chorus aviation inc.

Consolidated Financial Statements
**December 31, 2014 and 2013**

chorus aviation inc.

February 18, 2015

**Management's Report**

The accompanying consolidated financial statements of **Chorus Aviation Inc. ("Chorus")** (the "financial statements") are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Chartered Professional Accountants of Canada Handbook - Accounting - Part 1 (the "Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgement.

Management is responsible for establishing and maintaining adequate internal control over financial reporting which includes those policies and procedures that provide reasonable assurance over the safeguarding of assets and over the completeness, fairness and accuracy of the consolidated financial statements and other financial information.

The Audit, Finance and Risk Committee, which is comprised entirely of independent directors, reviews Chorus' financial reporting and recommends approval to the Board of Directors; oversees management's responsibilities as to the adequacy of the supporting systems of internal controls; provides oversight of the independence, qualifications and appointment of the external auditor; and, pre-approves audit and audit-related fees and expenses. The Board of Directors approves Chorus' consolidated financial statements, management's discussion and analysis and annual report disclosures prior to their release. The Audit, Finance and Risk Committee meets with management, the internal auditors and external auditors at least four times each year to review and discuss financial reporting issues and disclosures, auditing and other matters.

The external auditors, PricewaterhouseCoopers LLP, conduct an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The external auditors have unlimited access to the Audit, Finance and Risk Committee and meet with the Committee on a regular basis.

| | | | |
|---|---|---|---|
| (signed) | "Joseph D. Randell"<br>President and Chief Executive Officer | (signed) | "Richard Flynn"<br>Chief Financial Officer |

February 18, 2015

**Independent Auditor's Report**

**To the Shareholders of**
**Chorus Aviation Inc.**

We have audited the accompanying consolidated financial statements of Chorus Aviation Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of changes in equity, income, comprehensive income and cash flows the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chorus Aviation Inc. and its subsidiaries as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "*PricewaterhouseCoopers LLP*"

**Chartered Accountants**

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chorus aviation inc.

# Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

| | As at December 31, 2014 $ | 2013 $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents (note 5) | 114,578 | 159,901 |
| Restricted cash (note 5) | 3,277 | 3,320 |
| Accounts receivable – trade and other (note 21) | 66,229 | 76,891 |
| Inventories (note 21) | 43,493 | 45,121 |
| Prepaid expenses and deposits (note 21) | 16,757 | 22,896 |
| **Total current assets** | 244,334 | 308,129 |
| **Property and equipment** (note 6) | 594,486 | 594,650 |
| **Goodwill** (note 7) | 6,693 | 6,693 |
| **Other assets** (note 21) | 36,417 | 67,453 |
| | 881,930 | 976,925 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 21) | 215,325 | 207,334 |
| Current portion of obligations under finance leases (note 8) | 3,352 | 3,356 |
| Current portion of long-term incentive plan | 6,358 | — |
| Current portion of long-term debt (note 9) | 35,376 | 31,354 |
| Dividends payable | 4,509 | 13,786 |
| Convertible debentures (note 10) | — | 78,535 |
| Income tax payable | — | 1,737 |
| **Total current liabilities** | 264,920 | 336,102 |
| **Obligations under finance leases** (note 8) | — | 3,073 |
| **Long-term debt** (note 9) | 368,682 | 371,445 |
| **Deferred income tax** (note 11) | 45,974 | 35,790 |
| **Other long-term liabilities** (note 21) | 72,294 | 44,534 |
| | 751,870 | 790,944 |
| **Equity** | 130,060 | 185,981 |
| | 881,930 | 976,925 |

**Economic dependence** (note 19)
**Commitments** (note 15)
**Contingencies** (note 17)
**Subsequent events** (note 22)

*The accompanying notes are an integral part of these consolidated financial statements.*

**Approved by the Board of Directors**

By: (signed) *"Karen Cramm"*
*Director*

By: (signed) *"Richard H. McCoy"*
*Director*

## Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

| | Capital $ | Deficit $ | Contributed surplus $ | Equity component of convertible debentures $ | Total $ |
|---|---|---|---|---|---|
| **Balance - December 31, 2012** | 3,628 | (932,315) | 1,051,305 | 9,497 | 132,115 |
| Net income for the year | — | 61,866 | — | — | 61,866 |
| Other comprehensive income for the year (net of tax) | — | 45,593 | — | — | 45,593 |
| Comprehensive income for the year | — | 107,459 | — | — | 107,459 |
| Dividends | — | (50,880) | — | — | (50,880) |
| Repurchase of shares under normal course issuer bid | (78) | — | (3,928) | — | (4,006) |
| Share issuance for stock-based compensation plans | 1,566 | — | (3,068) | — | (1,502) |
| Expense related to stock-based compensation plans | — | — | 2,795 | — | 2,795 |
| **Balance - December 31, 2013** | 5,116 | (875,736) | 1,047,104 | 9,497 | 185,981 |
| Net income for the year | — | 64,710 | — | — | 64,710 |
| Other comprehensive loss for the year (net of tax) | — | (49,232) | — | — | (49,232) |
| Comprehensive income for the year | — | 15,478 | — | — | 15,478 |
| Dividends | — | (54,454) | — | — | (54,454) |
| Repurchase of shares under normal course issuer bid (note 14) | (96) | — | (9,276) | — | (9,372) |
| Redemption of convertible debentures (note 14) | — | — | 9,497 | (9,497) | — |
| Conversion of convertible debentures (note 14) | 9 | — | — | — | 9 |
| Expense related to stock-based compensation plans | — | — | 768 | — | 768 |
| Reclassification of stock-based compensation from equity settled to cash settled liability (note 3(h)) | — | — | (8,350) | — | (8,350) |
| **Balance - December 31, 2014** | 5,029 | (914,712) | 1,039,743 | — | 130,060 |

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statements of Income
**For the years ended December 31, 2014 and 2013**

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

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Operating revenue** (note 19) | | |
| Passenger | 1,653,716 | 1,662,020 |
| Other | 12,575 | 10,040 |
| | 1,666,291 | 1,672,060 |
| **Operating expenses** (note 19) | | |
| Salaries, wages and benefits | 410,401 | 411,831 |
| Aircraft fuel | 372,345 | 378,996 |
| Depreciation and amortization | 66,057 | 62,602 |
| Food, beverage and supplies | 17,692 | 18,130 |
| Aircraft maintenance materials, supplies and services | 169,288 | 153,592 |
| Airport and navigation fees | 168,550 | 197,505 |
| Aircraft rent | 93,350 | 89,905 |
| Terminal handling services | 109,184 | 113,785 |
| Other | 121,523 | 121,452 |
| | 1,528,390 | 1,547,798 |
| **Operating income** | 137,901 | 124,262 |
| **Non-operating income (expenses)** | | |
| Interest revenue | 1,147 | 1,333 |
| Interest expense | (16,895) | (22,182) |
| Gain on disposal of property and equipment | 249 | 1,521 |
| Foreign exchange loss | (28,384) | (21,465) |
| Other | 500 | 2,412 |
| | (43,383) | (38,381) |
| **Income before income taxes** | 94,518 | 85,881 |
| **Income tax expense** (note 11) | | |
| Current income tax | (611) | (3,264) |
| Deferred income tax (note 11) | (29,197) | (20,751) |
| | (29,808) | (24,015) |
| **Net income** | 64,710 | 61,866 |
| **Earnings per share, basic** (note 14) | 0.53 | 0.50 |
| **Earnings per share, diluted** (note 14) | 0.52 | 0.50 |

*The accompanying notes are an integral part of these consolidated financial statements.*

chorus aviation inc.

# Consolidated Statements of Comprehensive Income

**For the years ended December 31, 2014 and 2013**

(expressed in thousands of Canadian dollars)

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Net income** | 64,710 | 61,866 |
| **Other comprehensive (loss) income** | | |
| *Items that will not be subsequently reclassified to the statements of income* | | |
| Actuarial (loss) gain on employee benefit liabilities, net of tax (recovery) expense of $19,013 (2013 - ($17,138) | (49,232) | 45,593 |
| **Comprehensive income** | 15,478 | 107,459 |

*The accompanying notes are an integral part of these consolidated financial statements.*

chorus aviation inc.

# Consolidated Statements of Cash Flows
**For the years ended December 31, 2014 and 2013**

(expressed in thousands of Canadian dollars)

| | 2014 $ | 2013 $ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income | 64,710 | 61,866 |
| Charges (credits) to operations not involving cash | | |
| Depreciation and amortization | 66,057 | 62,602 |
| Amortization of prepaid aircraft rent and related fees | 2,383 | 2,318 |
| Gain on disposal of property and equipment | (249) | (1,521) |
| Stock-based compensation | 768 | 2,795 |
| Unrealized foreign exchange loss on long-term debt and finance leases | 30,522 | 22,827 |
| Effect of foreign exchange on cash and cash equivalents | (3,565) | — |
| Deferred income tax expense | 29,197 | 20,751 |
| Accretion of debt component of convertible debentures | 1,675 | 1,766 |
| Other | 4,761 | 6,220 |
| | 196,259 | 179,624 |
| Net changes in non-cash balances related to operations (note 20) | 6,510 | (19,007) |
| | 202,769 | 160,617 |
| **Financing activities** | | |
| Repayment of obligations under finance leases | (3,480) | (2,977) |
| Long-term borrowings | — | 127,275 |
| Repayment of long-term borrowings | (29,620) | (24,526) |
| Restricted cash related to aircraft financing | — | (5,930) |
| Redemption of convertible debentures (note 10) | (80,201) | — |
| Repurchase of shares under normal course issuer bid | (9,372) | (4,006) |
| Dividends | (63,731) | (55,696) |
| | (186,404) | 34,140 |
| **Investing activities** | | |
| Additions to property and equipment | (65,545) | (159,918) |
| Proceeds on disposal of property and equipment | 249 | 4,059 |
| Decrease in restricted cash related to letters of credit | 43 | 2,697 |
| | (65,253) | (153,162) |
| **Effect of foreign exchange on cash and cash equivalents** | 3,565 | — |
| **Net change in cash and cash equivalents during the years** | (45,323) | 41,595 |
| **Cash and cash equivalents – Beginning of years** | 159,901 | 118,306 |
| **Cash and cash equivalents – End of years** | 114,578 | 159,901 |
| **Cash payments of interest** | 15,929 | 19,995 |
| **Cash receipts of interest** | 1,149 | 1,382 |
| **Cash taxes paid** | 2,494 | 2,040 |

*The accompanying notes are an integral part of these consolidated financial statements.*

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

## 1 General information

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

References to Chorus in the following notes to the consolidated financial statements refer, as the context may require, to Chorus Aviation Inc. and its subsidiaries 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' primary business is conducted through Jazz Aviation LP ("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. Under the CPA, Air Canada currently purchases the greater part of Chorus' fleet capacity on aircraft operated by Chorus at predetermined rates. Chorus is economically and commercially dependent upon Air Canada and one of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services and aircraft to Chorus. Chorus and Air Canada are parties to an Amended and Restated Capacity Purchase Agreement, effective January 1, 2006, as amended on July 6, 2009, September 22, 2009, March 8, 2011, June 21, 2012, August 6, 2012, June 3, 2013, June 6, 2013 and January 1, 2015 (collectively, the "CPA").

Effective January 1, 2015, Chorus and Air Canada entered into an extension and amendment agreement whereby the parties extended the term of the CPA to December 31, 2025, changed the means by which Air Canada pays Chorus for services delivered under the amended CPA, created a fleet renewal and transition program for the Covered Aircraft, and introduced certain new or revised terms and conditions related to: (i) the consequences of a severe economic downturn or other event of force majeure, (ii) change of control, (iii) non-competition and (iv) other matters. With regard to payment for services delivered under the amended CPA, the mark-up on Controllable Costs, any future benchmarking process and the Compensating Mark-Up are each eliminated, and replaced with a simplified combination of fixed fees per Covered Aircraft, conversion of some former Controllable Costs into Pass-through costs, reimbursement of Controllable Costs by payment of rates set on an annual basis, and Air Canada's assumption of direct responsibility for some significant costs such as fuel.

Under the CPA, 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.

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

## 2 Basis of presentation

Chorus prepares its consolidated financial statements in accordance with GAAP as set out in the Handbook which incorporates IFRS as issued by the IASB.

These consolidated financial statements include all adjustments considered necessary by management to fairly state Chorus' annual results of operations, financial position and cash flows.

These consolidated financial statements have been authorized for issuance by the Board of Directors on February 18, 2015.

## 3 Significant accounting policies

a) Basis of measurement

These consolidated financial statements have been prepared under a historical cost basis, except for certain financial assets and financial liabilities, that are measured at fair value.

b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant estimates made in the preparation of these financial statements include, but are not limited to, the following areas, with further information contained in the applicable accounting policy or note:

*Employee benefits*

The cost and related liabilities of Chorus' post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve certain assumptions including those in relation to discount rates, future salary increases, mortality rates and future benefit increases. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty. The Actuarial Standards Board issued a memorandum during the fourth quarter of 2014, regarding the use of an updated mortality table for valuing lump sum benefits paid from registered pension plans (2014 Canadian Pensioner Mortality Table (CPM-2014) with CPM-B Projection Scale). This proposed mortality table was incorporated at December 31, 2014. Funding current service costs for 2015 will be affected when the new mortality assumptions for lump sum benefits are adopted for the January 1, 2015 funding actuarial valuations.

Benefit form elections assumptions were also updated for December 31, 2014 to reflect retirement experience.

These adjustments resulted in an actuarial remeasurement of the accounting liabilities with the impact being recorded in other comprehensive income. Refer to note 3(g) for further details.

## 3 Significant accounting policies (continued)

*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 judgement 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 $15,807 to annual depreciation expense.

c) Principles of consolidation

These consolidated financial statements include the accounts of Chorus and its current and former subsidiaries, Jazz, Aviation General Partner Inc., Chorus Aviation Holdings Inc., Chorus Airport Services Inc., Jazz Aviation Holdings Inc., Jazz Aircraft Financing Inc., and Jazz Leasing Inc. All inter-company and inter-entity balances and transactions are eliminated. Chorus has no non-controlling interests, therefore, all profits and comprehensive income are attributable to the shareholders of Chorus.

d) Cash and cash equivalents

Cash and cash equivalents consist of current operating bank accounts, term deposits and fixed income securities with an original term to maturity of 90 days or less. Cash equivalents are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

e) Restricted cash

Chorus has recorded restricted cash under current assets related to funds on deposit with a financial institution as collateral for letters of credit. Restricted cash recorded under other assets relates to funds required to be held in a segregated account with a financial institution as security for the Export Development Canada ("EDC") financing related to the purchase of six Q400 NextGen aircraft in 2013.

f) Operating revenue

Under the CPA, Chorus is paid to provide services to Air Canada, as explained in note 1. The related fees payable by Air Canada are recognized in revenue as the capacity is provided. Incentive payments and margin adjustments are recognized, respectively, as increases in and reductions of passenger revenue based on management estimates during the year when the amount of revenue can be measured reliably and it is probable that the economic benefit will flow to Chorus. Revenue earned by Chorus under its operation of charter flights is also included in passenger revenue and recognized when the service is provided.

Maintenance, repair and overhaul ("MRO") operations and other sources of revenue, such as third party ground handling services, are included in other revenue and are recognized when the service is provided. Revenue earned under inventory consignment agreements with third parties is recognized when the inventory is received by the end purchaser.

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

## 3 Significant accounting policies (continued)

The CPA provides for a monthly payment per aircraft in an amount designed to reimburse Chorus for certain aircraft ownership costs. Chorus has concluded that a component of its revenue under the CPA is rental income since the CPA identifies the "right of use" of a specific type and number of aircraft over a stated period of time otherwise known as the Covered Aircraft. The amount deemed to be rental income is $179,222 for the year ended December 31, 2014 ($165,313 for the year ended December 31, 2013).

g) Employee benefits

Chorus' significant policies related to the defined benefit pension plan for its pilots, the supplemental executive retirement plan for certain Chorus executives, which is also a defined benefit pension plan (collectively referred to as "Pension Benefits"), and the Other 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.

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

## 3 Significant accounting policies (continued)

- 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.

h) Stock-based compensation

*Long-term incentive plan*

The long-term incentive plan (the "LTIP") is a restricted share unit ("RSU") plan under which participants receive an annual grant of RSUs that vest over a three year period if certain performance goals and service conditions, established at the time of grant by the Board of Directors, are achieved. RSUs entitle the participant to receive common shares of Chorus on a one-for-one basis or an equivalent cash payout at the participant's election. Additional RSUs representing the value of dividends paid on corresponding common shares of Chorus accrue for the benefit of participants. Unvested RSUs held by participants are forfeited if performance goals or service conditions are not met. On vesting, Chorus has the option to issue the shares from treasury or purchase them on the secondary market.

Beginning in the first quarter of 2014, participants 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 once annually with any impact on previously recognized expense being unrecognized immediately.

## 3 Significant accounting policies (continued)

*Deferred share units*

Non-executive directors receive a portion of their remuneration in deferred share units ("DSUs") under a DSU Plan (the "DSU Plan") designed to promote the alignment of interests between individual non-executive directors and the shareholders of Chorus. DSUs have a value equivalent to the value of the Chorus shares. DSUs vest immediately and may only be redeemed for cash and will be paid out only subsequent to the time the director ceases to be a director, or in the case of a U.S. taxpayer, subsequent to the date such person incurs a "separation from service" under applicable U.S. law. Participating directors will receive, in respect of their DSUs, an amount equivalent to the amount of any dividends paid on the shares in the form of additional DSUs. Under the DSU Plan, participating directors may receive annual grants of DSUs. In addition, a participating director may elect to have his or her annual retainer and/or any additional retainer payable in the form of DSUs or a combination of DSUs and cash. DSUs are cash-settled share-based payments that are measured at fair value and recognized as a liability. The liability is remeasured at fair value each period and at the settlement date with changes in fair value recognized in the statement of income.

*Employee share ownership program*

Chorus' employee share ownership plan (the "ESOP") permits employees to buy common shares of Chorus through payroll deduction. Under this plan, contributions made by employees are matched to a specific percentage by Chorus. These contributions are expensed to salaries, wages and benefits expense over the one year vesting period. The amount expected to vest is reviewed at least annually, with any change in estimate recognized immediately in salaries, wages and benefits.

i) Financial instruments

Chorus has early adopted IFRS 9, *Financial Instruments*. The standard requires financial assets to be classified into two measurement categories: amortized cost and fair value. Classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For investments in equity instruments which are not subject to control, joint control, or significant influence, on initial recognition GAAP allows an entity to irrevocably elect classification at "fair value through profit or loss" or "fair value through other comprehensive income". For financial liabilities, changes in fair value attributable to an entity's own credit risk are recorded through other comprehensive income rather than through net income.

Management has designated that equity investments not held for trading that were previously classified as available for sale, be classified as fair value through other comprehensive income.

Financial instruments are classified as follows:

- Asset backed commercial paper ("ABCP") is classified as "Fair Value through Profit and Loss." These financial assets are measured at fair value, with changes in fair value recognized in the statement of income each reporting period.

- Cash and cash equivalents, restricted cash and accounts receivable are classified as "Financial Assets Measured at Amortized Cost". After their initial fair value measurement, they are measured at amortized cost using the effective interest method, less a provision for impairment, established on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.

## 3 Significant accounting policies (continued)

- Accounts payable, dividends payable, long-term debt, obligations under finance leases and the debt component of convertible debentures are classified as "Other Financial Liabilities". Other Financial Liabilities are initially recognized at fair value less transaction costs, except for the debt component of the convertible debentures. Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method.

*Hedging*

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.

*Impairment of financial assets*

At each reporting date, Chorus assesses whether there is objective evidence that a financial asset carried at amortized cost is impaired. If such evidence exists, Chorus recognizes an impairment loss, as the difference between the carrying value of the instrument and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate or a discount rate based on the risk associated with the financial asset being tested. The carrying amount of the asset is reduced by this amount through a charge to the statement of income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

j) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Property and equipment are depreciated to estimated residual values based on the straight-line method over their useful lives. Aircraft and flight equipment are depreciated over 20 to 30 years, with 5% - 25% estimated average residual values.

Major maintenance overhaul expenditures ("heavy checks"), including labour, are capitalized and depreciated over the expected life of the maintenance cycle. Any remaining carrying value is derecognized when the major maintenance overhaul commences. All other costs associated with maintenance of fleet assets (including engine maintenance provided under "power-by-the-hour" arrangements) are charged to the statement of income as incurred.

Buildings are depreciated over their useful lives not exceeding 40 years on a straight-line basis. An exception to this is where the useful life of the building is greater than the term of the land lease. In these circumstances, the building is depreciated over the life of the lease.

Depreciation on other property and equipment is provided on a straight-line basis from the date assets are placed in service, to their estimated residual values, over the following estimated useful lives:

| | |
|---|---|
| Leaseholds | Over the term of the related lease |
| Ground and other equipment | 5 years |

Property under finance leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments. Property and equipment under finance leases are depreciated to estimated residual value over the useful life, unless there is no reasonable certainty that Chorus will obtain ownership at the end of the lease term, in which case the asset is depreciated over the shorter of the lease term and its useful life.

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

## 3 Significant accounting policies (continued)

Depreciation methods, residual values and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

k) Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Financial assets or financial liabilities at fair value through profit and loss - expensed to net income as incurred;
- Financial assets or liabilities recorded at amortized cost - included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method; and
- Equity instruments recorded at fair value through other comprehensive income - included in the initial cost of the underlying asset.

Transaction costs for operating and finance leases are capitalized and amortized over the life of the lease on a straight-line basis.

l) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Chorus' share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested annually for impairment, or at any time if an indication of impairment exists, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is tested for impairment at the cash-generating unit ("CGU") level.

m) Impairment of non-financial assets

Property and equipment, is tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Chorus evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

n) Foreign currency translation

Items included in the financial statements of each of the consolidated entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Chorus and its subsidiaries is the Canadian dollar.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the statement of financial position. Non-monetary assets, liabilities and other items recorded in income are translated at rates of exchange in effect at the date of the transaction.

## 3 Significant accounting policies (continued)

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than the Canadian dollar are recognized in the statement of income.

o) Provisions

Provisions are recognized in other liabilities when Chorus has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Chorus performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

p) Aircraft lease payments

Total aircraft rentals under operating leases and the related lease inducements received and fees paid over the lease term are amortized to operating expense on a straight-line basis. Prepaid aircraft rentals and related fees are the difference between the straight-line aircraft rent and the payments stipulated under the lease agreements and legal and related transaction fees associated with the leases. Current and non-current unamortized lease inducements are included in accounts payable and accrued liabilities and other long-term liabilities, respectively.

q) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis, and net realizable value is the estimated selling price to a third party in the ordinary course of business, less estimated selling costs. Inventories consist of aircraft expendables and supplies, fuel and de-icing fluid and used aircraft expendables and rotables being held by third parties under consignment agreements.

r) Income taxes

Chorus uses the asset and liability method for accounting for income taxes.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be paid or recovered, using tax rates and tax laws that have been enacted or substantively enacted by the end of the period.

Deferred tax assets and liabilities are recognized for all future tax consequences attributable to the differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, except for the initial recognition of goodwill and the initial recognition of an asset or liability, which at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Deferred tax assets are also recognized for unused tax losses and unused tax credits. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates and tax laws expected to apply when the carrying amount of the assets or liabilities are recovered or settled or the unused losses are expected to be utilized.

## 3 Significant accounting policies (continued)

Current and deferred income tax expense is recognized in the statement of income for the period, except to the extent that the income taxes related to a transaction or event which is recognized, in the same or different period, either in other comprehensive income or directly in equity.

s) Earnings per share

Earnings per share are calculated on a weighted average number of shares outstanding basis.

Diluted earnings per share is calculated by adjusting the weighted average number of shares to assume conversion of all dilutive potential common shares. Chorus has two categories of dilutive potential common shares: convertible debentures and stock-based compensation. For periods when convertible debentures were outstanding, the convertible debentures were assumed to have been converted into shares, and the profit was adjusted to eliminate the interest expense less the tax effect. To calculate the dilutive effect of the stock-based compensation, the number of options or LTIP units issued is reduced by the number of shares that could have been acquired at fair value (determined as the average annual market share price) based on the fair value of the stock-based compensation to determine the number of dilutive shares outstanding.

t) Dividends

Dividends payable by Chorus to its shareholders, which are determined at the discretion of the Directors, are recorded when declared.

u) Government assistance

Non-repayable government assistance is recorded in the period earned as non-operating income. During the year ended December 31, 2014, Chorus recorded $nil (2013 - $2,000) of Human Resource Development Funding from the Province of Nova Scotia.

Where forgivable loans are provided by governments with forgiveness contingent on meeting certain criteria, the forgivable loan is recorded as non-operating income when Chorus has met the terms for forgiveness of the loan. At December 31, 2013, Chorus had recorded a $2,500 forgivable loan from the Province of Nova Scotia. In 2014, $500 has been recognized as income (2013 - $nil). The remaining $2,000 has been recorded as a liability with $500 in current liabilities expected to be earned in 2015.

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

## 3 Significant accounting policies (continued)

**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.

## 4 Capital management

Chorus' capital consists of cash and cash equivalents, restricted cash, finance leases, long-term debt, convertible debentures and equity.

Total capital as at December 31, 2014 and December 31, 2013 is calculated as follows:

| | December 31, 2014 $ | December 31, 2013 $ |
|---|---|---|
| Cash and cash equivalents | (114,578) | (159,901) |
| Restricted cash | (3,277) | (3,320) |
| Restricted cash included in other assets | (6,771) | (6,208) |
| Finance leases (including current portion) | 3,352 | 6,429 |
| Long-term debt (including current portion) | 404,058 | 402,799 |
| Convertible debentures (excluding equity portion) | — | 78,535 |
| Equity | 130,060 | 185,981 |
| Total capital | 412,844 | 504,315 |

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. The airline business is capital intensive and highly sensitive to uncertain external circumstances.

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

## 4 Capital management (continued)

In order to maintain a strong financial position, Chorus may, from time to time, adjust the amount of dividends paid to shareholders, buy back shares for cancellation pursuant to normal course issuer bids or issue new shares. Chorus may also pay down debt or issue new debt.

In managing its capital structure, Chorus monitors performance throughout the year having regard to anticipated cash dividends, working capital requirements, maintenance and growth capital expenditures, available cash on deposit and, where applicable, long-term borrowings. Chorus also monitors performance having regard to financial metrics within the covenants associated with the Q400 NextGen aircraft and engine financing, and other financial metrics such as adjusted net debt. Adjusted net debt is calculated as the sum of long-term debt, finance leases, convertible debentures and capitalized operating leases less cash and cash equivalents.

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

| | December 31, | | |
|---|---|---|---|
| | 2014 | 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 the 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 $93,350 for the year ended December 31, 2014 and $89,905 for the year ended December 31, 2013. 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 $86,079 for the year ended December 31, 2014 and $80,393 for the year ended December 31, 2013 has 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 $992,957 and $1,002,150, respectively.

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

## 5 Cash and cash equivalents

| | As at December 31, 2014 $ | 2013 $ |
|---|---|---|
| Cash [(1)] | 114,578 | 119,938 |
| Term deposits and fixed income securities | — | 39,963 |
| Cash and cash equivalents | 114,578 | 159,901 |

(1) Cash encumbered in support of issued letters of credit has been classified as restricted cash and shown separately in the consolidated statement of financial position (2014 - $3,277; 2013 - $3,320). Chorus has also recorded restricted cash of $6,771 (2013 - $6,208) in other assets related to a segregated account required as security for the EDC financing related to six Q400 NextGen aircraft in 2013 (refer to note 21).

The weighted average interest rate on investments as at December 31, 2014 is nil% (2013 - 1.10%).

## 6 Property and equipment

| | Year ended December 31, 2013 | | | | | Year ended December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Opening net book value $ | Additions $ | Disposals/ deposits applied $ | Depreciation for the period $ | Closing / opening net book value $ | Additions $ | Disposals/ deposits applied $ | Depreciation for the period $ | Closing net book value $ |
| Flight equipment | 428,947 | 142,641 | — | (38,342) | 533,246 | 8,963 | — | (42,614) | 499,595 |
| Major maintenance overhauls | 12,583 | 17,523 | — | (14,634) | 15,472 | 12,857 | — | (14,376) | 13,953 |
| Facilities | 17,263 | 6,830 | (2,538) | (972) | 20,583 | 915 | — | (878) | 20,620 |
| Equipment | 8,958 | 6,196 | — | (4,330) | 10,824 | 2,784 | — | (4,006) | 9,602 |
| Leaseholds | 10,738 | 123 | — | (1,528) | 9,333 | 31 | — | (1,386) | 7,978 |
| Flight equipment under finance leases | 7,988 | — | — | (2,796) | 5,192 | — | — | (2,797) | 2,395 |
| Deposits on aircraft/ engines | 13,395 | 263 | (13,658) | — | — | 40,343 | — | — | 40,343 |
| Total | 499,872 | 173,576 | (16,196) | (62,602) | 594,650 | 65,893 | — | (66,057) | 594,486 |

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

## 6 Property and equipment (continued)

| | At December 31, 2013 | | | At December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Cost $ | Accumulated depreciation $ | Net book value $ | Cost $ | Accumulated depreciation $ | Net book value $ |
| Flight equipment | 673,052 | (139,806) | 533,246 | 673,792 | (174,197) | 499,595 |
| Major maintenance overhauls | 31,284 | (15,812) | 15,472 | 32,242 | (18,289) | 13,953 |
| Facilities | 25,466 | (4,883) | 20,583 | 26,381 | (5,761) | 20,620 |
| Equipment | 52,306 | (41,482) | 10,824 | 54,507 | (44,905) | 9,602 |
| Leaseholds | 26,970 | (17,637) | 9,333 | 27,001 | (19,023) | 7,978 |
| Flight equipment under finance leases | 22,951 | (17,759) | 5,192 | 22,951 | (20,556) | 2,395 |
| Deposits on aircraft/engines | — | — | — | 40,343 | — | 40,343 |
| Total | 832,029 | (237,379) | 594,650 | 877,217 | (282,731) | 594,486 |

Chorus made a lump sum pre-delivery payment during the fourth quarter of 2014 to Bombardier for additional Q400 NextGen aircraft (refer to note 22 - Subsequent event for further details). $348 of this pre-delivery payment included a non-cash transaction and as such as been excluded from the statement of cash flows at December 31, 2014.

On November 6, 2014, upon landing at Edmonton International Airport, a Q400 NextGen 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

## 7 Goodwill

Goodwill, representing less than one percent of Chorus' total assets, is allocated to the Jazz CGU (which approximates the entity as a whole). The recoverable amount of the Jazz CGU was determined using fair value less costs of disposal. In assessing the goodwill for impairment, Chorus compares the aggregate recoverable amount consisting of the sum of its quoted equity market capitalization and the fair value of its debt to the carrying value of its net assets excluding long-term debt. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment of goodwill was recognized during 2014 or 2013.

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

## 8 Obligations under finance leases

Chorus has entered into finance leases related to aircraft. The obligations are as follows:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| No later than one year | 3,492 | 3,791 |
| Later than one year and no later than five years | — | 3,201 |
| Total minimum lease payments | 3,492 | 6,992 |
| Less: Amount representing interest (at rates ranging from 8.755% to 9.450%) | 140 | 563 |
| Present value of net minimum finance lease payments | 3,352 | 6,429 |
| Less: Current portion | 3,352 | 3,356 |
| Obligations under finance leases | — | 3,073 |

The present value of net minimum finance lease payments is as follows:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| No later than one year | 3,352 | 3,356 |
| Later than one year and no later than five years | — | 3,073 |
| | 3,352 | 6,429 |

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.1601, which was the exchange rate in effect at the end of day closing on December 31, 2014 (2013 - $1.0636). Interest of $436 (2013 - $682) relating to finance lease obligations has been included in aircraft rent. The majority of these lease agreements are renewable at the end of the lease period, at market rates.

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

## 9 Long-term debt

Long-term debt consists of the following:

| | As at December 31, 2014 $ | 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 $963 to $1,178, 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 NextGen aircraft financing payable in US dollars was US $330,896 (December 31, 2013 - US$359,871), and the net book value of property and equipment pledged as collateral under Q400 NextGen aircraft financing was $406,522 (December 31, 2013 - $425,070).

(2) Four individual term loans, repayable in quarterly instalments ranging from $61 to $65, 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 NextGen engine financing payable in US dollars was US$7,056 (December 31, 2013 - US$7,560) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $8,213 (December 31, 2013 - $8,567).

(3) Nova Scotia Jobs Fund loan, with a maximum contribution of $12,000, bearing interest at a fixed rate of 3.33% annually. Principal repayments of $1,000 are payable annually commencing on August 31, 2016. Maturing on August 31, 2027, the loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases. As of December 31, 2014, the amount drawn on the loan was $12,000 (December 31, 2013 - $12,000).

For the year ended December 31, 2014, the total interest expense on long-term debt was $13,679 (2013 - $12,795).

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.1601, which was the exchange rate in effect at the end of day closing December 31, 2014.

| | $ |
|---|---|
| No later than one year | 35,376 |
| Later than one year and no later than five years | 158,117 |
| Later than five years | 210,565 |
| | 404,058 |

Under its financing agreement with EDC (for both aircraft and engines), the "Jazz Group" (currently comprised of Jazz, Jazz Aircraft Financing Inc. and Jazz Leasing Inc.) is required to maintain a maximum adjusted leverage ratio of 2.25:1 and a minimum adjusted interest coverage ratio of 1.66:1. As at 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.

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

## 9 Long-term debt (continued)

The financing agreement with EDC also contains several covenants which are specific to Jazz as the lessee of the Q400 NextGen 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 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 NextGen aircraft in 2013.

## 10 Convertible debentures

In November of 2009, Chorus entered into an agreement to sell to a group of underwriters $86,250 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 are shown as a current liability. The net proceeds received by Chorus from the sale of Debentures were $82,265 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, $6,040 of the Debenture principal was converted, leaving $80,210 outstanding.

On each of February 10, 2014 and June 20, 2014 (the "Early Redemption Dates"), Chorus exercised its right to redeem outstanding Debentures in the aggregate principal amount of $80,201. On June 20, 2014, prior to redemption, $9 of the Debenture principal was converted to equity. 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 Early Redemption Dates. Chorus used surplus cash to pay the Redemption Price together with all accrued and unpaid interest thereon as described above. As a result of the conversion and redemption, $9,497 of the equity component of the Debentures has been reclassified to contributed surplus in the Statement of Changes in Equity and the Debenture liability has been extinguished.

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

## 10 Convertible debentures (continued)

The following table allocates the Debentures between debt and equity:

| | Cost of borrowing % | Debt $ | Equity Component of Convertible Debentures $ | Total $ |
|---|---|---|---|---|
| **As at December 31, 2012** | 9.5 | 76,769 | 9,497 | 86,266 |
| Accretion expense | | 1,766 | — | 1,766 |
| **As at December 31, 2013** | | 78,535 | 9,497 | 88,032 |
| Accretion expense | | 1,675 | — | 1,675 |
| Debenture conversion | | (9) | — | (9) |
| Debenture redemptions | | (80,201) | (9,497) | (89,698) |
| **As at December 31, 2014** | | — | — | — |

Transaction costs are capitalized and offset with the debt and equity portions of the debentures and amortized over the life of the debentures using the effective interest rate.

For the year ended December 31, 2014, the total interest expense on the convertible debentures was $3,215 (2013 - $9,386) which included interest accretion of $1,675 (2013 - $1,766).

## 11 Income taxes

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

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2014 % | 2014 $ | 2013 % | 2013 $ |
| Income tax expense at the Canadian statutory tax rate | 27.9 | 26,371 | 27.1 | 23,274 |
| Recognition of previously unrecognized cumulative eligible capital | (10.5) | (9,931) | (12.3) | (10,583) |
| Net impact of capital items (1) | 11.1 | 10,496 | 8.1 | 6,998 |
| Non-deductible expenses | 3.4 | 3,212 | 2.8 | 2,386 |
| Impact of tax rate changes and tax rate differential | (0.4) | (340) | 2.3 | 1,940 |
| Income tax expense | 31.5 | 29,808 | 28.0 | 24,015 |

(1) The impact of capital items is mainly related to the foreign exchange fluctuations on the long-term debt associated with the purchase of the Q400 NextGen aircraft, of which the impact of the non-deductible (non-taxable) portion of any unrealized loss (gain) is considered in the calculation of income tax expense at the end of each period. To the extent that a capital loss is recorded for accounting purposes, the benefit of the deductible portion of the loss is recognized only to the extent that it is probable that the loss will be utilized. Income tax expense related to unrealized foreign exchange gains recorded in a period is reduced by previously unrecognized income tax assets related to unrealized foreign exchange losses. Chorus does not have a plan in place to utilize the deductible portion of the balance of the foreign exchange losses, accordingly no deferred tax asset has been recognized related to the foreign exchange losses.

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

## 11 Income taxes (continued)

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $473,570, as at December 31, 2014, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time that those benefits can be applied to reduce current tax expense. During the years ended December 31, 2014 and December 31, 2013, Chorus utilized a total of $35,645 ($9,931 tax effected) and $38,328 ($10,583 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at December 31, 2014, Chorus had $37,794 (December 31, 2013 - $20,363) of allowable capital losses that have not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

### Deferred tax

Components of the net deferred income tax asset are as follows:

| | December 31, 2013 $ | Recognized in Net Income $ | Recognized in OCI $ | Charged Directly to Equity $ | December 31, 2014 $ |
|---|---|---|---|---|---|
| Deferred income tax liability | | | | | |
| – Deferred Partnership income | (13,008) | (1,246) | — | — | (14,254) |
| – Convertible debentures | (311) | 311 | — | — | — |
| – Property and equipment | (49,610) | (16,572) | — | — | (66,182) |
| Deferred income tax asset | | | | | |
| – Pension and Other Future Employee Benefits | (9,388) | (4,882) | 19,013 | — | 4,743 |
| – Loss carryforwards | 25,787 | (8,745) | — | — | 17,042 |
| – Deferred lease inducement | 7,905 | (853) | — | — | 7,052 |
| – Other long-term liabilities | 2,835 | 2,790 | — | — | 5,625 |
| Net deferred income tax | (35,790) | (29,197) | 19,013 | — | (45,974) |

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

## 11 Income taxes (continued)

The estimated recovery periods for the deferred tax balances are as follows:

| | December 31, 2014 $ | December 31, 2013 $ |
|---|---|---|
| Deferred tax assets | | |
| - Deferred tax assets to be recovered within 12 months | 8,164 | 13,962 |
| - Deferred tax assets to be recovered after more than 12 months | 26,304 | 22,565 |
| Deferred tax liabilities | | |
| - Deferred tax liabilities to be recovered within 12 months | (10,323) | (6,381) |
| - Deferred tax liabilities to be recovered after more than 12 months | (70,119) | (65,936) |
| | (45,974) | (35,790) |

## 12 Pension and Other Future Employee Benefits

Chorus maintains several registered defined contribution pension plans for eligible employees and a registered defined benefit plan for pilots. Chorus is the plan sponsor for these plans under the Pension Benefits Standard Act, 1985 (Canada). In addition, Chorus maintains an unregistered supplemental executive retirement plan ("SERP") which is partially funded for certain employees. Contributions to the supplementary pension plan started in December 2007. The registered and supplementary defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and the final average earnings for a specified period.

Chorus also maintains Other (non-pension) Future Employee Benefits. The Other Future Employee Benefits include medical and dental benefits provided to the employees on long-term disability and Workplace Safety Insurance Board ("WSIB"). These benefits cease to be provided when the employee reaches age 65. The sick leave gratuity benefits represent the payout of sick leave accruals upon or just prior to retirement for eligible employees. The self-insured WSIB benefits are in respect of self-insured benefits provided to Ontario employees.

The total expense for Chorus' defined contribution plans including two pension plans sponsored by an employee group and a union respectively, for which Chorus is obligated to make defined contributions only, for the year ended December 31, 2014 is $9,390, and for the year ended December 31, 2013 is $9,076.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2015 are $29,400. Expected contributions to the defined contribution pension plans for the year ending December 31, 2015 are $9,100. Expected benefit payments for Other Future Employee Benefits for the year ending December 31, 2015 are $1,500.

The Company is the legal administrator of the plans and is responsible for its overall management of the plans. Responsibility for the governance of the plans, including investment decisions lies with the Company and the Board of Directors.

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

## 12 Pension and Other Future Employee Benefits (continued)

The most recent actuarial valuations of the defined pension benefit plans for funding purposes were as of January 1, 2014 and the next funding valuation will be as of January 1, 2015.

Information about Chorus' defined benefit plans and Other Future Employee Benefits in aggregate, is as follows:

| | Pension Benefits | | Other Future Employee Benefits | |
|---|---|---|---|---|
| | 2014 $ | 2013 $ | 2014 $ | 2013 $ |
| **Change in benefit obligation** | | | | |
| Benefit obligation, beginning of year | 269,625 | 281,960 | 12,786 | 16,398 |
| Current service cost | 19,655 | 23,934 | 1,913 | 2,297 |
| Interest cost | 14,540 | 13,693 | 514 | 578 |
| Plan participants' contributions | 7,941 | 7,930 | — | — |
| Benefits paid | (10,991) | (21,951) | (1,287) | (1,588) |
| Loss/(gain) from change in demographic assumptions | 6,160 | 4,327 | 830 | (120) |
| Loss/(gain) from change in financial assumptions | 73,394 | (38,045) | 864 | (760) |
| Experience losses/(gains) | 4,339 | (2,223) | (228) | (4,019) |
| **Benefit obligation, end of year** | 384,663 | 269,625 | 15,392 | 12,786 |
| **Change in plan assets** | | | | |
| Fair market value of plan assets, beginning of year | 306,455 | 246,232 | — | — |
| Interest income | 15,922 | 11,596 | — | — |
| Employer contribution | 30,417 | 36,514 | 1,287 | 1,588 |
| Plan participants' contributions | 7,941 | 7,930 | — | — |
| Benefits paid | (10,991) | (21,951) | (1,287) | (1,588) |
| Administrative expenses | (400) | (400) | — | — |
| Return on plan assets (excluding interest income) | 17,727 | 26,534 | — | — |
| **Fair market value of plan assets, end of year** | 367,071 | 306,455 | — | — |
| **(Unfunded) funded status, end of year** | (17,592) | 36,830 | (15,392) | (12,786) |
| **Accrued contributions** | 218 | 549 | — | — |
| **Accrued benefit (liability) asset** | (17,374) | 37,379 | (15,392) | (12,786) |

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

## 12 Pension and Other Future Employee Benefits (continued)

The table below outlines where the defined benefit pension and Other Future Employee Benefits amounts are included in the statements of financial position.

| | December 31, 2014 $ | December 31, 2013 $ |
|---|---|---|
| Assets | | |
| Defined benefit pension | 8,144 | 37,379 |
| Liabilities | | |
| Defined benefit pension | 25,518 | — |
| Other Future Employee Benefits | 15,392 | 12,786 |
| | 40,910 | 12,786 |

Plan assets are comprised as follows:

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Canadian Equity | 16% | 17% |
| Universe Bonds | 28% | 30% |
| Long Bonds | 9% | 7% |
| International Equity | 39% | 40% |
| Short-term and Other | 4% | 4% |
| Real Estate | 4% | 2% |
| | 100% | 100% |

The plan's assets are invested in Canadian bonds and equities, real estate and foreign equities. These assets include no significant investment in Chorus at the measurement date.

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

## 12 Pension and Other Future Employee Benefits (continued)

Weighted average assumptions used to determine the accrued benefit liability:

| | Pension Benefits | | Other Future Employee Benefits | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Discount rate to determine accrued benefit obligations | 3.9% | 5.0% | 3.5% | 4.4% |
| Discount rate to determine the pension and benefit cost | 5.0% | 4.4% | 4.4% | 3.7% |
| Rate of compensation increase | 4.5% | 4.5% | 2.0% | 2.3% |
| Health care inflation - Select to determine accrued benefit obligation | n/a | n/a | 6.1% | 6.3% |
| Health care inflation - Select to determine pension and benefit cost | n/a | n/a | 6.3% | 6.4% |

The health care inflation assumption was graded down in and after 2029 to 4.5% per annum

Assumptions regarding future mortality are set based on actuarial advice with statistics published by the Canadian Institute of Actuaries. The assumptions translate into an average life expectancy in years for a pensioner retiring at age 65 as follows:

| | 2014 | 2013 |
|---|---|---|
| Retiring at the end of the reporting period | | |
| Male | 21.4 | 21.2 |
| Female | 23.9 | 23.4 |
| Retiring 20 years after the end of the reporting period | | |
| Male | 22.6 | 22.3 |
| Female | 24.9 | 24.2 |

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

## 12 Pension and Other Future Employee Benefits (continued)

The defined benefit pension plan and Other Future Employee Benefits produce exposure to a number of risks, the most significant of which are detailed below:

**Asset Volatility**

For a defined benefit pension plan, fluctuations in the value of plan assets are assessed in the context of fluctuations in the plan liabilities. The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields. As discount rates change, the value of the plan liabilities will fluctuate. If the growth of plan liabilities exceeds that of plan assets a deficit will result. The plan currently holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term but which provide volatility and risk in the short-term. The plan's investment time horizon is a key input in deciding on the proportion of equities held.

Given the long-term nature of the defined benefit pension plan, the current level of equity investment is an appropriate element of the long-term strategy to manage the defined benefit plan efficiently. Based on a comprehensive asset-liability study completed in late 2011, the plan's investment policy was revised in 2012 and 2014. These changes include revisions to:

- Reduce equity content
- Improve the equity portfolio's diversification
- Lower equity portfolio volatility
- Reduce interest rate risk over time
- Improve the bond portfolio diversification and ability to enhance return
- Expand investments to include a diversified real estate allocation

**Interest rate risk**

The discount rate used to determine benefit obligations was determined by reference to the market interest rates on corporate bonds rated "AA" or higher, with cash flows that approximate the timing and amount of the expected benefit payments. Also, the discount rate used to determine the portion of the benefit obligations assumed to be settled by lump sum payments was determined by reference to the market interest rates on government bonds. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the pension plans' bond holdings.

**Salary risk**

The present value of the benefit obligations is calculated by reference to the future salaries of plan participants, so salary increases of the plan participants greater than assumed will increase plan liabilities.

**Life expectancy**

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Each sensitivity analysis disclosed in this note is based on changing one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the statement of financial position.

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

## 12 Pension and Other Future Employee Benefits (continued)

The sensitivity of the defined benefit obligation to changes in assumptions is on the pension plans as follows:

| | Change in assumption | Impact on defined benefit obligation: Increase in assumption | Impact on defined benefit obligation: Decrease in assumption |
|---|---|---|---|
| Discount rate | 0.25% | Decrease by 3.1% | Increase by 3.4% |
| Compensation increase rate | 0.25% | Increase by 1.2% | Decrease by 1.1% |
| Life expectancy | 1 year | Increase by 1.9% | Decrease by 2.0% |

The sensitivity of the defined benefit obligation to changes in assumptions on Other Future Employee Benefits is as follows:

| | Change in assumption | Impact on defined benefit obligation: Increase in assumption | Impact on defined benefit obligation: Decrease in assumption |
|---|---|---|---|
| Discount rate | 0.25% | Decrease by 3.8% | Increase by 3.3% |
| Compensate increase rate | 0.25% | Increase by 2.3% | Decrease by 1.8% |
| Health care cost trend rate | 1.0% | Increase by 3.5% | Decrease by 3.2% |

The weighted duration of the pension plans and Other Future Employee Benefits is 13 and 7.5 years, respectively.

Expected maturity analysis of undiscounted defined benefit pension and Other Future-Employment Benefit payments are as follows:

| | Year 1 $ | Year 2 $ | 3 - 5 years $ | Next 5 years $ | Total $ |
|---|---|---|---|---|---|
| Defined benefit pension | 15,090 | 18,510 | 72,910 | 180,350 | 286,860 |
| Other Future Employee Benefits | 1,465 | 1,266 | 3,487 | 5,426 | 11,644 |
| | 16,555 | 19,776 | 76,397 | 185,776 | 298,504 |

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

## 12 Pension and Other Future Employee Benefits (continued)

Chorus' net defined benefit pension plan and Other Future Employee Benefits expense recognized in the consolidated statements of income and consolidated statements of comprehensive income is as follows:

| | Pension | | Other Future Employee Benefits | |
|---|---|---|---|---|
| | **2014 $** | **2013 $** | **2014 $** | **2013 $** |
| Components of cost under IAS 19 | | | | |
| Amounts recognized in profit or loss: | | | | |
| Current service cost | 19,655 | 23,934 | 1,913 | 2,297 |
| Interest cost on benefit obligation | 14,540 | 13,693 | 514 | 578 |
| Administrative expenses | 400 | 400 | — | |
| Interest income on plan assets | (15,922) | (11,596) | — | — |
| Costs arising in the period | 18,673 | 26,431 | 2,427 | 2,875 |
| Remeasurements recognized in the consolidated statements of income | — | — | (613) | (4,643) |
| | 18,673 | 26,431 | 1,814 | (1,768) |
| Remeasurements recognized in other comprehensive income | | | | |
| Loss on demographic assumptions | 6,160 | 4,327 | 1,230 | 12 |
| Loss (gain) from financial assumptions | 73,394 | (38,045) | 240 | (268) |
| Experience losses (gains) | 4,339 | (2,223) | 609 | — |
| Return on plan assets (excluding interest income) | (17,727) | (26,534) | — | — |
| Loss (gain) recognized in the statement of other comprehensive income for the period[(1)] | 66,166 | (62,475) | 2,079 | (256) |

(1) There is no impact on the minimum funding requirements for pensions in 2014 or 2013.

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

## 12 Pension and Other Future Employee Benefits (continued)

The funding of employee benefit as compared to the expense recorded in the consolidated statements of income is summarized in the table below:

| | Year ended December 31, | |
|---|---|---|
| | **2014 $** | **2013 $** |
| **Net defined benefit pension and Other Future Employee Benefits expense recorded in the consolidated statements of income** | | |
| Wages, salaries and benefits | 20,487 | 24,663 |
| **Employee benefit funding by Chorus** | | |
| Defined benefit pension | 30,417 | 36,514 |
| Other Future Employee Benefits | 1,287 | 1,588 |
| | 31,704 | 38,102 |
| **Employee benefit funding greater than expense** | (11,217) | (13,439) |

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

## 13 Dividends

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. 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.

Chorus declared $54,454 in dividends for the year ended December 31, 2014 ($50,880 for the year ended December 31, 2013). Cash dividends paid for the year ended December 31, 2014 were $63,731 ($55,696 for the year ended December 31, 2013).

## 14 Capital stock

### Capital stock

a) Authorized:

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

Issued and outstanding:

| | Number of Shares[(1)] | $ |
|---|---|---|
| Shares issued and outstanding December 31, 2012 | 124,015,471 | 3,628 |
| Shares issued[(2)] | 398,355 | 1,566 |
| Shares repurchased[(3)] | (1,871,800) | (78) |
| Shares issued and outstanding December 31, 2013 | 122,542,026 | 5,116 |
| Shares issued[(4)] | 1,713 | 9 |
| Shares repurchased[(5)] | (2,290,800) | (96) |
| Shares issued and outstanding December 31, 2014 | 120,252,939 | 5,029 |

1) References to "Shares" above are inclusive of Variable Voting Shares and Voting Shares. As at December 31, 2014, Chorus had 5,191,462 Variable Voting Shares (December 31, 2013 - 4,789,193) and 115,061,477 Voting Shares (December 31, 2013 - 117,752,833) issued and outstanding.
2) On February 25, 2013 Chorus issued 398,355 Voting Shares to satisfy the vesting of the stock-based compensation plans. The shares were issued at market price at closing on the day of issuance, net of the amount Chorus paid in withholding taxes on behalf of the employees.
3) On March 14, 2013, Chorus announced that it had received approval from the Toronto Stock Exchange to make a normal course issuer bid to purchase up to 11,093,612 Shares during the period March 18, 2013 to no later than March 17, 2014. From April 1 to December 31, 2013, Chorus repurchased and cancelled 1,871,800 Shares under its normal course issuer bid at an aggregate cost of $4,006. Share capital was reduced by $78 and the remaining $3,928 was accounted for as a reduction of contributed surplus.
4) On June 20, 2014, $9 of Debenture principal was converted into 1,713 Shares.
5) On March 27, 2014, Chorus announced that it had received approval from the Toronto Stock Exchange to implement a normal course issuer bid to purchase up to 12,168,157 Shares during the period March 31, 2014 to no later than March 30, 2015. From April 1, 2014 to December 31, 2014, Chorus purchased and cancelled 2,290,800 Shares under its normal course issuer bid at an aggregate cost of $9,372. Share capital was reduced by $96 and the remaining $9,276 was accounted for as a reduction of contributed surplus.

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

## 14 Capital stock (continued)

The common shares issuable by Chorus consist of an unlimited number of Variable Voting Shares and an unlimited number of Voting Shares. The two classes of common shares have equivalent rights as common shareholders except for voting rights. Holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Chorus exceeds 25% or, (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that, (i) the Variable Voting Shares as a class do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of Chorus, and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% of the votes that may be cast at such meeting.

Variable Voting Shares are to be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians within the meaning of the Canada Transportation Act. An issued and outstanding Variable Voting Share shall be converted into one Voting Share automatically and without any further act of Chorus or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the Canada Transportation Act.

Voting Shares are to be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share shall be converted into one Variable Voting Share automatically and without any further act of Chorus or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

b) Earnings per share

The following table provides a breakdown of the numerator and denominator used in the calculation of earnings per share and diluted earnings per share.

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Numerator** | | |
| Income | 64,710 | 61,866 |
| Interest expense on convertible debentures, net of tax | — | 7,304 |
| Diluted income | 64,710 | 69,170 |
| **Denominator** | | |
| Weighted average number of shares | 121,332,625 | 123,389,502 |
| Weighted average dilutive shares | 2,240,202 | 15,278,095 |
| Weighted average number of diluted shares | 123,572,827 | 138,667,597 |

## 14 Capital stock (continued)

c) Stock-based compensation

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 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. The fair value of the options on the grant date, calculated using the Black-Scholes share option pricing model, is estimated to be $1,771.

During the year ended December 31, 2014, Chorus expensed $361, related to stock option expense, with an offsetting entry to contributed surplus in the statement of changes in equity. At December 31, 2014 there are no options that are exercisable and the annual weighted average share price of Chorus did not produce any dilutive shares related to the stock option plan.

During the year ended December 31, 2014, Chorus notionally granted 744,896 shares under the LTIP (2013 - 710,306 shares).

Total compensation expense related to stock-based compensation (including the LTIP, the DSU Plan, stock options and the ESOP) during 2014 was $8,929 (2013 - $6,303).

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

## 15 Commitments

Chorus is committed to the following future minimum lease payments under operating leases for flight equipment and base facilities that have initial non-cancellable terms in excess of one year. The majority of these lease agreements are renewable at the end of the lease period, at market rates.

| | December 31, 2014 | |
|---|---|---|
| | Other third parties $ | Air Canada and its subsidiary $ |
| No later than one year | 12,356 | 88,969 |
| Later than one year and no later than five years | 19,394 | 294,162 |
| Later than five years | 13,342 | 232,990 |

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.1601, which was the exchange rate in effect at the end of day closing on December 31, 2014 (2013 - $1.0636).

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. Future minimum lease payments that will arise under these leases are listed in the above table under the heading "Air Canada and its subsidiary".

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.

## 16 Financial instruments and fair values

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, long-term debt and convertible debentures.

### Measurement categories

As explained in note 3(i), financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; fair value through other comprehensive income; and amortized cost. The following table shows the carrying and fair values of assets and liabilities for each of these categories at December 31, 2014 and December 31, 2013.

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

## 16 Financial instruments and fair values (continued)

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Carrying Amount $ | Fair Value $ | Carrying Amount $ | Fair Value $ |
| **Financial assets** | | | | |
| Financial assets measured at amortized cost | | | | |
| Cash and cash equivalents | 114,578 | 114,578 | 159,901 | 159,901 |
| Restricted cash | 3,277 | 3,277 | 3,320 | 3,320 |
| Restricted cash included in other assets | 6,771 | 6,771 | 6,208 | 6,208 |
| Accounts receivable (1) | 58,791 | 58,791 | 73,822 | 73,822 |
| Fair value through profit and loss | | | | |
| Asset backed commercial paper | 1,210 | 1,210 | 1,231 | 1,231 |
| **Financial liabilities** | | | | |
| Other financial liabilities, carried at amortized cost | | | | |
| Accounts payable and accrued liabilities (1) | 196,635 | 196,635 | 189,300 | 189,300 |
| Dividends payable | 4,509 | 4,509 | 13,786 | 13,786 |
| Long-term debt | 404,058 | 399,590 | 402,799 | 392,172 |
| Obligations under finance leases | 3,352 | 3,352 | 6,429 | 6,429 |
| Debentures | — | — | 78,535 | 79,132 |

(1) Assets and liabilities, such as commodity taxes and deferred lease inducements, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded.

## 16 Financial instruments and fair values (continued)

### Fair value of financial instruments

The carrying amounts reported in the statement of financial position 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 - $412) was recorded.

- Long-term debt

  At December 31, 2014, the fixed rate term loans had a fair value of $399,590. 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 Toronto Stock Exchange and the fair value was determined using the closing price on the last trading day of the year.

### Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

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

## 16 Financial instruments and fair values (continued)

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheet, classified using the fair value hierarchy described above:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Level 3** | | |
| Asset backed commercial paper | 1,210 | 1,231 |

The following table presents the changes in level 3 instruments by class of asset for the years ended December 31, 2014 and 2013

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Start of year | 1,231 | 1,003 |
| Payments received | (21) | (184) |
| Gains recognized in profit or loss | — | 412 |
| | 1,210 | 1,231 |

**Financial risk factors**

Chorus, through its financial assets and liabilities, 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.

*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. The 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.

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

## 16 Financial instruments and fair values (continued)

*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 $52,612 (2013 - $59,733), net of allowance 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 $52,281 (2013 - $59,373) were not past due or impaired; $331 (2013 - $360) were past due, but not impaired; and $nil (2013 - $nil) were impaired. The aging of the latter two categories is as follows:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Past due but not impaired | | |
| 60 - 90 days | 43 | 153 |
| Over 90 days | 288 | 207 |
| | 331 | 360 |
| Impaired | | |
| 60 - 90 days | — | — |
| Over 90 days | — | — |
| | — | — |

Chorus continues to work with the entities from which it holds past due receivables to recover the full amount outstanding. Approximately $51,894 (2013 - $58,682) 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*

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 requirement, debt financing plans and compliance with internal balance sheet ratio targets.

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

## 16 Financial instruments and fair values (continued)

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.

The tables below analyze Chorus' non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The analysis is based on foreign exchange in effect at the consolidated statement of financial position date, and contractual interest rates, and includes both principal and interest cashflows for long-term debt, obligations under finance leases and convertible debentures.

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Less than 3 months $ | 3 months to 1 year $ | 2 - 5 years $ | Over 5 years $ |
| **Principal** | | | | |
| Trade payables and accrued liabilities[1] | 196,635 | — | — | — |
| Finance leases | 963 | 2,389 | — | — |
| Long-term debt | 8,250 | 27,126 | 158,117 | 210,565 |
| | 205,848 | 29,515 | 158,117 | 210,565 |
| **Interest** | | | | |
| Finance leases | 67 | 73 | — | — |
| Long-term debt | 3,146 | 10,303 | 40,981 | 19,215 |
| | 3,213 | 10,376 | 40,981 | 19,215 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Less than 3 months $ | 3 months to 1 year $ | 2 - 5 years $ | Over 5 years $ |
| **Total principal and interest** | | | | |
| Trade payables and accrued liabilities[1] | 196,635 | — | — | — |
| Finance leases | 1,030 | 2,462 | — | — |
| Long-term debt | 11,396 | 37,429 | 199,098 | 229,780 |
| | 209,061 | 39,891 | 199,098 | 229,780 |

(1) Excludes commodity taxes and deferred lease inducements as they do not meet the definition of a financial liability.

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

## 16 Financial instruments and fair values (continued)

*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 its services within the CPA 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 so are 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 dollar denominated assets was $54,385 and US denominated liabilities was $382,811 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 $3,284.

## 17 Contingencies

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

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

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

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

## 17 Contingencies (continued)

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

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

## 18 Related parties

**Compensation of key management**

Key management includes Chorus' Directors, President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Administrative Officer. Compensation awarded to key management is summarized as follows:

| | Year ended December 31, 2014 $ | 2013 $ |
|---|---|---|
| Salaries and other benefits | 4,589 | 4,273 |
| Other post-employment benefits | 3,154 | 110 |
| Stock-based compensation | 2,339 | 1,771 |
| | 10,082 | 6,154 |

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

## 19 Economic dependence

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

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Operating revenue** | | |
| Air Canada | 1,643,434 | 1,649,581 |
| **Operating expenses** | | |
| Air Canada | 70,075 | 72,369 |
| Air Canada Capital Ltd. | 85,858 | 80,226 |

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

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Accounts receivable** | | |
| Air Canada | 51,894 | 58,682 |
| **Accounts payable and accrued liabilities** | | |
| Air Canada | 54,773 | 60,403 |
| Air Canada Capital Ltd. | 8,419 | 7,768 |

**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 note 22 - Subsequent events).

## 19 Economic dependence (continued)

### 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 NextGen 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 $4,965 (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.

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

## 19 Economic dependence (continued)

**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.

## 20 Statement of cash flows - supplementary information

Net changes in non-cash balances related to operations:

| | **2014** <br> **$** | **2013** <br> **$** |
|---|---|---|
| Decrease (increase) in accounts receivable – trade and other | 6,080 | (1,560) |
| Decrease (increase) in inventories | 1,628 | (6,972) |
| Decrease in prepaid expenses | 5,788 | 3,046 |
| Decrease in other assets | 27,120 | 32,605 |
| Increase in accounts payable and accrued liabilities | 3,622 | 1,469 |
| Increase in current portion of long-term incentive plan | 2,059 | — |
| Decrease in other long-term liabilities | (39,787) | (47,595) |
| | 6,510 | (19,007) |

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

## 21 Additional information

### (a) Assets

| | As at December 31, 2014 $ | As at December 31, 2013 $ |
|---|---|---|
| **Accounts receivable** | | |
| Trade receivables | 718 | 1,051 |
| Commodity taxes | 7,438 | 3,069 |
| Other receivables | 6,179 | 14,089 |
| | 14,335 | 18,209 |
| Trade amounts due from Air Canada and its subsidiary (refer to note 19 - Economic Dependence) | 51,894 | 58,682 |
| | 66,229 | 76,891 |
| **Inventories** (1) | | |
| Aircraft expendables | 32,224 | 31,588 |
| Used aircraft expendables and rotables under consignment | 4,478 | 5,738 |
| Supplies | 2,497 | 2,476 |
| Fuel and de-icing fluid | 4,294 | 5,319 |
| | 43,493 | 45,121 |

(1) For the year ended December 31, 2014, the cost of aircraft expendables and supplies and consignment inventory recognized as a maintenance expense was $33,854 (2013 - $29,719). For the year ended December 31, 2014 inventory write-downs to net realizable value of $1,013 were recognized as a maintenance expense (2013 - $1,551).

| | As at December 31, 2014 $ | As at December 31, 2013 $ |
|---|---|---|
| **Prepaid expenses and deposits** | | |
| Airport and navigation fees | 3,469 | 9,572 |
| Fuel | 5,827 | 6,543 |
| Aircraft rent and other | 3,377 | 3,150 |
| Other | 4,084 | 3,631 |
| | 16,757 | 22,896 |
| **Other assets** | | |
| Prepaid aircraft rent and related fees, net of accumulated amortization | 20,292 | 22,635 |
| Accrued pension benefit asset ("SERP") (note 12) | 8,144 | 10,617 |
| Accrued defined pension benefit asset ("RPP") (note 12) | — | 26,762 |
| Asset backed commercial paper | 1,210 | 1,231 |
| Restricted cash (note 5) | 6,771 | 6,208 |
| | 36,417 | 67,453 |

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

## 21 Additional information (continued)

### (b) Liabilities

| | As at December 31, 2014 $ | 2013 $ |
|---|---|---|
| **Accounts payable and accrued liabilities** | | |
| Trade payables and accrued liabilities | 133,443 | 121,129 |
| Commodity taxes | 15,368 | 14,630 |
| Current portion of deferred lease inducements | 3,322 | 3,404 |
| | 152,133 | 139,163 |
| Trade payables and accrued liabilities due to Air Canada and its subsidiary (refer to note 19 - Economic Dependence) | 63,192 | 68,171 |
| | 215,325 | 207,334 |
| **Other Long-term liabilities** | | |
| Accrued pension benefit liability ("RPP") (note 12) | 25,518 | — |
| Accrued Other Future Employee Benefits liability (note 12) | 15,392 | 12,786 |
| Deferred operating lease inducements, non-current portion | 23,903 | 28,070 |
| Long-term incentive plan | 3,768 | — |
| Other | 3,713 | 3,678 |
| | 72,294 | 44,534 |

## 22 Subsequent events

**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 NextGen, 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.

## 22 Subsequent events (continued)

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 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 Q400 NextGen aircraft 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 NextGen aircraft and 19 Dash 8-300 aircraft.

Concurrent with agreeing to the amended CPA, Chorus exercised its nine remaining options to purchase new Q400 NextGen 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 NextGen aircraft and options for up to ten additional aircraft. Based on the list price for the Q400 NextGen aircraft, the firm order for a total of 13 Q400 NextGen aircraft is valued at approximately US$424,000, and could increase to US$758,000 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 $40,300 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$25,400 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 $3,500 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 Note 19 - Economic Dependence for further information.

## 22 Subsequent events (continued)

**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.