leasing risk related to Dash 8-100 aircraft

Chorus derives a relatively small portion of its revenues under the amended CPA from leasing Dash 8-100 aircraft. Chorus will be paid a fixed fee per aircraft for an agreed number of Dash 8-100 aircraft during the term of the amended CPA. As these Chorus-owned aircraft leave the fleet of Covered Aircraft, there is a risk that Chorus will be unable to find use for these aircraft to generate equivalent revenue. Any such inability to utilize such aircraft could have an adverse effect on Chorus' business, results from operations and financial condition.

Leasing risk related to Q400 aircraft

Chorus derives a significant portion of its revenues under the amended CPA from leasing Q400 aircraft. Chorus will be paid a fixed fee per aircraft for an agreed number of Q400 aircraft during the term of the amended CPA. When the amended CPA expires on December 31, 2025, there is a risk that Chorus will be unable to find use for these aircraft to generate equivalent revenue. Any such inability to utilize such aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

Risks Relating to Chorus

Potential legislative changes

Chorus is subject to extensive laws relating to airline safety and security, competition, environment and labour. Government entities such as Transport Canada, the Competition Bureau, the Canadian Transportation Agency and other government entities may implement new legislation or render decisions that could have a material adverse impact on the airline industry in general by significantly increasing the cost of operations or reducing the demand for air travel.

On October 16, 2013, Bill C-439, *An Act Respecting the Rights of Air Passengers*, was reinstated from the previous session of Parliament. Previous versions of Bill C-439 died on recommendation of the Standing Committee on Transport, Infrastructure and Communities in 2009 (Bill C-310) and on the order paper when Parliament was dissolved in 2011 and 2013 (Bill C-541 and C-459 respectively). If enacted, Bill C-439 would impose obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. Such legislation could lead to significant costs for air carriers, including Chorus, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form currently proposed by Bill C-439 or otherwise.

Employees

Chorus' business is labour-intensive and requires a large number of pilots, flight attendants, mechanics and other personnel. Chorus' business requires Chorus to locate, hire, train and retain new employees. There can be no assurance that Chorus will be able to locate, hire, train and retain a sufficient number of qualified employees that it needs to carry out its plans or replace departing employees. Chorus' inability to hire and retain a sufficient number of qualified employees at a reasonable cost could have a material adverse effect on its business, results from operations and financial condition.

Labour costs and labour relations

Labour costs constitute the largest percentage of Chorus' total operating costs that are borne by Chorus. There can be no assurance that the estimates of Chorus' future labour costs will be accurate. If such costs exceed Chorus' estimates, Chorus may realize decreased profitability under the amended CPA that will undermine Chorus' financial performance.

Ninety percent of Chorus employees are unionized. On January 30, 2015, Chorus reached a new agreement with its pilots, represented by ALPA. The agreement does not expire until the end of the amended CPA in 2025 and contains a no-strike clause. Currently the flight attendants are working under a collective agreement that expires in July of 2015. The collective agreement governing Chorus' Maintenance and Engineering employees, represented by the former Canadian Auto Workers, (now Unifor) expires in October of 2015. Chorus' Airports Customer Service employees and Crew Schedulers, also represented by Unifor have Collective Agreements in place until January 2016 and July 2016, respectively. Chorus' flight dispatch employees, represented by the Canadian Air Line Dispatchers Association ("CALDA"), signed a six year deal expiring in July of 2018.

There can be no assurance that the collective agreements will be renewed in the future without labour conflict or action, or that there will not otherwise be a labour conflict or action that could lead to an interruption or stoppage in Chorus' operations and adversely affect Chorus' ability to meet its targets, all of which could have a material adverse effect on its business, results from operations and financial condition. There can be no assurance that these agreements with Chorus employees' unions will be on terms that are consistent with Chorus' expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Chorus.

Leverage and restrictive covenants in current and future indebtedness

The ability of Chorus to pay dividends, or make other payments or advances, is subject to, among other things, its liquidity position, applicable laws and contractual restrictions contained in the instruments governing any indebtedness. The degree to which Chorus is leveraged has important consequences to Shareholders, including: (i) that Chorus' ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) that a significant portion of cash flow from operations may be dedicated to the payment of principal and interest in respect of its indebtedness, thereby reducing funds available for future operations; (iii) that certain borrowings will be at variable rates of interest, which exposes Chorus to the risk of increased interest rates; and (iv) that Chorus may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

Current global financial conditions have been characterized by high levels of volatility and several financial institutions have faced significant liquidity and other issues in recent years. Access to new public financing has been negatively impacted by these events, which may impact the ability of Chorus to obtain financing in the future on acceptable terms. Any failure of Chorus in the future to obtain required financing on acceptable terms could have a material adverse effect on Chorus' business, results of operations and financial condition.

Dilution of Shareholders

Chorus is authorized to issue an unlimited number of Class A Variable Voting Shares and an unlimited number of Class B Voting Shares for consideration, and on terms and conditions, as shall be established by the Board. The Shareholders have no pre-emptive rights in connection with such further issues. Chorus may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Chorus which may be dilutive, and materially adverse to current Shareholders.

Uncertainty of dividend payments

Payment of dividends may be impacted by factors that can have a material adverse change on Chorus' business, results from operations and financial condition and which could impact its liquidity and ability to declare and pay dividends (whether at current levels, revised levels or at all), and is also dependent on, among other things, the ability of Chorus to generate sufficient cash flows, the financial requirements of Chorus, and applicable solvency tests and contractual restrictions (whether under credit agreements or other contracts).

Level of indebtedness - refinancing risk

The level of Chorus' indebtedness from time to time could impair Chorus' ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise. Any failure of Chorus in the future to obtain required financing or acceptable terms in these circumstances could have a material adverse effect on Chorus' business, results of operations and financial condition.

Diversification and growth

Management regularly reviews potential diversification and growth opportunities and business acquisition opportunities. As part of any such initiative, management conducts customary due diligence and performs analysis with the goal of identifying and evaluating material risks. Notwithstanding their review, management may be unsuccessful in identifying all such risks or realizing the intended synergies of any given initiative, or in successfully executing a particular diversification or growth transaction. Any such failure, or management's inability to effectively manage growth, could have a material adverse effect on Chorus’ business, results from operations and financial condition

Under the amended CPA, Chorus is prevented from carrying on or undertaking certain passenger airline services. Except under certain permitted circumstances, Chorus may not provide passenger services utilizing fixed-wing aircraft over a certain number of seats between two destinations located within the Non-Compete Geographic Area.

Under the amended CPA, Chorus may enter into contracts for charter services performed entirely outside of the Non-Compete Geographic Area. However, Chorus requires Air Canada’s consent to enter into contracts for charters with more than a certain number of rotations between the same cities for the same customer and over agreed levels, to or from any Extended Hub Airport, or on any Air Canada routes.

If Chorus should enter into a contractual flying arrangement within North America for a third party whereby all or substantially all of the capacity of an aircraft or a number of aircraft is purchased by a third party and the capacity is then sold or otherwise made available or provided to the general public whether directly or indirectly on terms more favourable than those in the CPA, then the terms of the CPA will be adjusted to match the more favourable terms. In the event of a change of control of Jazz, this obligation for Chorus to extend more favourable contractual flying terms to Air Canada will also apply to any Chorus affiliate resulting from or created after the change of control.

Except under certain permitted circumstances, Chorus cannot provide or initiate scheduled (at risk) passenger flying to or from any Extended Hub Airport without the prior consent of Air Canada.

In the amended CPA, the parties have agreed on certain restrictions for Chorus acquisitions of airline operators in the Non-Compete Geographic Area. There are no restrictions on Chorus providing cargo services with dedicated cargo aircraft.

These restrictions on Chorus' business may prevent Chorus from entering into possible beneficial arrangements, which may have a material adverse effect on Chorus' business, results from operations and financial condition.

Reliance on key personnel

The success of Chorus depends on the abilities, experience, industry knowledge and personal efforts of senior management and other key employees, and Chorus' ability to retain and attract skilled employees. As Chorus seeks to diversify and/or grow, this may put additional strain and demand on management and on Chorus' employees and produce risks in both productivity and retention levels. In addition, Chorus may not be able to attract and retain additional qualified management as needed in the future. The loss of the services of such key personnel could have a material adverse effect on the business, results from operations, financial condition or future prospects of Chorus.

Risks relating to financial instruments

For a description of the interest rate risk, credit risk, liquidity risk and currency risk associated with Chorus' financial instruments, see the discussion in Section 13 - Financial Instruments and Risk Management.

Off balance sheet arrangements and guarantees

Chorus has agreed to indemnify various third parties in connection with the entering into of leases, agreements and other arrangements. The maximum amount payable under such indemnities cannot be reasonably estimated. Chorus carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities). While Chorus expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities, in the event that such insurance coverage were not available or insufficient, any payment pursuant to Chorus' indemnification obligations could have a material adverse effect on Chorus' business, results from operations and financial condition.

Risks Relating to the Industry

Economic and geopolitical conditions

Airline operating results are sensitive to economic and geopolitical conditions, which have a significant impact on the demand for air transportation. Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. Air Canada is not able to predict with certainty market conditions and the fares it may be able to charge. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. A downturn in economic growth in North America, as well as geopolitical instability in various areas of the world, could have the effect of reducing demand for air travel. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition.

Fuel costs

Fuel costs represent a major expense to air carriers. Should fuel prices increase, demand for air travel may decrease as a result of fuel surcharges and/or Air Canada may be unable to pass on any further increases to its customers through fuel surcharges. This could have a material adverse effect on Chorus' business, results from operations and financial condition if Air Canada were unable to meet its obligations under the amended CPA.

Impact of competition

The airline industry is highly competitive. Air Canada competes with other major carriers as well as low cost carriers on its routes, including routes that Chorus flies under the amended CPA. Competitors could rapidly enter markets Chorus serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Chorus' regional operations to Air Canada. WestJet Encore launched in June 2013, with two Q400 aircraft in Western Canada, by December 31, 2014 had 16 Q400 aircraft in its fleet and has announced firm commitments to purchase four additional Q400 aircraft through 2016. In December 2013, Air Canada announced that it had amended its capacity purchase agreement with Air Georgian to operate a number of regional routes including trans-border routes using CRJ100 aircraft formerly operated by Chorus.

Impact of increased competition in the regional airline industry and the tour operator industry on Chorus' diversification or growth opportunities

As well as the limitations under the amended CPA and the regulatory prohibition on cabotage, Chorus' ability to provide regional air service to a major United States airline is limited by existing relationships that all United States network airlines have with other regional operators. In addition, many of the network airlines are subject to scope clause restrictions under their collective bargaining agreements with employees that restrict their ability to add new regional jet capacity. New competitors may also enter the regional airline industry. Such new or existing competitors may enter into capacity purchase agreements with airlines, including Air Canada, in respect of routes currently operated by Chorus. Capacity growth by other regional airlines in the regional jet market would lead to significantly greater competition and may result in lower rates of return in the regional airline industry. Further, many of the network airlines are focused on reducing costs, which may also result in lower operating margins in the regional airline industry. Aggressive competition among tour operators and carriers providing flying services can limit Chorus' ability to expand in those markets. Any of the foregoing events could have a material adverse effect on Chorus' business, results from operations and financial condition.

Airline industry characterized by low gross profit margins and high fixed costs

The airline industry generally, and scheduled service in particular, are characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix could have a significant effect on Air Canada's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. A minor shortfall from Air Canada's expected revenue levels could have a material adverse effect on Chorus' business, results from operations and financial condition if Air Canada were unable to meet its obligations under the amended CPA.

Terrorist attacks

The occurrence of a terrorist attack (whether domestic or international and whether involving Air Canada, Chorus, another carrier or no carrier at all) and increasingly restrictive security measures, such as the restrictions on the content of carry-on baggage, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's and Chorus' flights. Any such negative effect on demand could have a material adverse effect on Chorus' business, results from operations and financial condition if Air Canada were unable to meet its obligations under the amended CPA.

Epidemic diseases

The spread of contagious diseases could have a material adverse effect on passenger demand for air travel and the number of passengers traveling on Air Canada and Chorus flights, especially in the event travel related restrictions are imposed. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition.

Interruptions or disruptions in service

Chorus' business is significantly dependent upon its ability to operate without interruption at a number of key airports, including Toronto Pearson. An interruption or stoppage in service at a key airport could have a material adverse effect on Chorus' business, results from operations and financial condition.

Dependence on technology

Chorus relies in part on technology, including computer and telecommunications equipment and software to increase revenues, reduce costs, and operate its business. Proper implementation and operation of technology initiatives is fundamental to Chorus' ability to operate a profitable business. Chorus continuously invests in new technology initiatives to remain competitive, and its continued ability to invest sufficient amounts to enhance technology will affect Chorus' ability to operate successfully. An inability to invest in technological initiatives would have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus' technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. While Chorus maintains and continues to invest in technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any failure in technology employed by Chorus or technology employed by Air Canada to provide services to Chorus, including by reason of power, telecommunication or Internet interruptions, could materially and adversely affect Chorus' operations and could have a material adverse effect on Chorus' business, results from operations and financial condition.

Seasonal nature of the business, other factors and prior performance

Chorus experiences 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. Chorus 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.

Demand for air travel is also affected by factors such as economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Under the amended CPA, Chorus is paid fees by Air Canada on a variety of different metrics based on Chorus' estimated Controllable Costs in the applicable period plus certain predetermined fixed fees during the remaining term of the amended CPA. However, Chorus' actual quarterly results could differ from those contemplated by the target margin based on a variety of factors, including the timing of capital expenditures and changes in operating expenses, such as personnel and maintenance costs, over the course of a fiscal year.

Regulatory matters

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, licensing, competition, noise levels, the environment and, in some measure, pricing. Additional laws and regulations may be proposed, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional regulations or decisions by Transport

Canada, the Canadian Transportation Agency, the Treasury Board or other domestic or foreign governmental entities may have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus is also subject to domestic and United States laws regarding privacy of passenger and employee data, and compensation for tarmac delays. Compliance with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Chorus' business, results from operations and financial condition.

Environment and greenhouse gas emissions

As a participant in the airline industry, Chorus is exposed to any future regulations concerning greenhouse gas emissions by its aircraft. Chorus would be faced with additional costs necessary to comply with any such regulations, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Third party war risk insurance

The Government of Canada renewed their indemnity for third party war risk liability coverage until December 31, 2015 however there is a risk that after this date the Government of Canada may not continue to provide the indemnity which it is currently providing Chorus and certain other carriers in Canada. Any such discontinuance could have a material adverse effect on Chorus' business, results from operations and financial condition.

In the event that the Government of Canada does not continue to provide such indemnity or amends such indemnity, Chorus and other industry participants would have to seek such coverage from commercial insurance providers.

Alternative solutions, such as those proposed by International Civil Aviation Organization ("ICAO") and IATA have not developed as planned due to actions taken by other countries and the availability of supplemental insurance. The achievement of a global solution is not likely in the immediate or near future.

The United States federal government facility to provide premium war risk insurance coverage to United States carriers expired on December 11, 2014, and its facility to provide non-premium war risk insurance coverage is effective until December 31, 2018.

London aviation insurance providers have introduced a new standard war and terrorism exclusion clause applicable to aircraft hull and spares war and allied perils insurance cover and have announced their intention to introduce similar exclusions to airline passenger and third party liability policies albeit this has yet to gain traction. These clauses exclude claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or bio chemical materials.

On December 9, 2014, the Aviation Industry Indemnity Act (Canada) received Royal Assent and came into force, creating a system for the Government of Canada to indemnify aviation industry participants for these types of issues as they arise.

Casualty losses

Due to the nature of its core operating business, Chorus may be subject to liability claims arising out of accidents or disasters involving aircraft on which Chorus' customers are traveling or involving aircraft of other carriers maintained or repaired by Chorus, including claims for serious personal injury or death. There can be no assurance that Chorus' insurance coverage will be sufficient to cover one or more large claims and any shortfall could be material. Additionally, any accident or disaster involving one of Air Canada's or Chorus' aircraft or an aircraft of another carrier maintained or repaired by Air Canada or Chorus, could significantly harm their reputation for safety, which would have a material adverse effect on Chorus' business, results from operations and financial condition.

Risks Relating to Current Legal Proceedings

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

22 GLOSSARY OF TERMS

"**ABCP**" means asset backed commercial paper;

"**Aircraft**" has the meaning given in the CPA;

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

"**Available Seat Mile (ASMs)**" means a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the number of miles flown;

"**Average stage length**" means the average distance of a non-stop flight leg between take-off and landing as defined by International Air Transport Association (IATA) guidelines;

"**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, Chorus Aviation Inc. and its current and former subsidiaries (including, but not limited to Jazz, Aviation GP, Chorus, Chorus Aviation Holdings Inc., Chorus Airport Services Inc., Jazz Aviation Holdings Inc., Jazz Aircraft Financing Inc., and Jazz Leasing Inc.) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries or Chorus itself;

"**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 given in the CPA;

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

"**Controllable Revenue**" has the meaning given in the CPA;

"**Cost per Available Seat Mile**" or "**CASM**" means the operating expense per Available Seat Mile;

"**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");

"**CTAs**" means common terms agreements;

"**Debentures**" mean the $80.2 million principal amount of 9.50% convertible unsecured subordinated debentures of Chorus fully redeemed during2014;

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

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

"**Extended Hub Airport**" means collectively the Hub Airports and any airport located within 175 kilometres of the Hub Airports;

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

"**Flight Hours**" has the meaning given in the CPA;

"**Flight Services Agreement**" means the contractual flying agreement between Thomas Cook and Chorus;

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

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

"**Hub Airport**" means an airport bearing the International Air Transport Association code YVR, YYC, YEG, YYZ, YOW or YUL;

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

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

"**Jazz**" means Jazz Aviation LP, a limited partnership established under the laws of the Province of Ontario and, in respect of a time period prior to October 1, 2004 are references to the business of Jazz as carried on by Jazz Air Inc., which was liquidated on September 30, 2004, and references to Jazz in respect of the time period from October 1, 2004 until February 1, 2006 are references to the business of Jazz as carried on by Jazz Air Limited Partnership, and references to Jazz in respect of the time period from February 2, 2006 to January 5, 2011 are references to the business of Jazz as carried on by Jazz Air LP, unless the context requires otherwise;

"**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 Group**" is currently comprised of Jazz, Jazz Aircraft Financing Inc. and Jazz Leasing Inc.;

"**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;

"**Monthly Schedule**" has the meaning given in the CPA;

"**Non-Compete Geographic Area**" means within the ten provinces of Canada, any route to and from the Extended Hub Airports (as defined below) and any Air Canada routes to and from the ten provinces of Canada (for the purposes of this definition, an Air Canada route is determined based on Air Canada's schedule in effect from time to time);

"**Operating Aircraft**" means Covered Aircraft under the CPA plus charter aircraft, 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;

"**Partnership Agreements**" mean those contracts signed by Jazz for contract flying;

"**Pass-through costs**" has the meaning given in the CPA;

"**Pass-through revenue**" has the meaning given in the CPA;

"**PAWOBs**" means passengers arriving without baggage;

"**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;

"**Thomas Cook**" means Thomas Cook Canada Inc.;

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

"**Unit Costs**" has the meaning given in the CPA.