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

November 12, 2014

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1. OVERVIEW

The financial and operating highlights for Chorus are as follows:

Financial information

(unaudited)	Three months ended September 30, 2014	2013	Change	Nine months ended September 30, 2014	2013	Change
Operating revenue ($000)	432,576	432,256	320	1,264,993	1,258,833	6,160
Operating expenses ($000)	393,159	393,001	158	1,160,076	1,167,046	(6,970)
Operating income ($000)	39,417	39,255	162	104,917	91,787	13,130
Net income for the period ($000)	11,252	36,032	(24,780)	53,372	53,111	261
EBITDA[(1)] ($000)	56,153	55,762	391	154,135	137,932	16,203
Adjusted net income[(1)] ($000)	29,004	27,708	1,296	71,535	63,882	7,653
Net income per Share, basic ($)	0.09	0.29	(0.20)	0.44	0.43	0.01
Adjusted net income per Share, basic[(1)] ($)	0.24	0.23	0.01	0.59	0.52	0.07

(1) This is a non-GAAP measurement. Refer to Section 19 – Non-GAAP Financial Measures

During the third quarter, Chorus continued to deliver in three key areas: Shareholder value, cost control and operational performance. The Chorus Share price reached a 52-week high of $4.87 on September 4, 2014. Chorus has maintained consistent profitability since 2006, implemented a monthly dividend with the August 2014 dividend payment and repurchased an additional 252,000 Shares for $1.1 million pursuant to its authorized normal course issuer bid during the third quarter.

Chorus continues to focus on cost reduction programs such as the employee separation program. Chorus incurred $3.3 million in employee separation program costs in the third quarter 2014 compared to $0.7 million in the same period in 2013 and has invested $20.5 million since the inception of this cost savings program in the first quarter of 2013. For the third quarter 2014, Chorus reported EBITDA of $56.2 million compared to $55.8 million in the same quarter 2013, an increase of $0.4 million or 0.7%. Operating income was $39.4 million, $0.2 million or 0.4% higher than the same period 2013, and adjusted net income of $29.0 million or $0.24 per basic Share, rose by $1.3 million or $0.01 per basic Share compared to the third quarter of 2013.

chorus aviation inc.

Operational information

(unaudited)	Three months ended September 30, 2014	2013	Change	Nine months ended September 30, 2014	2013	Change
Departures	68,532	69,624	(1,092)	195,983	201,786	(5,803)
Block Hours	96,168	98,091	(1,923)	276,288	285,620	(9,332)
Billable Block Hours	96,776	98,668	(1,892)	281,189	289,932	(8,743)
On-time performance (%)	83.9	87.0	(3.1)	82.6	84.0	(1.4)
Flight Completion (%)	99.7	98.1	1.6	99.7	98.8	0.9
FTE employees (end of period)	4,216	4,450	(234)	4,216	4,450	(234)
Number of Operating Aircraft (end of period)	125	127	(2)	125	127	(2)

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

On November 6, 2014, upon arrival at Edmonton International Airport, a Q400 aircraft sustained significant damage upon landing. As of this date, the full extent of such damage is unknown. Chorus has worked with Air Canada to minimize the impact on the flight schedule by increasing utilization on the remaining fleet. The Company’s insurers have been notified and they have appointed an adjuster to facilitate the claim process as damage information becomes available.

2. 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, the Initial LeaseCos, 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 unaudited interim condensed consolidated financial statements of Chorus and the notes therein for the three and nine months ended September 30, 2014, the audited consolidated financial statements of Chorus for the year ended December 31, 2013, Chorus' annual MD&A dated February 19, 2014, and Chorus' Annual Information Form dated March 28, 2014. 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 November 12, 2014.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 20 – Risk Factors.

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

Caution regarding forward-looking information

Forward-looking statements are included in this MD&A. 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 herein, 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 Jazz’s relationship with Air Canada, risks relating to the airline industry, energy prices, general industry, market, credit, and economic conditions, 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, the ability to 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 payments, managing growth, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this MD&A. The forward-looking information is affected by certain risks. For a discussion of certain risks, please refer to Section 20 - Risk Factors. Examples of forward-looking information in this MD&A include the projections for Chorus' pension funding obligations from 2014 to 2018 in Section 8 - Pension Plans and the 2014 outlook discussion in Section 17 - 2014 Outlook. The forward-looking statements contained in this discussion represent Chorus’ expectations as of November 12, 2014 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.

3. 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").

Jazz is currently Chorus' primary business. Jazz operates the largest regional airline, and the second largest airline in Canada after Air Canada, based on fleet size. Through Jazz 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 September 30, 2014, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 766 departures per weekday to 54 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. Jazz is paid fees based on certain variables, including Block Hours flown, Flight Hours, cycles (number of take-offs and landings) and passengers carried, in addition to certain variable and fixed aircraft ownership and fixed rates. Jazz is also entitled to repayment of certain pass-through costs, including fuel, navigation, landing and terminal fees and certain other costs. In addition, Jazz is eligible to receive incentive payments each quarter if it achieves certain performance levels related to controllable on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction. 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 13 - 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 20 - 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 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.

4. THIRD QUARTER ANALYSIS

Revenue

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended September 30, 2014 $	 2013 $	 Change $
Revenue			
Controllable	277,739	269,717	8,022
Pass-through	152,240	160,880	(8,640)
Other	2,597	1,659	938
	432,576	432,256	320

Operating revenue increased from $432.3 million to $432.6 million, representing an increase of $0.3 million or 0.1%.

Controllable revenue increased by $8.0 million or 3.0%. $7.4 million of this increase was as a result of rate increases pursuant to the CPA. Rates are 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 controllable revenue. In addition a $3.8 million increase in the third quarter was as a result of a favourable US dollar exchange rate. These increases were offset by decreased Billable Block Hours of $2.6 million and a $0.6 million decrease in incentives earned under the CPA.

Pass-through revenue decreased by $8.6 million or 5.4%, from $160.9 million to $152.2 million, which included a decrease of $8.8 million related to reduced airport and navigation fees and terminal handling services. 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. These decreases were partially offset by a favourable US dollar exchange rate of $0.6 million.

Other revenue increased by $0.9 million and was primarily related to the sale of consignment inventory.

Expenses

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended September 30, 2014 $	 2013 $	 Change $
Operating expenses			
Salaries, wages and benefits	103,636	102,165	1,471
Aircraft fuel	100,288	102,043	(1,755)
Depreciation and amortization	16,736	16,507	229
Food, beverage and supplies	4,819	4,765	54
Aircraft maintenance materials, supplies and services	42,822	39,115	3,707
Airport and navigation fees	45,271	51,979	(6,708)
Aircraft rent	22,881	22,143	738
Terminal handling services	24,879	24,190	689
Other	31,827	30,094	1,733
	393,159	393,001	158

Operating expenses increased from $393.0 million to $393.2 million, an increase of $0.2 million. An unfavourable US dollar exchange rate compared to the same period last year increased operating expenses by $3.5 million. Controllable costs increased from $232.1 million to $240.9 million, an increase of $8.8 million or 3.8%. $2.9 million of this controllable cost increase is attributable to an unfavourable US dollar exchange rate. Pass-through costs decreased from $160.9 million to $152.2 million, a decrease of $8.6 million or 5.4%. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended September 30, 2014 $	 2013 $	 Change $
Adjusted salaries, wages and benefits	102,333	105,001	(2,668)
Employee separation program costs	3,277	728	2,549
Capitalized major maintenance overhaul labour	(1,974)	(3,564)	1,590
Salaries, wages and benefits	103,636	102,165	1,471

Salaries, wages and benefits increased by $1.5 million from $102.2 million to $103.6 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 $2.7 million. During the quarter, Chorus incurred $3.3 million for employee separation program costs, an increase of $2.5 million from the same period in 2013. These costs include employee separation program costs of $0.6 million in 2014 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 $1.6 million. The reduction in major maintenance overhauls can be attributed to two fewer events capitalized this quarter compared to same period last year.

Aircraft fuel

Aircraft fuel cost, which is a pass-through cost under the CPA, decreased by $1.8 million from $102.0 million to $100.3 million. The decrease was primarily attributable to a decrease in the volume of fuel litres consumed due to decreased Block Hours.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense increased by $3.7 million from $39.1 million to $42.8 million. An unfavourable US dollar exchange rate on certain maintenance material purchases accounted for $1.6 million, increased other maintenance costs accounted for $1.9 million, and fewer maintenance costs being capitalized as a result of reduced major maintenance overhauls accounted for $0.7 million. The reduction in major maintenance overhauls can be attributed to two fewer events capitalized this quarter compared to same period last year. These increases were offset by decreased Block Hours which accounted for $0.5 million.

Airport and navigation fees

Airport and navigation fees, which are pass-through costs under the CPA, decreased by $6.7 million from $52.0 million to $45.3 million. Costs incurred at the GTAA by Chorus were $nil in the quarter compared to $7.6 million for the same period last year. This decrease was offset by an increase of $0.9 million related to rate changes as a result of changes in aircraft deployment.

Aircraft rent

Aircraft rent increased by $0.7 million from $22.1 million to $22.9 million. The increase was mainly due to an unfavourable US dollar exchange rate which accounted for $0.9 million. This increase was offset by costs incurred for returned Dash 8-100 aircraft which were $nil in the quarter compared to $0.2 million for the same period last year.

Terminal handling services

Terminal handling costs increased by $0.7 million from $24.2 million to $24.9 million. The commencement of outsourcing of passenger handling services resulted in an increase of $1.4 million. Deicing costs for the quarter increased by $0.5 million and increases related to rates as a result of changes in aircraft deployment were $0.4 million. Costs incurred at the GTAA by Chorus were $nil in the quarter compared to $1.2 million for the same period last year and decreased Block Hours accounted for $0.4 million.

Other

Other expenses increased by $1.7 million from $30.1 million to $31.8 million. The increase was the result of increased general overhead expenses.

Non-operating income (expenses)

	Three months ended September 30,		
(unaudited) (expressed in thousands of Canadian dollars)	2014 $	2013 $	Change $
Non-operating income (expenses)			
Net interest expense	(3,078)	(4,742)	1,664
Gain on disposal of property and equipment	120	1,337	(1,217)
Foreign exchange (loss) gain	(16,036)	7,803	(23,839)
	(18,994)	4,398	(23,392)

Non-operating expenses increased by $23.4 million from a non-operating income of $4.4 million to a non-operating expense of $19.0 million.

Over the course of the first and second quarters of 2014, Chorus redeemed all of the Debentures, which accounted for a decrease in interest accretion of $0.4 million and a decrease in interest expense of $1.9 million related to the Debentures in the third quarter. Interest expense related to long-term debt increased by $0.6 million. In 2013 Chorus incurred a gain related to the sale of Chorus' office and hangar facility in London, Ontario of $1.3 million.

The weakening of the Canadian dollar during the quarter contributed to a foreign exchange loss of $16.0 million compared to a foreign exchange gain of $7.8 million in the same period last year. The US dollar exchange rate at September 30, 2014 was 1.1200 while the US dollar exchange rate at June 30, 2014 was 1.0670. The US dollar exchange rate at September 30, 2013 was 1.0303 while the US dollar exchange rate at June 30, 2013 was 1.0518. These rates are based on the closing day rate from the Bank of Canada.

5. YEAR-TO-DATE ANALYSIS

Revenue

(unaudited) (expressed in thousands of Canadian dollars)	Nine months ended September 30, 2014 $	 2013 $	 Change $
Revenue			
Controllable	806,392	779,789	26,603
Pass-through	448,708	471,528	(22,820)
Other	9,893	7,516	2,377
	1,264,993	1,258,833	6,160

Operating revenue increased from $1,258.8 million to $1,265.0 million, representing an increase of $6.2 million or 0.5%.

Controllable revenue increased by $26.6 million or 3.4%. $18.5 million of this increase was as a result of rate increases pursuant to the CPA. Rates are 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 controllable revenue. Additional increases consisted of $15.3 million in the year as a result of a favourable US dollar exchange rate and $1.3 million in incentives earned under the CPA. These increases were offset by a decrease in CPA Billable Block Hours of $9.1 million.

Pass-through revenue decreased by $22.8 million or 4.8%, from $471.5 million to $448.7 million, which included a decrease of $26.8 million related to reduced airport and navigation fees and terminal handling services. 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. This decrease was partially offset by a favourable US dollar exchange rate of $2.9 million.

Other revenue increased by $2.4 million primarily related to the sale of consignment inventory and groundhandling services.

Expenses

(unaudited) (expressed in thousands of Canadian dollars)	Nine months ended September 30, 2014 $	 2013 $	 Change $
Operating expenses			
Salaries, wages and benefits	311,170	311,424	(254)
Aircraft fuel	292,400	288,142	4,258
Depreciation and amortization	49,218	46,145	3,073
Food, beverage and supplies	13,443	13,542	(99)
Aircraft maintenance materials, supplies and services	124,265	114,181	10,084
Airport and navigation fees	127,060	150,250	(23,190)
Aircraft rent	69,534	67,273	2,261
Terminal handling services	80,200	83,065	(2,865)
Other	92,786	93,024	(238)
	1,160,076	1,167,046	(6,970)

Operating expenses decreased from $1,167.0 million to $1,160.1 million, a decrease of $7.0 million or 0.6%. An unfavourable US dollar exchange rate compared to the same period last year increased operating expenses by $14.8 million. Controllable costs increased from $695.5 million to $711.4 million, an increase of $15.9 million or 2.3%. $11.9 million of this controllable cost increase is attributable to an unfavourable US dollar exchange rate. Pass-through costs decreased from $471.5 million to $448.7 million, a decrease of $22.8 million, or 4.8%. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(unaudited) (expressed in thousands of Canadian dollars)	Nine months ended September 30, 2014 $	 2013 $	 Change $
Adjusted salaries, wages and benefits	306,913	312,990	(6,077)
Employee separation program costs	10,617	8,652	1,965
Capitalized major maintenance overhaul labour	(6,360)	(10,218)	3,858
Salaries, wages and benefits	311,170	311,424	(254)

Salaries, wages and benefits decreased by $0.3 million from $311.4 million to $311.2 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 $6.1 million. Employee separation program costs paid during the nine months ended September 30, 2014 were $10.6 million, an increase of $2.0 million from the same period of 2013. These costs include employee separation program costs of $3.1 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 $3.9 million on a year over year comparison. The reduction in major maintenance overhauls can be attributed to seven fewer events capitalized this period compared to same period last year.

Aircraft fuel

Aircraft fuel cost, which is a pass-through cost under the CPA, increased by $4.3 million from $288.1 million to $292.4 million. The increase was primarily attributable to an increase in jet fuel prices which accounted for approximately $14.0 million. This increase was offset by a decrease in the volume of fuel litres consumed due to decreased Block Hours, which accounted for $9.7 million.

Depreciation and amortization

Depreciation and amortization expense increased by $3.1 million from $46.1 million to $49.2 million. In the first six months of 2013, Chorus received six additional Q400 aircraft, as such, 2014 is the first year that Chorus had full amortization for all 21 Q400 aircraft, which resulted in a $1.1 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 $10.1 million from $114.2 million to $124.3 million. An unfavourable US dollar exchange rate on certain maintenance material purchases accounted for $6.9 million, increased other maintenance costs accounted for $5.6 million and fewer maintenance costs being capitalized as a result of reduced major maintenance overhauls accounted for $1.3 million. The reduction in major maintenance overhauls can be attributed to seven fewer events capitalized this period compared to same period last year. These increases were offset by decreased Block Hours which accounted for $3.7 million.

Airport and navigation fees

Airport and navigation fees, which are pass-through costs under the CPA, decreased by $23.2 million from $150.3 million to $127.1 million. Costs incurred at the GTAA by Chorus were $nil in the year compared to $23.4 million for the same period last year. This decrease was offset by an increase of $0.2 million related to rate changes as a result of changes in aircraft deployment.

Aircraft rent

Aircraft rent increased by $2.3 million from $67.3 million to $69.5 million. The increase was mainly due to an unfavourable US dollar exchange rate which accounted for $3.9 million. This increase was offset by costs incurred for returned CRJ100 and Dash 8-100 aircraft which were $nil in the year compared to $1.6 million for the same period last year.

Terminal handling services

Terminal handling costs decreased by $2.9 million from $83.1 million to $80.2 million. Costs incurred at the GTAA by Chorus were $nil in the period compared to $3.4 million for the same period last year. Other decreases consisted of deicing costs of $0.8 million and decreased Block Hours which accounted for $2.7 million. These decreases were offset by increased rates as a result of changes in aircraft deployment of $2.0 million. In addition, the commencement of outsourcing of passenger handling services accounted for $2.0 million.

Non-Operating Income (Expenses)

(unaudited) (expressed in thousands of Canadian dollars)	Nine months ended September 30, 2014 $	 2013 $	 Change $
Non-operating income (expenses)			
Net interest expense	(12,690)	(15,665)	2,975
Gain on disposal of property and equipment	207	1,424	(1,217)
Foreign exchange loss	(17,820)	(10,244)	(7,576)
Other	500	750	(250)
	(29,803)	(23,735)	(6,068)

Non-operating expense increased by $6.1 million from $23.7 million to $29.8 million.

Over the course of the first and second quarter of 2014, Chorus redeemed the Debentures, which accounted for an increase in interest accretion of $0.4 million and a decrease in interest expense of $4.2 million related to the Debentures. In 2013, Chorus recorded $0.8 million in other income related to non-repayable government assistance.

The weakening of the Canadian dollar contributed to a foreign exchange loss of $17.8 million, compared to a foreign exchange loss of $10.2 million in the previous year. The US dollar exchange rate at September 30, 2014 was 1.1200 while the US dollar exchange rate at December 31, 2013 was 1.0636. The US dollar exchange rate at September 30, 2013 was 1.0303 while 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. Also, in 2013 Chorus incurred a gain related to the sale of Chorus' office and hangar facility in London, Ontario of $1.3 million.

6. FLEET

As at September 30, 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 September 30, 2014:

(unaudited)	Number of Operating Aircraft September 30, 2014	Average Age of Operating Aircraft	Owned	Finance Lease	Operating Lease	Number of Operating Aircraft September 30, 2013
Canadair Regional Jet CRJ200	26	12.3	—	—	26	26
Canadair Regional Jet CRJ705	16	9.2	—	—	16	16
De Havilland Dash 8-300	28	24.1	19	7	2	28
De Havilland Dash 8-100	34	25.6	29	—	5	36
Bombardier Q400	21	2.5	21	—	—	21
Total Operating Aircraft	125	16.7	69	7	49	127

All aircraft in Chorus' operating fleet as of September 30, 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.

7. SUMMARY OF FINANCIAL RESULTS

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

(unaudited)	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Total revenue ($000)	432,576	417,836	414,581	413,227	432,256	410,297	416,280	411,693
Net income ($000)	11,252	36,498	5,622	8,755	36,032	7,899	9,180	14,456
Adjusted net income(1) ($000)	29,004	22,197	20,334	20,811	27,708	21,428	14,746	17,714
Billable Block Hours	96,776	91,770	92,643	92,610	98,668	94,062	97,202	97,249
ASMs (000's)	1,482,023	1,398,234	1,316,726	1,339,219	1,525,876	1,440,231	1,391,576	1,411,938
Average Stage Length (miles)	390	400	391	395	406	406	412	412
CASM (¢)	26.53	27.43	29.11	28.43	25.76	26.29	28.42	27.38
CASM, excluding fuel (¢)	19.76	20.52	21.86	21.65	19.07	20.08	21.47	20.60
EBITDA(1) ($000)	56,153	50,663	47,319	48,932	55,762	47,950	34,220	39,888
Standardized Free Cash Flow before growth capital expenditures and dividends(1) ($000)	57,344	38,937	39,051	27,863	40,301	31,093	24,710	3,100
Net income per Share, basic ($)	0.09	0.30	0.05	0.07	0.29	0.06	0.07	0.12
Net income per Share, diluted ($)	0.09	0.29	0.05	0.07	0.27	0.06	0.07	0.12
Adjusted net income per Share, basic(1) ($)	0.24	0.18	0.17	0.17	0.23	0.17	0.12	0.14

(1) This is a non-GAAP measurement. Refer to Section 19 – 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.

8. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2014 to 2018:

(unaudited) (expressed in thousands of Canadian dollars)	2014 $	2015 $	2016 $	2017 $	2018 $
Defined benefit pension plans, current service	16,600	17,100	18,300	18,800	19,200
Defined benefit pension plan, past service	10,200	3,100	—	—	—
Defined contribution pension plans	9,200	9,100	10,200	10,400	10,600
Projected pension funding obligations	36,000	29,300	28,500	29,200	29,800

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

The funding requirements for the Pilot DB Plan are based on the January 1, 2014 financial position of the plan for funding purposes and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the SERP DB Plan are based on a funding policy adopted by Chorus and the January 1, 2014 estimated financial position for funding purposes of that plan.

The solvency deficiency for the Pilot DB Plan as at January 1, 2013 was $90.1 million and was $13.3 million as at January 1, 2014. The reduction in the estimated solvency deficiency is due to investment returns of 14.7%, past service contributions of $17.4 million and the impact of the increase in the discount rate from 3.0% to 3.8% during the year.

The January 1, 2014 financial position of the Pilot DB Plan for funding purposes applies an average of the solvency ratio over a three year period.

The foregoing contains forward-looking information and actual pension funding obligations may vary. These projections are based on certain assumptions including actuarial determinations, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees, and are subject to certain risks including changes in economic conditions, investment returns generated by the plan assets and interest rates, each of which may impact the financial position of the pension plans sponsored by Chorus and future required contributions. Please refer to Section 2 – Introduction, "Caution regarding forward-looking information", Section 14 - Critical Accounting Estimates, and Section 20 - 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.

9. LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At September 30, 2014, Chorus had $135.5 million in cash and cash equivalents and $3.3 million of restricted cash (letters of credit), for a total of $138.8 million, a decrease of $24.4 million from December 31, 2013. This decrease is primarily attributable to drawing $80.2 million from cash to redeem the Debentures, as well as the repurchase between April 1, 2014 and September 30, 2014 of 2,045,800 Shares under the normal course issuer bid ("NCIB") at a cost of $8.4 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 2 - Introduction, “Caution regarding forward-looking information” and Section 20 - 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.

Working capital

The following table provides information on Chorus' working capital balances as at September 30, 2014 and as at December 31, 2013:

(unaudited) (expressed in thousands of Canadian dollars)	September 30, 2014 $	December 31, 2013 $	Change $
Cash and cash equivalents	135,511	159,901	(24,390)
Accounts receivable	72,303	76,891	(4,588)
Other current assets	63,124	68,017	(4,893)
Accounts payable and accrued liabilities	(223,476)	(207,334)	(16,142)
Dividends payable	(4,519)	(13,786)	9,267
Current portion of long-term debt and finance leases	(37,615)	(34,710)	(2,905)
Current portion of long-term incentive plan	(3,484)	—	(3,484)
Convertible debentures	—	(78,535)	78,535
Income tax payable	—	(1,737)	1,737
Net working capital	1,844	(31,293)	33,137

As at September 30, 2014, working capital was $1.8 million, an increase of $33.1 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.

Summary of Cash Flows

The following table provides information on Chorus' cash flows for the three and nine months ended September 30, 2014 and September 30, 2013.

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended September 30, 2014 $	 2013 $	 Change $	Nine months ended September 30, 2014 $	 2013 $	 Change $
Cash provided by operating activities	**62,340**	**50,036**	**12,304**	**154,847**	**129,726**	**25,121**
Long-term borrowings	—	2,218	(2,218)	—	123,186	(123,186)
Repayment of long-term debt and obligations under finance leases	(7,836)	(7,501)	(335)	(24,240)	(19,116)	(5,124)
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	(1,063)	(1,441)	378	(8,357)	(4,006)	(4,351)
Dividends	(22,622)	(9,241)	(13,381)	(50,194)	(46,505)	(3,689)
Cash (used in) provided by financing activities	**(31,521)**	**(15,965)**	**(15,556)**	**(162,992)**	**47,629**	**(210,621)**
Additions to property and equipment	(5,116)	(11,335)	6,219	(19,722)	(152,806)	133,084
Proceeds on disposal of property and equipment	120	3,875	(3,755)	207	3,962	(3,755)
Decrease in restricted cash related to letters of credit	—	1	(1)	—	2,697	(2,697)
Cash used in investing activities	**(4,996)**	**(7,459)**	**2,463**	**(19,515)**	**(146,147)**	**126,632**
Effect of foreign exchange on cash and cash equivalents	**3,270**	**—**	**3,270**	**3,270**	**—**	**3,270**
Net change in cash and cash equivalents during the periods	**29,093**	**26,612**	**2,481**	**(24,390)**	**31,208**	**(55,598)**
Cash and cash equivalents – Beginning of periods	**106,418**	**122,902**	**(16,484)**	**159,901**	**118,306**	**41,595**
Cash and cash equivalents – End of periods	**135,511**	**149,514**	**(14,003)**	**135,511**	**149,514**	**(14,003)**

Cash provided by operating activities

Cash provided by operating activities for the three months ended September 30, 2014 was $62.3 million, an increase of $12.3 million. This increase was primarily as a result of positive changes in non-cash working capital.

Cash provided by operating activities for the nine months ended September 30, 2014 was $154.8 million, an increase of $25.1 million as compared to the same period of 2013. This increase was primarily as a result of a higher operating income in 2014 and changes in non-cash working capital.

Cash (used in) provided by financing activities

For the three months ended September 30, 2014, as compared to the same period in 2013, cash used in financing activities increased by $15.6 million. Chorus reduced its quarterly dividend in May 2013 to $0.075 per Share, from the previous level of $0.15 per Share. The reduction in quarterly dividends was maintained until Chorus announced in December 2013 that it would increase its quarterly dividend to $0.1125 effective with the first payment in 2014, which was made in January 2014. In addition, on July 22, 2014, Chorus declared a monthly dividend of $4.5 million representing $0.0375 per Share in connection with a change from quarterly to monthly dividend payments. During the quarter, Chorus paid dividends of $22.6 million.

For the nine months ended September 30, 2014, as compared to the same period in 2013, cash used in financing activities increased by $210.6 million. The increase was a result of the absence of long-term borrowings in 2014 compared to $123.2 million for the same period in 2013, the redemption of Debentures in the amount of $80.2 million and an increase in dividends paid of $3.7 million.

Cash used in investing activities

Capital expenditures on property and equipment of $5.1 million for the three months ended September 30, 2014 represented a decrease of $6.2 million as compared to the same period of 2013. For the three months ended September 30, 2013, there were growth capital expenditures of $0.3 million, compared to $nil in the same period of 2014. Maintenance capital expenditures decreased by $5.9 million 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.

Capital expenditures on property and equipment of $19.7 million for the nine months ended September 30, 2014 represented a decrease of $133.1 million as compared to the same period of 2013. For the nine months ended September 30, 2013, there were six Q400s included in growth capital expenditures of $117.8 million, compared to $nil growth capital expenditures in 2014. Maintenance capital expenditures decreased by $15.3 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.

Contractual obligations and other commitments

Please refer to Chorus' annual MD&A dated February 19, 2014 for information regarding Chorus' contractual obligations and other commitments.

Long-term debt

The terms and conditions of the Q400 aircraft and engine financing are consistent with those disclosed in Section 10 of Chorus' annual MD&A dated February 19, 2014. As at September 30, 2014, Chorus was in compliance with all the required covenants.

Convertible Debentures

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.

Capital Expenditures

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended September 30,			Nine months ended September 30,		
	2014	**2013**	**Change**	**2014**	**2013**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Capital expenditures, excluding growth capital	1,887	5,521	(3,634)	8,893	19,101	(10,208)
Capitalized major maintenance overhauls	3,229	5,551	(2,322)	10,829	15,945	(5,116)
Maintenance Capital Expenditures	5,116	11,072	(5,956)	19,722	35,046	(15,324)
Growth capital expenditures	—	263	(263)	—	117,760	(117,760)
Total Capital Expenditures	5,116	11,335	(6,219)	19,722	152,806	(133,084)

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 expenditures incurred to facilitate growth of the business, such as the purchase of Q400 aircraft and engines.

For the three months ended September 30, 2014, Maintenance Capital Expenditures were $5.1 million (2013 - $11.1 million), which included: $3.2 million for capitalization of major maintenance overhauls and $1.9 million for ongoing spare parts replacements for the Dash 8-100, Dash 8-300 and Q400 fleet, equipment and leasehold improvements.

For the nine months ended September 30, 2014, Maintenance Capital Expenditures were $19.7 million (2013 - $35.0 million), which included: $10.8 million for capitalization of major maintenance overhauls and $8.9 million for ongoing spare parts replacements for the Dash 8-100, Dash 8-300 and Q400 fleet, equipment and leasehold improvements.

Shares

At November 7, 2014, the issued and outstanding Shares of Chorus were as follows:

(unaudited)	November 7, 2014	December 31, 2013
Issued and outstanding Shares		
Class A Variable Voting Shares	5,021,113	4,789,193
Class B Voting Shares	115,231,826	117,752,833
Total issued and outstanding Shares	120,252,939	122,542,026
Shares potentially issuable		
Convertible debentures(1)(2)	—	15,278,095
Total outstanding and potentially issuable Shares	120,252,939	137,820,121

(1) Assuming all outstanding convertible debentures are exercised.
(2) On November 7, 2014, no convertible debentures were outstanding.

Dividends

For the three and nine months ended September 30, 2014, Chorus declared dividends of $13.6 million and $40.9 million, respectively (2013 - $9.2 million and $37.1 million, respectively). For the three and nine months ended September 30, 2014, Chorus paid dividends of $22.6 million and $50.2 million, respectively (2013 - $9.2 million and $46.5 million, respectively).

During the third quarter of 2014, Chorus changed from quarterly dividend payments to monthly dividend payments. On July 22, 2014 Chorus declared a monthly dividend of $0.0375 per Share which was paid in August 2014 to Shareholders of record at the close of business on July 31, 2014. 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 third quarter of 2014, Chorus repurchased and cancelled 252,000 Shares under the NCIB at an aggregate cost of $1.1 million. From April 1, 2014 to September 30, 2014, Chorus repurchased 2,045,800 Shares under its normal course issuer bid at an aggregate cost of $8.4 million and all of these Shares were cancelled by September 30, 2014. Subsequent to September 30, 2014, Chorus repurchased an additional 245,000 Shares at an aggregate cost of $1.0 million. Pursuant to the TSX approval of the NCIB, any other Shares purchased under the NCIB will also be 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 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 options have a strike price of $4.50. Expected volatility was determined by calculating the historical volatility of the Chorus shares over a period equal to the expected life of the options, five years. The risk free rate is based on the 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.

10. OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Chorus' off-balance sheet arrangements is disclosed in Section 10 of Chorus' annual MD&A dated February 19, 2014. There have been no material changes to Chorus' off-balance sheet arrangements from what was disclosed at that time.

11. RELATED PARTY TRANSACTIONS

As at September 30, 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.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Chorus has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary. Please refer to Section 12 of Chorus' annual MD&A dated February 19, 2014 for further discussion on interest rate risk, credit risk, liquidity risk and currency risk.

13. ECONOMIC DEPENDENCE

For a detailed description of the CPA with Air Canada, please refer to Section 13 of Chorus' annual MD&A dated February 19, 2014.

14. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates and judgments may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates (refer to Section 2 – Introduction, "Caution regarding forward-looking information"). The significant accounting policies of Chorus are described in note 3 of the audited consolidated financial statements of Chorus for the year ended December 31, 2013. Information regarding Chorus' critical accounting estimates is disclosed in Section 14 of Chorus' annual MD&A dated February 19, 2014. There have been no material changes to Chorus' critical accounting estimates from what was disclosed therein.

15. ACCOUNTING POLICIES

The significant accounting policies of Chorus are described in note 3 of the December 31, 2013 consolidated financial statements of Chorus with any changes to these policies noted below.

Update to accounting policies

Stock-based compensation

Long-term incentive plan

In the first quarter of 2014, pursuant to Chorus' long-term incentive plan ("LTIP") eligible employees were given the option to elect prior to vesting whether to receive cash or Shares for their restricted share units ("RSU") that vested in the quarter. As a result, effective February 24, 2014 the RSU obligation changed from an equity settled obligation, accounted for in contributed surplus, to a cash settled obligation, recognized in the appropriate short and long-term liability accounts in the Statement of Financial Position. The 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 pursuant to the LTIP. 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.

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 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.

16. 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 control over financial reporting ("ICFR") has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Chorus' annual 2013 MD&A dated February 19, 2014, contains a statement that the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have concluded that Chorus' DC&P and ICFR are effective based upon an evaluation of these controls and procedures at December 31, 2013.

Chorus filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators along with the 2013 annual financial statements and MD&A. In those filings, the CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of Chorus' DC&P and the design and effectiveness of ICFR. The CEO and CFO also certified the appropriateness of the financial disclosures in Chorus' interim filings with the Canadian Securities Administrators. In those interim filings, the CEO and CFO certified that both Chorus' DC&P and ICFR have been designed, based on the framework established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of Chorus' financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

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 third quarter of fiscal 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 unaudited interim condensed consolidated financial statements of Chorus for September 30, 2014, and approved these documents prior to their release.

17. 2014 OUTLOOK

The discussion that follows represents forward-looking information (refer to Section 2 - Introduction, “Caution regarding forward-looking information”). This outlook is provided for the purpose of providing information about current expectations for 2014. This information may not be appropriate for other purposes.

Chorus' expectation is that Billable Block Hours for 2014 will be in the range between 370,000 and 373,000 Block Hours and this is based on the Air Canada summer 2014 and winter 2014/2015 schedules delivered to Chorus by Air Canada as required in the CPA together with the actual Billable Block Hours for the nine months ended September 30, 2014. Refer to Section 20 - Risk Factors for risks related to this forward-looking information.

Chorus continues to focus on cost control and as such, Maintenance Capital Expenditures for 2014 are expected to now be between $24.0 million and $27.0 million

(unaudited) (expressed in thousands of Canadian dollars)	Planned 2014 $	Actual Nine months ended September 30, 2014 $	Actual Twelve months ended December 31, 2013 $
Capital expenditures, excluding growth capital	11,000 to 13,000	8,893	20,648
Capitalized major maintenance overhauls	13,000 to 14,000	10,829	17,523
	24,000 to 27,000	19,722	38,171

This outlook is based primarily on Chorus’ fleet and other equipment age and status and assumes flying activity within the Billable Block Hour outlook outlined above. The decrease in 2014 reflects that Chorus completed modifications to both the head office building and hangar facility in Halifax during 2013 and no material facility construction or modifications are currently scheduled in 2014.

Chorus continues to make progress on its cost savings initiatives introduced last year, including the employee separation program, consolidation of heavy maintenance activities and management and administrative reductions. These initiatives continue to assist with maintaining historical margin performance in a lower billable block hour environment. Chorus anticipates employee separation program costs of approximately $12.0 million in 2014 (of which $10.6 million has been incurred to September 30, 2014), compared to $9.9 million in the full year for 2013, reflecting its continued focus on reducing costs. Refer to Section 4 - Third Quarter Analysis and Section 5 - Year-to-Date Analysis for further discussion on these initiatives.

18. 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.

19. 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

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 as a supplemental financial measure of operational performance. Management believes 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 non-operating factors such as historical cost. 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 September 30,			**Nine months ended September 30,**		
(unaudited) (expressed in thousands of Canadian dollars)	**2014** **$**	**2013** **$**	**Change** **$**	**2014** **$**	**2013** **$**	**Change** **$**
Net income	11,252	36,032	(24,780)	53,372	53,111	261
Add:						
Net interest expense	3,078	4,742	(1,664)	12,690	15,665	(2,975)
Income tax expense	9,171	7,621	1,550	21,742	14,941	6,801
Depreciation and amortization(1)	16,736	16,507	229	49,218	46,145	3,073
Gain on disposal of property and equipment	(120)	(1,337)	1,217	(207)	(1,424)	1,217
Foreign exchange loss (gain)	16,036	(7,803)	23,839	17,820	10,244	7,576
Other	—	—	—	(500)	(750)	250
EBITDA	**56,153**	**55,762**	**391**	**154,135**	**137,932**	**16,203**
EBITDA margin (%)(2)	**13.0**	**12.9**	**0.1**	**12.2**	**11.0**	**1.2**

(1) Includes depreciation and amortization of $3.6 million and $10.7 million for the three and nine months ended September 30, 2014, respectively ($3.8 million and $11.0 million for the three and nine months ended September 30, 2013, respectively) related to major maintenance overhauls.

(2) EBITDA margin is calculated as 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:

(unaudited) (expressed in thousands of Canadian dollars)	**Three months ended September 30,** **2014** **$**	 **2013** **$**	 **Change** **$**	**Nine months ended September 30,** **2014** **$**	 **2013** **$**	 **Change** **$**
Cash flows from operating activities	62,340	50,036	12,304	154,847	129,726	25,121
Maintenance Capital Expenditures (1)	(5,116)	(11,072)	5,956	(19,722)	(35,046)	15,324
Gain on disposal of property and equipment	120	1,337	(1,217)	207	1,424	(1,217)
Maintenance Capital Expenditures, net of gain on disposal	(4,996)	(9,735)	4,739	(19,515)	(33,622)	14,107
Standardized Free Cash Flow before growth capital expenditures and dividends	57,344	40,301	17,043	135,332	96,104	39,228
Growth capital expenditures(1)	—	(263)	263	—	(117,760)	117,760
Dividends paid	(22,622)	(9,241)	(13,381)	(50,194)	(46,505)	(3,689)
Standardized Free Cash Flow	**34,722**	**30,797**	**3,925**	**85,138**	**(68,161)**	**153,299**

(1) Refer to Section 9 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 related (US dollars) 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.

(unaudited) (expressed in thousands of Canadian dollars, except per Share amounts)	Three months ended September 30, 2014 $	2013 $	Change $	Nine months ended September 30, 2014 $	2013 $	Change $
Net income for the periods	11,252	36,032	(24,780)	53,372	53,111	261
Unrealized foreign exchange loss (gain)	17,752	(8,324)	26,076	18,163	10,771	7,392
Adjusted net income	**29,004**	**27,708**	**1,296**	**71,535**	**63,882**	**7,653**
Adjusted net income per Share - basic	**0.24**	**0.23**	**0.01**	**0.59**	**0.52**	**0.07**
Non-recurring items:						
Employee separation program	*3,277*	*728*	*2,549*	*10,617*	*8,652*	*1,965*
Adjusted net income, after non-recurring items	*32,281*	*28,436*	*3,845*	*82,152*	*72,534*	*9,618*
Adjusted net income after non-recurring items per Share - basic	*0.27*	*0.23*	*0.04*	*0.68*	*0.59*	*0.09*

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.

(unaudited) (expressed in thousands of Canadian dollars)	Trailing twelve months ended September 30, 2014 $	December 31, 2013 $	Change $
Income before income taxes	92,943	85,881	7,062
Unrealized foreign exchange on long-term debt and finance leases	30,219	22,827	7,392
Income before income taxes (and unrealized foreign exchange on long-term debt and finance leases)	123,162	108,708	14,454
Add:			
Finance costs	19,131	22,182	(3,051)
Implicit interest in operating leases (1)	4,080	4,994	(914)
	146,373	135,884	10,489
Invested capital:			
Average long-term debt (2)	440,326	417,775	22,551
Average obligations under finance leases (3)	5,289	7,659	(2,370)
Average Shareholders' equity	176,167	159,048	17,119
Off-balance sheet aircraft leases (4)	58,280	71,348	(13,068)
	680,062	655,830	24,232
Return on invested capital(5)	21.5%	20.7%	0.8%

(1) Interest implicit in operating leases is equal to 7.0 percent of 7.5 times the trailing 12 months of aircraft lease expense. 7.0 percent is a proxy and does not necessarily represent actual for any given period.
(2) Average long-term debt includes the current portion and long-term portion.
(3) Average obligations under finance leases include the current portion and long-term portion.
(4) 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 September 30, 2014 and December 31, 2013, these aircraft lease expenses totaled $7.8 million and $9.5 million, respectively.
(5) Aircraft rent was $92.2 million and $89.9 million for the trailing twelve months ended September 30, 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 $84.4 million and $80.4 million for the trailing twelve months ended September 30, 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 14.5% and 14.1%, respectively.

Adjusted net debt

The following table reflects Chorus' adjusted net debt balances as at September 30, 2014 and as at December 31, 2013:

(unaudited) (expressed in thousands of Canadian dollars)	September 30, 2014 $	December 31, 2013 $	Change $
Total long-term debt and finance leases	365,852	374,518	(8,666)
Current portion of long-term debt and finance leases	37,615	34,710	2,905
Convertible debentures	—	78,535	(78,535)
Total long-term debt and finance leases (including current portion) and convertible debentures	403,467	487,763	(84,296)
Less: Cash and cash equivalents	(135,511)	(159,901)	24,390
Net debt	267,956	327,862	(59,906)
Capitalized operating leases	58,280	71,348	(13,068)
Adjusted net debt	326,236	399,210	(72,974)

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 $92.2 million and $89.9 million for the trailing twelve months ended September 30, 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 $84.4 million and $80.4 million for the trailing twelve months ended September 30, 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 $959.2 million and $1,002.2 million, respectively.

As at September 30, 2014, adjusted net debt decreased from $399.2 million to $326.2 million, representing a decrease of $73.0 million or 18.3% from December 31, 2013. This decrease was primarily as a result of the Debenture redemption of $78.5 million, debt repayments of $24.2 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 $19.5 million.

20. RISK FACTORS

For a detailed description of the possible risk factors associated with Air Canada, Chorus, the industry, the structure of Chorus and current legal proceedings refer to the Section entitled “Risk Factors” in Chorus' 2013 Annual MD&A dated February 19, 2014, and Chorus’ Annual Information Form dated March 28, 2014.

21. GLOSSARY OF TERMS

"**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, the Initial LeaseCos Chorus, Chorus Aviation Holdings Inc., Chorus Airport Services Inc., Jazz Aviation Holdings Inc., Jazz Aircraft Financing Inc., Jazz Leasing Inc. and amalgamated Chorus Leasing III 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;

"**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 and June 6, 2013;

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

"**Debentures**" mean the $80.2 million principal amount of 9.50% convertible unsecured subordinated debentures of Chorus due December 31, 2014;

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

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

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

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

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

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

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

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

"**Initial LeaseCos**" means Chorus Leasing I Inc., Chorus Leasing II Inc., and Chorus Leasing III Inc., collectively;

"**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 Air LP**" means Jazz Air LP, a limited partnership established under the laws of the Province of Québec on September 12, 2005, which carried on the regional airline business from February 2, 2006 until January 5, 2011;

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

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

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

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

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

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

"**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;

"**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;

"**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; and

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