(formerly Jazz Air Income Fund)

2010
Management's Discussion and Analysis

February 7, 2011

chorus aviation inc.

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Chorus Aviation Inc. (“Chorus” or the “Company”) was incorporated on September 27, 2010 under the laws of Canada. The Company entered into an arrangement agreement dated October 4, 2010 with, among other parties, Jazz Air Income Fund (the “Fund”), pursuant to which the parties proposed to implement an arrangement under the Canada Business Corporations Act (the “Arrangement”). The Arrangement involved the exchange, on a one-for-one basis of Units of the Fund for common Shares of Chorus. As a result of the Arrangement, the holders of Units of the Fund became the sole Shareholder of Chorus which became the sole owner of all outstanding Fund Units. The effective date of the Arrangement was December 31, 2010. The arrangement has been accounted for as a continuity of interest of the Fund since Chorus continues to substantially operate the business of the Fund and there have been no ownership changes. (Refer to Section 1 – The Arrangement and Re-organization)

Chorus earns income from its interest in Jazz Aviation LP (“Jazz” or the “Partnership”, carrying on the business formerly operated by Jazz Air LP) and its subsidiaries. References to Chorus or the Company in this management’s discussion and analysis of financial condition and results of operations (the “MD&A”) refer to, as the context may require, Chorus (or the Company) and its current and former subsidiaries (the Partnership, Jazz Air LP, Jazz Air Holding GP Inc., Aviation General Partner Inc., and 7503695 Canada Inc.) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries or Chorus itself.

The following MD&A, which presents a discussion of the financial condition and results of operations for Chorus, is prepared as at February 7, 2011 and should be read in conjunction with the accompanying audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2010 and December 31, 2009. The audited consolidated financial statements of Chorus are prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada.

Chorus is entirely dependent upon the operations and financial condition of Jazz. The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 18 – Risk Factors.

Chorus’ operating income, net earnings, and earnings per Share have been adjusted to remove the effect of certain consolidation amounts (i.e. by adding back amortization of the Capacity Purchase Agreement asset, goodwill impairment loss, and future income taxes), in order to present results which are comparable to those previously reported by Jazz Air LP.

Chorus has discontinued its prior practice of including in its MD&A certain detailed data that could be used to determine pricing and/or other commercially sensitive information regarding its relationship with customers.

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

Caution regarding forward-looking information

Forward-looking statements are included in this MD&A. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to the Partnership's relationship with Air Canada or Thomas Cook Canada Inc., risks relating to the airline industry, energy prices, general industry, market, credit, and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, dilution of Chorus Shareholders, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this MD&A. The forward-looking statements contained in this discussion represent Chorus' expectations as of February 7, 2011, and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

1. THE ARRANGEMENT AND RE-ORGANIZATION

On November 9, 2010, Unitholders of the Fund approved, the re-organization of the Fund, by way of a plan of arrangement under the Canada Business Corporations Act (the "CBCA"), into a corporation pursuant to an arrangement agreement dated October 4, 2010 between Chorus, 7503695, Jazz Air Trust and the Fund. The Arrangement was completed and effective December 31, 2010. The purpose of the Arrangement was to convert the Fund's income trust structure into a corporate structure.

The Arrangement resulted in Unitholders who were qualified Canadians, receiving Chorus Class B Voting Shares ("Voting Shares") on the basis of one Voting Share for each Unit transferred. Unitholders who were not qualified Canadians received Class A Variable Voting Shares ("Variable Voting Shares") on the basis of one Variable Voting Share for each Unit transferred. The Shares are intended to provide the same voting rights and economic interests to holders that they had prior to the effective time of the Arrangement. The rights of holders of Shares are governed by the CBCA.

As at December 31, 2010, the authorized common Shares issuable by Chorus consisted 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 these 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.

The conversion was treated as a change in business form and was accounted for as a continuity of interest. As a result, the carrying amounts of assets and liabilities in the consolidated financial statements of the Fund immediately before the conversion are the same as the carrying values of Chorus immediately after the conversion. Chorus continues to operate the business of the Fund and there have been no substantive ownership changes. The comparative figures are those of the Fund. The stated capital of Chorus in respect of the common Shares has been reduced by an amount of $1,041.9 million and an amount equal to $1,041.9 million was transferred to contributed surplus and recorded accordingly.

In connection with the Arrangement, Chorus assumed all of the covenants and obligations of the Fund under the indenture entered into with respect to the outstanding convertible debentures. Holders of convertible debentures will be entitled to receive Shares, rather than Units, on conversion of such convertible debentures after the effective date, on the same conversion basis as Units were previously issuable on conversion thereof. All other terms and conditions of the convertible debenture indenture continue to apply.

Costs associated with the conversion approximated $2.5 million and were expensed as incurred.

As a corporation, Chorus is subject to Canadian federal and provincial corporate income tax on its taxable income for the period beginning on the effective date of the Arrangement. Chorus intends to utilize its tax attributes to partially offset its taxable income post-conversion. For tax purposes, income from the new partnership, Jazz Aviation LP, will not flow up to Chorus until January 1, 2012. Therefore, Chorus will not be subject to income tax from the operating entity until the year ended December 31, 2012.

The anticipated dividend policy of Chorus is $0.15 per common Share per quarter, with the first dividend to be declared payable in respect of the quarter ending March 31, 2011. Dividends payable by Chorus to its Shareholders are recorded when declared. The dividend policy is subject to the discretion of the board of directors of Chorus and may vary depending on, among other things, Chorus' earnings, financial requirements, debt covenants, the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time.

On January 5, 2011, upon the receipt of certain regulatory approvals and third party consents, a re-organization of the Chorus corporate structure occurred, pursuant to which substantially all of the assets of Jazz Air LP were transferred to Jazz Aviation LP, a newly formed Ontario partnership, represented by its general partner, Aviation General Partner Inc. The airline business previously carried on by Jazz Air LP, effective January 5, 2011, is carried on by Jazz Aviation LP.

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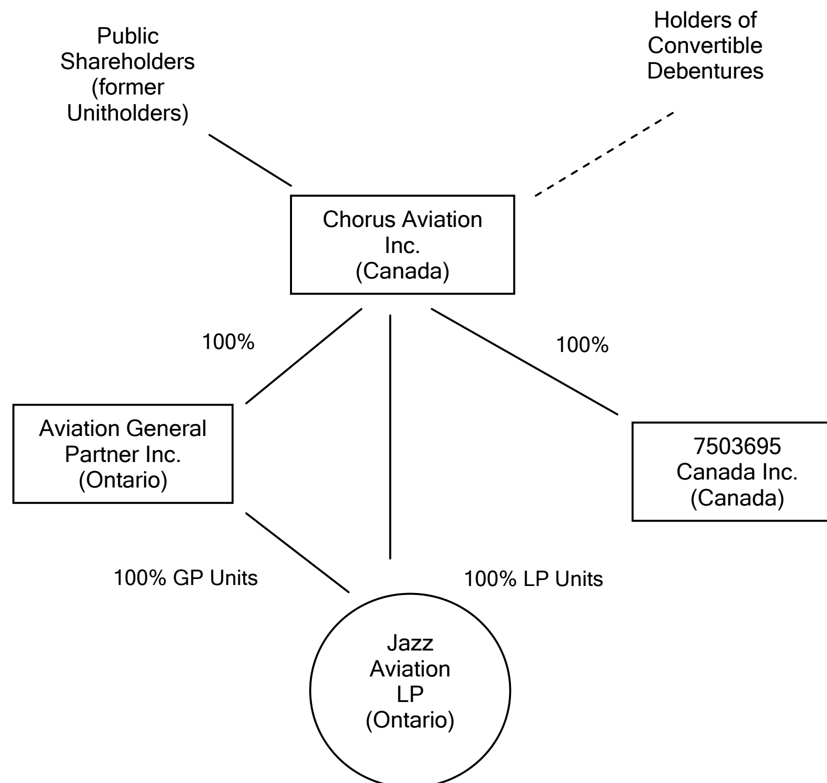
Organizational structure

The following chart illustrates the structure of Chorus (including the jurisdictions of establishment and incorporation of the various entities) after completion of the post-arrangement re-organization.



2. OVERVIEW

Chorus has been established to acquire and hold, directly or indirectly, investments in the Partnership and its general partner Aviation General Partner Inc.

Chorus operates the largest regional airline and the second largest airline in Canada after Air Canada, based on fleet size and number of routes operated. Chorus forms an integral part of Air Canada's domestic and transborder market presence. Chorus and Air Canada are parties to the Capacity Purchase Agreement ("CPA"), under which Air Canada currently purchases substantially all of Chorus' fleet capacity at predetermined rates. Under the CPA, Chorus provides service to and from lower density markets as well as higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Chorus operates scheduled passenger service on behalf of Air Canada with approximately 803 departures per weekday to 57 destinations in Canada and 28 destinations in the United States, using 123 Covered Aircraft. Chorus and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes.

Under the CPA, Chorus operates flights on behalf of Air Canada. Air Canada controls and is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service handling at certain airports

staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft.

Under the CPA, Chorus is paid fees based on certain variables, including Block Hours flown, flight hours, cycles (number of take-offs and landings) and passengers carried, in addition to certain variable and fixed aircraft ownership rates. Chorus is also entitled to repayment of certain pass-through costs specified in the CPA, including fuel, navigation, landing and terminal fees and certain other costs. Chorus is also eligible to receive incentive payments each quarter for successfully achieving certain performance levels related to on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction.

During the first quarter of 2009, Chorus reached an agreement with Air Canada regarding the establishment of new rates for Controllable Costs that are payable to Chorus under the CPA for the three year period ending December 31, 2011. The new rates were effective January 1, 2009 and reflected in an amendment to the CPA dated July 6, 2009 (refer to Section 12 – Economic Dependence). Chorus and Air Canada also agreed to amend the terms of the CPA under an amendment dated September 22, 2009 (the "CPA Amending Agreement") in response to uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives (refer to Section 12 – Economic Dependence). Chorus is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to Section 18 - Risk Factors).

On April 2, 2010, Chorus signed a flight services agreement with Thomas Cook Canada Inc. ("Thomas Cook") to operate no less than six Boeing 757-200 aircraft on Thomas Cook's behalf to various sun destinations from Canadian gateways during the winter season (November through April). Chorus has completed the negotiation and documentation of the aircraft leases and maintenance agreements and obtained all required regulatory approvals. Service commenced November 5, 2010, with the initial delivery of two aircraft. All six aircraft were delivered to Chorus and in operation by year end.

Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months, thereby increasing the flying hour requirements of Air Canada. 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 (refer to Section 12 – Economic Dependence).

Most of Chorus' employees are unionized and each of its previous collective bargaining agreements expired at the end of June 2009. In 2009, Chorus reached a three year agreement with its maintenance and engineering employees and its Customer Services and Aircraft Services divisions, both represented by the Canadian Auto Workers ("CAW"). On March 25, 2010 Chorus reached a three year agreement with its dispatcher employees represented by the Canadian Air Line Dispatchers Association ("CALDA"). On July 9, 2010, Chorus reached a six year agreement with its pilots represented by the Air Line Pilots Association ("ALPA"). On July 16, 2010, Chorus reached a six year agreement with its flight attendants represented by the Canadian Flight Attendants Union ("CFAU"). The six year agreements for the pilots and flight attendants expire June 30, 2015. On September 14, 2010 Chorus reached a three year agreement with its crew schedulers (also represented by CAW).

During the second quarter of 2010, Chorus incorporated 7503695 to acquire and hold an indirect investment in Pluna Líneas Aéreas Uruguayas S.A. ("Pluna") through a direct investment in Latin American Regional Aviation Holding Corp. ("LARAH"). On April 30, 2010, Chorus completed a $15.2 million investment in LARAH in return for a 33.3% non-voting equity interest. LARAH holds an indirect 75% equity interest in Pluna. The remaining 25% equity interest in Pluna is held, indirectly by the Government of Uruguay. An executive of Chorus has been appointed to one of the seven positions on the Pluna board of directors.

On April 30, 2010, Chorus signed a purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft ("Bombardier") regarding a firm order for 15 Q400 NextGen turboprop aircraft and options for 15 additional aircraft. Based on the list price for the Q400 NextGen aircraft, the firm order is valued at approximately US$454.0 million, and could increase to US$937.0 million if the option to purchase an additional 15 aircraft is exercised. Subject to the satisfaction of customary conditions, aircraft deliveries are scheduled to commence in May 2011. As

required by the purchase agreement, Chorus made a lump sum predelivery payment during the second quarter of 2010. The purchase agreement with Bombardier requires on-going monthly predelivery payments in the aggregate amount of $34.7 million, until July 2011. As at December 31, 2010, Chorus has recorded $26.1 million in property and equipment for these predelivery payments. Chorus has received financing commitments from a third party lender for all firm orders covering up to 85% of the net purchase price.

3. FOURTH QUARTER 2010 SUMMARY

- On November 5, 2010, flying commenced under the Thomas Cook flight services agreement.
- Successful completion of conversion from an income trust structure (Jazz Air Income Fund) to a corporate structure (Chorus Aviation Inc.), on December 31, 2010.
- Billable Block Hours up 7,034 hours or 7.7%, and departures up 3,108 or 4.8%.
- Average daily CPA aircraft utilization up 13%, as compared to the same period in 2009.
- CPA incentive revenue decreased quarter-over-quarter due to a number of factors including tighter aircraft schedules, higher demand on all operational resources and higher than average seasonal illness.
- Operating income of $12.2 million, inclusive of non-recurring expenses of $5.5 million related to the Thomas Cook start-up and corporate conversion, or $17.7 million, exclusive of these non-recurring expenses.
- EBITDA of $27.7 million for the three months ended December 31, 2010, down $5.6 million or 16.9%.
- Net income of $84.6 million for the three months December 31, 2010, a $63.8 million increase over fourth quarter 2009, was impacted by a future tax recovery of $73.7 million, of which $70.0 million was related to the release of a valuation allowance on cumulative eligible capital as a result of the successful completion of the corporate conversion arrangement.

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Key Financial Information

(expressed in thousands of Canadian dollars, except per Share (Unit) amounts)	Three months ended December 31, 2010 $	Three months ended December 31, 2009 $	Year ended December 31, 2010 $	Year ended December 31, 2009 $	Year ended December 31, 2008 $
Revenue	392,675	351,238	1,486,166	1,473,900	1,636,289
Operating income	12,220	17,258	58,661	88,774	106,171
Net income (loss)	84,622	20,816	125,818	92,638	(9,410)
Total assets	1,211,877	1,266,471	1,211,877	1,266,471	1,233,147
Total long-term liabilities	135,774	159,270	135,774	159,270	214,939
EBITDA (1)	27,653	33,261	120,724	159,086	178,680
Distributions declared	18,489	18,429	73,776	102,787	123,552
Free Cash Flow (1)	22,729	26,743	100,712	139,266	144,684
Cash provided by operating activities	20,861	12,910	102,413	130,089	155,088
Per Share (Unit) (2)					
Operating income	0.10	0.14	0.48	0.73	0.87
Net income (loss)	0.69	0.17	1.03	0.76	(0.08)
Distributions declared	0.15	0.15	0.60	0.84	1.01
Free Cash Flow / Distributable cash	0.19	0.22	0.82	1.14	1.19

(1) These are non-GAAP measures. Refer to Section 8 – Performance Indicators.
(2) Calculated on a basic weighted average number of Shares (Units) for Chorus.

Key statistical information

Statistical information for the three months and year ended December 31, 2010 is as follows:

	Three months ended December 31,			Year ended December 31,		
	2010	2009	Variance %	2010	2009	Variance %
Departures	68,538	65,430	4.8	274,457	274,667	(0.1)
Block Hours	96,291	89,529	7.6	375,851	377,985	(0.6)
Billable Block Hours	98,817	91,783	7.7	381,537	386,220	(1.2)
Available Seat Miles (ASMs) (000's)	1,497,201	1,265,084	18.3	5,501,190	5,392,284	2.0
Operating Expenses ($000's)	372,407	325,932	14.3	1,395,313	1,345,503	3.7
Cost per Available Seat Mile (CASM) (¢)	24.87	25.76	(3.5)	25.36	24.95	1.6
CASM Excluding Aircraft Fuel (¢)	19.23	20.65	(6.9)	19.92	20.21	(1.4)
Number of Operating Aircraft (end of period)(1)	134	134	-	134	134	-
Full-time Equivalents (FTEs) (end of period)	4,694	4,508	4.1	4,694	4,508	4.1

(1) Refer to Section 4 - Fleet

4. FLEET

As at December 31, 2010, Chorus' operating fleet was made up of 134 operating aircraft, of which 64 were regional jets, 64 turboprop, and six Boeing 757 aircraft.

The following table lists Chorus' operating fleet, at December 31, 2010:

	Number of Operating Aircraft	Average Age of Operating Aircraft	Owned	Capital Lease	Operating Lease	Number of Operating Aircraft December 31, 2009
Canadair Regional Jet CRJ100	22	15.3	-	-	22	24
Canadair Regional Jet CRJ200	26	8.5	-	-	26	30
Canadair Regional Jet CRJ705	16	5.4	-	-	16	16
De Havilland DHC-8-300	28	22.7	19	7	2	28
De Havilland DHC-8-100	36	20.2	29	-	7	36
Boeing 757-200	6	12.6	-	-	6	-
Total Operating Aircraft(1)	134	15.7	48	7	79	134

(1) Refer to Section 12 - Economic Dependence for further discussion of the temporary reduction in the number of covered aircraft.

On May 11, 2010, Chorus expanded its charter fleet with the addition of one CRJ-200. The addition of the CRJ brings the number of aircraft to five for charter services.

All aircraft in Chorus' operating fleet as of December 31, 2010 are Covered Aircraft under the CPA, except for two Dash 8-100, two Dash 8-300, one CRJ-200 aircraft allocated for charter purposes, and six 757-200 aircraft allocated to Thomas Cook.

Air Canada's commitment to Chorus' minimum fleet of Covered Aircraft was reduced from 133 to 123 aircraft pursuant to the CPA Amending Agreement. The subleases for eight CRJ-200 and two CRJ-100 aircraft expired by April 30, 2010 and these aircraft have been removed from the Chorus fleet. As at December 31, 2010, nine of these CRJ aircraft were returned to the lessor, and one remained in the Chorus fleet pursuant to a new lease arrangement and is being used to operate charter flights.

During the fourth quarter of 2010, there were eight fewer Covered Aircraft in the fleet than in same period of 2009. Chorus flew 5.5% more Block Hours in the fourth quarter of 2010 versus 2009, under the CPA and increased the average aircraft utilization in the period by approximately 13%. In 2010, there were nine less Covered Aircraft in the CPA fleet than in 2009 which increased average aircraft utilization by approximately 6%, while total Block Hours were down by approximately 1%.

As a result of the purchase agreement with Bombardier, it is expected than one Q400 aircraft will be delivered per month commencing in May 2011, and will enter into service during the subsequent month. Following the delivery of the second new turboprop aircraft in June 2011, the number of aircraft comprising the Covered Aircraft will return to the Guaranteed Minimum Number of Covered Aircraft. Upon the arrival of each remaining turboprop aircraft, one CRJ-100 or CRJ-200 will be removed from the fleet of Covered Aircraft and replaced with one arriving turboprop aircraft, such that the number of aircraft shall remain at the Guaranteed Minimum Number of Covered Aircraft.

On February 7, 2011, Air Canada and Chorus signed a binding memorandum of understanding whereby Chorus will purchase these Q400s and lease them to Jazz Aviation LP at market rates per a market leasing structure.

The Thomas Cook operation commenced service on November 5, 2010 with two aircraft. A third aircraft commenced service on December 4, 2010 with the final three aircraft entering service in mid-December, 2010. All six Boeing aircraft were in full operation at year-end for the 2010-2011 winter season. The winter season will begin to wind down in late March 2011 with the first two aircraft returning to the lessor and the remaining aircraft returning by the end of April 2011.

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5. SUMMARY OF CONSOLIDATED STATEMENT OF INCOME

Certain of the following financial information of Chorus has been derived from, and should be read in conjunction with, the consolidated financial statements for the year ended December 31, 2010 and the related notes.

(expressed in thousands of Canadian dollars, except Share (Unit) amounts)	Three months ended December 31, 2010 $	2009 $	Variance %	Year ended December 31, 2010 $	2009 $	Variance %
Operating revenue	392,675	351,238	11.8	1,486,166	1,473,900	0.8
Operating expenses	372,407	325,932	14.3	1,395,313	1,345,503	3.7
Operating income before amortization of CPA Asset(1)	20,268	25,306	(19.9)	90,853	128,397	(29.2)
Amortization of CPA Asset(1)	8,048	8,048	-	32,192	39,623	(18.8)
Operating income	12,220	17,258	(29.2)	58,661	88,774	(33.9)
Non-operating expenses	(1,259)	(2,111)	40.4	(8,113)	(6,403)	(26.7)
Income before future income taxes	10,961	15,147	(27.6)	50,548	82,371	(38.6)
Recovery of future income taxes(2)	73,661	5,669	1,199.4	75,270	10,267	633.1
Net income for the period	84,622	20,816	306.5	125,818	92,638	35.8
Adjusted net income(3)	19,009	23,195	(18.0)	82,740	121,994	(32.2)
Adjusted net income(3) per Share (Unit)	0.16	0.19	(15.8)	0.68	1.00	(32.0)

(1) The value of the CPA is amortized on a straight line basis over the life of the agreement. In the fourth quarter of 2009, Chorus changed its estimate of the useful life of this asset to coincide with the extended term of the CPA provided under the CPA Amending Agreement.
(2) On December 31, 2010 Chorus became subject to income tax. The future tax recovery represents the change between financial statement carrying amounts of assets and liabilities and their respective tax basis that occurred during the period. (Refer to Section 14 – Critical Accounting Estimates for further detail.)
(3) Adjusted net income equals net income before amortization of CPA Asset and recovery of future income taxes. This is a non-GAAP measurement.

6. FOURTH QUARTER ANALYSIS

The following discussion compares the results of operations of Chorus for the three months ended December 31, 2010 to the three months ended December 31, 2009.

Operating Revenue

Operating revenue increased from $351.2 million to $392.7 million in the fourth quarter of 2010, representing an increase of $41.5 million or 11.8%. This increase in revenue was primarily attributable to an increase in pass-through costs, of $30.8 million which included $19.6 million related to fuel. Passenger revenue, excluding pass-through costs, increased by $10.7 million or 4.7% mostly due to an increase in Billable Block Hours, an increase in departures and new revenue earned under the Thomas Cook arrangement which became effective in November 2010; offset by a lower US dollar exchange rate and a $1.9 million reduction in incentives earned under the CPA with Air Canada.

Operating Expenses

Operating expenses increased from $325.9 million to $372.4 million, an increase of $46.5 million or 14.3%. The increase in pass-through costs represented $30.8 million or 66.2% of this quarter-over-quarter increase. Controllable Costs represented $15.7 million or 33.8% of the increase, which included $10.0 million in other expenses and a majority of this increase related to professional fees related to the corporate conversion of $1.5 million and other costs related to the Thomas Cook start-up of $4.0 million.

- Salaries, wages and benefits increased by $8.6 million due to wage and scale increases under new collective agreements, increased pension expense resulting from a revised actuarial valuation, and increased FTE's to facilitate growth; offset by decreased incentive compensation expense.
- Aircraft fuel costs increased by $19.8 million due to an increase in the cost of fuel by 10% and an increase in fuel usage resulting from increased Block Hours.
- Depreciation and amortization expense decreased by $0.6 million due to a change in the residual values for aircraft; offset by increased capital expenditures on aircraft rotable parts and other equipment.
- Aircraft maintenance expense increased by $0.1 million as a result of: an increase in Block Hours flown of $3.8 million; partially offset by a decrease in other maintenance costs of $2.1 million, and the effect of a lower US dollar exchange rate on certain material purchases of $1.6 million.
- Airport and navigational fees increased by $5.0 million as a result of increased Block Hours and departures; offset by changes in aircraft deployment and a general rate decrease resulting from a change in the airport user fee structure.
- Aircraft rent decreased by $3.1 million primarily as a result of a lower US dollar exchange rate, new lease arrangements with respect to certain aircraft and the return of CRJ aircraft; offset by the addition of six Boeing aircraft for the Thomas Cook operation.
- Terminal handling costs increased by $5.3 million due to an increase in the number of departures, changes in aircraft deployment, and a change in terminal handling fee structure.
- Other expenses increased by $10.0 million due to professional fees, increased crew training and related expenses, increased flight crew per diems, and an increase in general overhead expenses.

Non-Operating Expenses

Non-operating expenses amounted to $1.3 million, a decrease of $0.9 million. This change was primarily attributable to a foreign exchange gain arising as a result of the change in value of the Canadian dollar relative to the US dollar, and a lower net interest expense; offset by a reduction in gain on disposal of property and equipment and the absence in this quarter of any gain on Asset Backed Commercial Paper (in 2009, Chorus recorded a gain on Asset Backed Commercial Paper).

7. YEAR-TO-DATE ANALYSIS

The following discussion compares the results of operations of Chorus for the year ended December 31, 2010 to December 31, 2009.

Operating Revenue

Operating revenue increased from $1,473.9 million to $1,486.2 million, representing an increase of $12.3 million or 0.8%. This increase in revenue was primarily attributable to pass-through costs of $53.5 million which included $43.5 million related to fuel. Passenger revenue, excluding pass-through costs, decreased by $41.2 million or 4.2% mostly due to a reduction in the mark-up charged by Chorus under the CPA, effective August 1, 2009 from 16.72% to 12.50% (refer to Section 12 – Economic Dependence for a description of such reduction). Other factors included a reduction in the number of Covered Aircraft, a decrease in Billable Block Hours, a decrease in departures, a lower US dollar exchange rate and a $4.1 million reduction in incentives earned under the CPA with Air Canada; offset by new revenue earned under the Thomas Cook arrangement which became effective in November 2010 and rate increases made pursuant to the CPA.

Operating Expenses

Operating expenses increased from $1,345.5 million to $1,395.3 million, an increase of $49.8 million or 3.7%. The increase in pass-through costs represented $53.5 million or 107.4%. Controllable Costs decreased $3.7 million and were impacted by two non-recurring items during 2010; conversion related expenses of $2.5 million and Thomas Cook start-up costs of $6.0 million.

- Salaries, wages and benefits increased by $16.6 million due to wage and scale increases under new collective agreements, increased pension expense resulting from a revised actuarial valuation, and increased FTE's to facilitate growth; offset by decreased incentive compensation expense.
- Aircraft fuel costs increased by $43.5 million due to an increase in the cost of fuel by 10%, and an increase in fuel usage.
- Depreciation and amortization expense decreased by $0.8 million due to a change in residual values for aircraft; offset by increased capital expenditures on aircraft rotable parts and other equipment.
- Aircraft maintenance expense decreased by $5.7 million as a result of: the effect of a lower US dollar exchange rate on certain material purchases of $7.4 million, a decrease in Block Hours of $0.1 million, and a decrease in other maintenance costs of $0.9 million; offset by increased rates under new maintenance contracts of $2.7 million.
- Airport and navigational fees increased by $1.2 million arising as a result of the new fleet type associated with the Thomas Cook operation; offset by changes in aircraft deployment and a decrease in departures and a general rate decrease resulting from a change in the airport user fee structure.
- Aircraft rent decreased by $20.1 million primarily as a result of a lower US dollar exchange rate, new lease arrangements with respect to certain aircraft, and the return of CRJ aircraft; offset by the addition of six Boeing aircraft for the Thomas Cook operation.
- Terminal handling costs increased by $5.5 million due to the new fleet type associated with the Thomas Cook operation, and a change in the terminal handling fee structure; offset by a reduction in the number of departures and changes in aircraft deployment.
- Other expenses increased by $8.8 million due to professional fees, increased crew training and related expenses, fight crew per diems, and an increase in general overhead expenses.

Non-Operating Expenses

Non-operating expenses amounted to $8.1 million, an increase of $1.7 million. This change was mainly attributable to an increase in net interest expense relating to the convertible debentures issued by Chorus in 2009 (refer to Section 10 – Liquidity and Capital Resources), a reduction in gain on disposal of property and equipment, and the absence of any gain on Asset Backed Commercial Paper (in 2009, Chorus recorded a gain on Asset Backed Commercial Paper); offset by a reduction in foreign exchange loss arising as a result of the change in value of the Canadian dollar relative to the US dollar.

8. PERFORMANCE INDICATORS

Chorus uses certain non-GAAP financial measures, described below, to evaluate operating performance and in making decisions relating to dividends to Shareholders. These measures are not recognized for financial statement presentation under Canadian GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDA

EBITDA (earnings before interest, taxes, depreciation, amortization and obsolescence) is a non-GAAP financial measure commonly used throughout all industries to view operating results before interest expense, interest income, depreciation and amortization, gains and losses on property and equipment and other non-operating income and expenses. Management believes EBITDA assists investors in comparing Chorus' performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and non-operating factors such as historical cost. EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, which form part of the financial statements.

Free Cash Flow

Pre-conversion distributable cash was a key performance indicator as it represented the funds available to Unitholders of an income fund and was used by management to evaluate the ongoing performance of the Fund. Distributable cash is not a measure which is commonly utilized in respect of a public corporation. Management believes, however, that it is a term with which its equity holders are familiar and has provided Free Cash Flow as a proxy for previously reported distributable income.

The following table provides a reconciliation of Free Cash Flow to EBITDA:

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2010 $	Three months ended December 31, 2009 $	Year ended December 31, 2010 $	Year ended December 31, 2009 $
Operating income	12,220	17,258	58,661	88,774
Depreciation and amortization[(1)]	15,433	16,003	62,063	70,312
EBITDA	27,653	33,261	120,724	159,086
EBITDA margin (%)[(2)]	7.0	9.5	8.1	10.8
EBITDA	27,653	33,261	120,724	159,086
Non-operating expenses	(1,259)	(2,111)	(8,113)	(6,403)
Maintenance Capital Expenditures	(3,665)	(4,407)	(11,899)	(13,417)
Free Cash Flow	22,729	26,743	100,712	139,266
Distributions declared	18,489	18,429	73,776	102,787
Payout ratio – distributions declared / Free Cash Flow %	81.3	68.9	73.3	73.8

(1) Includes depreciation and amortization of property and equipment and amortization of CPA Asset.
(2) EBITDA margin is calculated as EBITDA divided by operating revenues.

Reconciliation of cash flows from operating activities to Free Cash Flow is as follows:

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2010 $	Three months ended December 31, 2009 $	Year ended December 31, 2010 $	Year ended December 31, 2009 $
Cash flows from operating activities	20,861	12,910	102,413	130,089
Maintenance capital expenditures, net of gain on disposal	(3,506)	(3,847)	(11,152)	(11,481)
Change in non-cash operating working capital	5,645	17,824	13,681	18,898
Amortization of prepaid aircraft rent and related fees	(478)	(482)	(1,895)	(1,929)
Unit based compensation	(552)	(480)	(2,202)	(1,917)
Funding of stock-based compensation, net of forfeitures	-	-	(127)	2,050
Accretion of debt component of convertible debentures	(759)	(239)	(1,508)	(239)
Foreign exchange gain (loss)	478	326	805	2,843
Unrealized gain (loss) on Asset Backed Commercial Paper ("ABCP")	-	650	-	650
Other	1,040	81	697	302
Free Cash Flow	22,729	26,743	100,712	139,266

9. QUARTERLY FINANCIAL DATA

The table below describes quarterly financial results, as well as major operating statistics, of Chorus:

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009
Operating revenue ($000)	392,675	379,109	359,010	355,372	351,238	379,659	373,569	369,434
Operating expenses ($000)	372,407	352,224	332,137	338,545	325,932	344,893	336,855	337,823
Amortization of CPA Asset ($000)	8,048	8,048	8,048	8,048	8,048	10,525	10,525	10,525
Operating income ($000)	12,220	18,837	18,825	8,779	17,258	24,241	26,189	21,086
Total non-operating expense ($000)	1,259	720	3,234	2,900	2,111	1,520	811	1,961
Net income (loss) ($000)	84,622	18,117	15,591	6,523	20,816	25,321	25,378	21,123
Adjusted net income[(1)] ($000)	19,009	26,165	23,639	13,927	23,195	33,246	35,903	29,650
Billable Block Hours	98,817	99,390	93,585	89,745	91,783	100,486	98,410	95,541
Available Seat Miles (000's)	1,497,201	1,425,130	1,345,703	1,233,156	1,265,084	1,449,292	1,408,433	1,269,475
Cost per Available Seat Mile (CASM) (¢)	24.87	24.72	24.68	27.45	25.76	23.80	23.92	26.61
CASM, excluding fuel (¢)	19.23	19.27	19.38	22.12	20.65	18.85	19.51	22.09
EBITDA ($000) [(2)]	27,653	34,294	33,973	24,804	33,261	42,476	44,278	39,071
Free Cash Flow [(3)] ($000)	22,729	30,644	28,823	18,516	26,743	37,915	40,619	33,989
Free Cash Flow [(3)] per Share (Unit) ($)	0.19	0.25	0.24	0.15	0.22	0.31	0.33	0.28
Dividends / Distributions declared per Share (Unit) ($)	0.15	0.15	0.15	0.15	0.15	0.19	0.25	0.25
Net income per Share (Unit), basic ($)	0.69	0.16	0.13	0.05	0.17	0.21	0.21	0.17
Net income per Share (Unit), diluted ($)	0.61	0.15	0.13	0.05	0.17	0.21	0.21	0.17
Adjusted net income[(1)] per Share (Unit), basic ($)	0.16	0.21	0.19	0.11	0.19	0.27	0.29	0.24

1) Adjusted net income equals net income before amortization of CPA Asset, recovery of future income taxes. This is a non-GAAP measurement.
2) This is a non-GAAP measurement.
3) Previously reported as Distributable Income. This is a non-GAAP measurement.

10. LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At December 31, 2010, Chorus had $65.9 million in cash and cash equivalents on hand, representing a decrease of $157.7 million from December 31, 2009 (refer to discussion in this section below on repayment of long-term debt). Chorus expects to generate sufficient cash flow to fund dividends (which are declared at the discretion of the Board), planned Maintenance Capital Expenditures and service convertible debentures (refer to Caution regarding forward-looking information on

page 2 of this MD&A). Management has evaluated aspects of Chorus' business and financial condition and, as at the date of this report, no material adverse changes with respect to its liquidity have occurred (refer to Section 18 – Risk Factors, and to Caution regarding forward-looking information on page 2 of this MD&A).

Summary of Cash Flows

The following table provides an overview of Chorus' cash flows for the periods indicated:

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2010 $	Three months ended December 31, 2009 $	Year ended December 31, 2010 $	Year ended December 31, 2009 $
Cash provided by operating activities	20,861	12,910	102,413	130,089
Cash provided by (used in) financing activities	(25,301)	63,195	(197,694)	(27,344)
Cash used in investing activities	(12,025)	(3,847)	(62,382)	(11,062)
Net change in cash and cash equivalents during the periods	(16,465)	72,258	(157,663)	91,683
Cash and cash equivalents – Beginning of periods	82,361	151,301	223,559	131,876
Cash and cash equivalents – End of periods	65,896	223,559	65,896	223,559

Operating activities

Chorus continued to generate positive cash flows from operations of $20.9 million and $102.4 million for the three months and year ended December 31, 2010, compared to $12.9 million and $130.1 million for the same periods in 2009. The respective increase and decrease were attributable to an increase in accounts receivable and prepaid expenses and a lower net income; offset by an increase in accounts payable and a decrease in spare parts, materials and supplies.

Financing activities

Cash used in financing activities for the three months and year ended December 31, 2010 included distributions to Unitholders of $24.6 million and $79.9 million, respectively, a repayment of obligations under capital leases of $0.7 million and $2.6 million respectively, and a repayment of long-term debt of $115.0 million for the year ended December 31, 2010.

Cash used in financing activities for the three months and year ended December 31, 2009 included distributions to Unitholders of $18.4 million and $106.9 million, respectively, and a repayment of obligations under capital leases of $0.6 million and $2.7 million, respectively. Cash provided by financing activities included $82.3 million related to the issuance of convertible debentures (refer to discussion below on convertible debentures).

Investing activities

Investing activities for the three months and year ended December 31, 2010 included capital expenditures of $3.7 million and $11.9 million, respectively, $3.4 million and $26.1 million, respectively, in purchase deposits on aircraft relating to the order of Q400 NextGen turboprop aircraft, and $3.7 million and $8.8 million, respectively, in restricted cash related to letters of credit, and a $16.4 million investment in LARAH for the year ended December 31, 2010. Capital expenditures consisted of investments made to replenish aircraft rotable parts and other purchases necessary to support the ongoing operations.

Investing activities for the three months and year ended December 31, 2009 included capital expenditures of $4.4 million and $13.4 million, respectively. Capital expenditures consisted of investments made to replenish aircraft rotable parts and other purchases necessary to support the ongoing operations. Cash provided by investing activities for the year ended December 31, 2009 included the collection of a long-term receivable of $0.4 million, and proceeds on disposal of property and equipment of $1.9 million.

Contractual obligations and other commitments

The table below summarizes Chorus' principal cash debt repayments and future minimum lease payments under operating leases for flight equipment and base facilities that have initial non-cancellable terms in excess of one year for the years 2011 through to 2015 and thereafter.

(expressed in thousands of Canadian dollars)	Payments Due by Period						
	Total $	2011 $	2012 $	2013 $	2014 $	2015 $	After 5 years $
Convertible debentures (1)	80,210	-	-	-	80,210	-	--
Capital leases	17,556	3,902	3,571	3,545	3,545	2,993	-
Operating leases Air Canada and its subsidiaries (2)	845,299	85,201	79,554	77,767	77,410	75,396	449,971
Operating leases Other third parties	80,093	19,910	10,372	8,946	8,482	7,627	24,756
	1,023,158(3)	109,013	93,497	90,258	169,647	86,016	474,727

(1) Refer to "Convertible debentures" below for further discussion.
(2) Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Chorus. These leases are included in the above table under the heading "Air Canada and its subsidiaries". For further discussion, refer to Section 12 – Economic Dependence.
(3) A significant portion of lease payments are payable in US dollars.

Based on the list price for the Q400 NextGen aircraft, the firm order is valued at approximately US$454.0 million and could increase to US$937.0 million if the option to purchase an additional 15 aircraft is exercised. Subject to the satisfaction of customary conditions, aircraft deliveries are scheduled to commence in May 2011. The purchase agreement requires on-going monthly predelivery payments in the aggregate amount of $34.7 million, until July 2011. As at December 31, 2010, Chorus had made all required payments.

Chorus has received financing commitments from a third party lender for all firm orders covering up to 85% of the net purchase price.

In 2007 and 2010, Chorus entered into common terms agreements ("CTAs") 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, 2010, Chorus was in compliance with the tangible asset disposal covenants contained in these CTAs.

Long-term debt

The Credit Facilities matured on February 1, 2010 and all amounts owing thereunder were repaid and the related security was released. As a result, excluding $8.8 million in cash encumbered in support of issued letters of credit, which has been classified as the restricted cash. Chorus has all of its assets unencumbered and available to support future debt financing. Chorus has sufficient liquidity to operate its business after such repayment, which was funded out of cash and cash equivalents with a payment of $115.0 million.

Convertible debentures

The Debentures bear interest at a rate of 9.50% per annum, payable semi-annually in arrears on June 30 and December 31 in each year commencing on June 30, 2010, and will mature on December 31, 2014 (the "Maturity Date"). The Debentures are convertible at the holder's option into Shares of Chorus at any time prior to 5:00 pm (EST) on the earlier of the Maturity Date and the date fixed for redemption at a conversion price of $5.25 per Unit (the "Conversion Price"). The Debentures are not redeemable on or before December 31, 2012, except on change of control or default. After December 31, 2012 and prior to December 31, 2013, the Debentures may be redeemed in whole or in part from time to time at Chorus' option at a price equal to their principal amount plus accrued interest, provided that the volume weighted average trading price for the Shares is not less than 125% of the Conversion Price. On and after December 31, 2013 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at Chorus' option at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, Chorus may satisfy its obligation to repay the principal amount of the Debentures on redemption or at maturity, in whole or in part, by delivering that number of units equal to the amount due divided by 95% of the market price for the Shares at that time, plus accrued interest in cash. The offering was made in all provinces and territories of Canada.

On December 14, 2010, $6.0 million of note principal with an amortized debt cost of $5.6 million and equity value of $0.3 million was converted into 1,150,476 Units.

Upon issuance, the Debentures were separated into liability and equity components based on the respective estimated fair values at the date of issuance. The fair value of the liability component is estimated based on the present value of future interest and principal payments due under the terms of the Debentures using a discount rate for similar debt instruments without a conversion feature at the time of issuance. The value assigned to the equity component is the estimated fair value ascribed to the holder's option to convert. Interest expense on the Debenture is determined by applying an effective interest rate to the outstanding liability component. The difference between actual cash interest accrued and interest expense is accreted to the liability component.

The following table allocates the Debentures between debt and equity:

(expressed in thousands of Canadian dollars)	Cost of borrowing	Debt $	Equity $	Total $
Convertible debentures	9.5%	81,717	4,533	86,250
Transaction costs		(3,776)	(209)	(3,985)
At issuance		77,941	4,324	82,265
Accretion expense		239	-	239
As at December 31, 2009		78,180	4,324	82,504
Transaction costs		(140)	-	(140)
Accretion expense		1,508	-	1,508
Conversions		(5,551)	(303)	(5,854)
As at December 31, 2010		73,997	4,021	78,018

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, 2010, the total interest expense was $9.7 million (2009 - $1.3 million) which included interest accretion of $1.5 million (2009 - $0.2 million).

Shares

At January 31, 2011, the issued and outstanding common Shares of Chorus, along with common Shares potentially issuable, pursuant to convertible debentures, were as follows:

Number of Shares

	January 31, 2011	December 31, 2010
Issued and outstanding common Shares		
Class A variable voting Shares	37,837,903	43,698,611
Class B voting Shares	86,177,568	80,316,860
Total issued and outstanding common Shares	124,015,471	124,015,471
Common Shares potentially issuable		
Convertible debentures (1)	15,278,095	15,278,095
Total outstanding and potentially issuable common Shares	139,293,566	139,293,566

1) Assumes all outstanding convertible debentures are exercised

Off balance sheet arrangements and guarantees

Chorus enters into real estate leases or operating agreements which grant a license to Chorus to use certain premises and/or operate at certain airports in most of the cities that it serves. It is common in such commercial lease transactions for Chorus, as the lessee, to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to Chorus' use or occupancy of the leased or licensed premises. In certain cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but generally excludes any liabilities caused by their gross negligence or willful misconduct. Chorus also typically indemnifies such parties for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

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

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

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

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

Capital expenditures

Maintenance Capital Expenditures represent expenditures incurred to sustain operations or Chorus' productive capacity. Chorus separates its capital expenditures into three categories: leasehold improvements (includes improvements made to leased aircraft), aircraft-related (includes aircraft related communication, equipment and tooling, aircraft rotable parts and engines), and facilities and owned buildings.

For the year ended December 31, 2010, Maintenance Capital Expenditures were $11.9 million (2009 - $13.4 million), which consisted of investments made to replenish aircraft rotable parts and other purchases necessary to support the ongoing operations. Capital spend was lower than expected in 2010 primarily due to a curtailment in spending on aircraft related projects and ground equipment replacements. The curtailment in spending was due to required operational focus on CPA aircraft lease returns, increased CPA aircraft utilization, and the commencement of the Thomas Cook operation which reduced management's ability to implement and spend on planned capital projects. Management anticipates Maintenance Capital Expenditures for the year ended December 31, 2011 to be $19.0 million (refer to caution regarding forward looking information).

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Chorus' financial instruments consist of cash and cash equivalents, accounts receivable, asset backed commercial paper ("ABCP"), accounts payable and accrued liabilities, obligations under capital leases, long-term debt, convertible debentures and its investment in LARAH.

Chorus has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

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. As at December 31, 2010, Chorus' investments consisted of bankers acceptances and bankers deposit notes issued by two schedule 1 banks.

Chorus previously used interest rate swaps to hedge its exposure to changes in interest rates related to its credit facility. Total amounts outstanding under this facility were repaid in 2010; therefore, no interest rate swaps currently exist.

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

Credit risk

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. 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. Given the disruption in the third party sponsored ABCP market, Chorus amended its investment policy during the third quarter of 2007 to prohibit investment in all third party and bank sponsored ABCP.

The amount of accounts receivable disclosed in Chorus' balance sheet as at December 31, 2010, ($87.0 million) is net of allowances for bad debts of $0.02 million, estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. Approximately $64.6 million of such 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. The total amount of receivables past due 90 days, but not considered impaired by management amounts to $3.7 million

as at December 31, 2010. Chorus continues to work with the entities from which it holds these past due receivables to recover the full amount outstanding.

Liquidity risk

Chorus' objective is to maintain sufficient liquidity to meet liabilities when due. Chorus monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. Letters of credit totalling approximately $8.8 million (December 31, 2009 - $3.2 million) have been issued as security for groundhandling, charters and airport fee contracts, lease payments on rental space and aircraft, and certain employee benefits.

Chorus has a minority, non-voting interest in LARAH, which is a private company. Chorus has no control over the timing of a liquidity event (such as an IPO or permitted sale). There is a risk that Chorus will not be able to realize on its investment in LARAH within a reasonable time frame. Chorus has no commitment to make any further investment in LARAH.

Currency risk

Chorus receives revenue and incurs expenses in US and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for services within the CPA in the underlying currency related to the expenditure. As a result, its primary exposure results from balance sheet fluctuations of US-denominated cash, accounts receivable, accounts payable, and, in particular, obligations under capital leases, which are long-term and subject to larger unrealized gains or losses. Chorus mitigates this currency risk by maintaining a balance of US dollars which is used to pay down US-denominated liabilities and replenishes the balance through US-denominated revenues. The amount of US-denominated assets was $40.7 million and US-denominated liabilities was $63.7 million at December 31, 2010. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $0.2 million.

The investment in LARAH was made in US currency, therefore a decline in the value of the US exchange rate would create a foreign exchange loss on disposal of the asset. A 1¢ change in the US exchange rate would result in a foreign exchange gain or loss of $0.2 million upon disposal of the investment.

Fair value of financial instruments

The carrying amounts reported in the balance sheet for accounts receivable, and accounts payable and accrued liabilities approximate fair values based on the immediate or short-term maturities of these financial instruments. Due to current market conditions and related increases in risk premiums on credit facilities, management has estimated the fair value of the credit facilities at December 31, 2009 to be $115.0 million. The fair value of convertible debentures are determined by adding the market premium at December 31, 2010 to the amortized cost base. Financial assets included in the balance sheet include ABCP with an estimated fair value of $0.5 million.

12. ECONOMIC DEPENDENCE

The CPA

The arrangements under the CPA are based upon a number of variable components based on certain different metrics, including Block Hours flown, flight hours, cycles (number of take-offs and landings), number of passengers and number of Covered Aircraft. The rates for these metrics are fixed for annual periods and vary by aircraft type. In addition, Air Canada is required to reimburse Chorus for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. Since these costs are required to operate the Covered Aircraft, the reimbursement of these costs is included in Chorus' revenue. Chorus is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction criteria.

Chorus and Air Canada agreed to re-set detailed rates applicable to the period commencing on January 1, 2009 and ending on December 31, 2011. During the first quarter of 2009, Chorus reached an agreement with Air Canada regarding

the establishment of new rates for Controllable Costs that are payable by Air Canada under the CPA in the following three-year period (2009 to 2011, inclusive). The new rates which were retroactive to January 1, 2009, apply a 16.72% mark-up on Chorus' Controllable Costs for each of the years 2009 to 2011 (for the years 2006 to 2008 the percentage mark-up was 16.40%).

Amendments to the CPA

On July 28, 2009, Chorus and Air Canada agreed to amend the terms of the CPA in response to uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives. On September 22, 2009 Chorus and Air Canada executed the CPA Amending Agreement to document certain amendments to the CPA, including those amendments described below.

The CPA Amending Agreement extends the initial term of the CPA from December 31, 2015 to December 31, 2020 and provides greater certainty regarding the number of annual Block Hours to be scheduled for flying by Chorus. Under the CPA Amending Agreement, Air Canada agreed to use reasonable commercial efforts to provide a minimum of 375,000 total annual Block Hours to Chorus, as measured by the sum of the twelve monthly schedules delivered by Air Canada to Chorus for a calendar year (the "Annual Delivered Block Hours"). In addition, Air Canada and Chorus agreed that the minimum average daily utilization per aircraft, measured in Block Hours, will not result in less than 339,000 annual Block Hours (the minimum average daily utilization guarantee or "MADUG"), notwithstanding the temporary reduction in the number of Covered Aircraft to 123 aircraft and the subsequent permanent reduction in the number of Covered Aircraft to 125, subject to Air Canada's one-time right to revise the MADUG in the circumstances described below.

In addition to establishing the annual minimum number of Block Hours on which the MADUG is based, the CPA Amending Agreement provides Air Canada with the right to revise the MADUG effective in January 2016 in the event Air Canada's domestic market share for the twelve month period from October 1, 2014 to September 30, 2015 has decreased by a fixed percentage compared to its domestic market share for the twelve month period from August 1, 2008 to July 31, 2009. In the event of such a decrease, the CPA Amending Agreement requires that Air Canada and Chorus agree to a revised MADUG by November 17, 2015, failing which Air Canada shall have the right to unilaterally set a revised MADUG by sending Chorus notice by November 20, 2015. The CPA Amending Agreement provides Chorus with the right to send Air Canada notice by December 18, 2015 of its intention to either accept the revised MADUG or exercise its right to terminate the CPA as of December 31, 2016.

The CPA Amending Agreement also amended the rates established for the rate period commencing January 1, 2009 and ending on December 31, 2011 (the "2009-2011 Rate Period"). The rates previously negotiated provided a mark-up of 16.72% on Chorus' Controllable Costs. However, pursuant to the terms of the CPA Amending Agreement, Air Canada and Chorus agreed that the Controllable Mark-Up of 16.72% shall only apply as of and from January 1, 2009 through to July 31, 2009. Effective August 1, 2009, an agreed set of revised rates became effective, under which Chorus applies a Controllable Mark-Up of 12.50% on Chorus' Controllable Costs.

Following the expiration of the 2009-2011 Rate Period, the CPA Amending Agreement established the following three remaining rate periods during the initial term of the CPA: (i) January 1, 2012 to December 31, 2014; (ii) January 1, 2015 to December 31, 2017 and; (iii) January 1, 2018 to December 31, 2020. Prior to the commencement of each rate period Chorus and Air Canada shall determine the rates to be charged by Chorus during each period (applying a rate reset process set out in the CPA). The CPA provides that Air Canada and Chorus will review and agree in writing on the rates for the next rate period. The components of each rate to be considered in this process are set out in the schedules to the CPA and are based on costs forecasted by Chorus. If Chorus and Air Canada cannot agree on new rates, the matter is subject to the arbitration provisions in the CPA.

The CPA Amending Agreement also provides for adjustments to the Controllable Mark-Up in certain circumstances. Commencing January 1, 2010, if the Annual Delivered Block Hours are less than 375,000 Block Hours, the Controllable Mark-Up will be increased, to a maximum of 16.72%, to compensate Chorus for increased Unit costs and margin lost due to the reduction in flying. If, on the other hand, the Annual Delivered Block Hours are greater than 375,000 Block Hours, then the Controllable Mark-Up of 12.50% will only apply to Chorus' fixed controllable charges and the Controllable Mark-Up of 12.50% shall be reduced to 5% on Chorus' variable controllable charges for Block Hours in excess of 375,000.

The Controllable Mark-Up may also be reduced as a result of benchmarking Chorus' Controllable Costs to those of a group of comparable operators (the "Comparator Group") in 2010 and 2016. Pursuant to the terms of the CPA Amending Agreement, Chorus and Air Canada agreed to a second benchmarking in 2016 for the 2015 calendar year (the "2015 Benchmark"). If the 2009 Benchmark indicates that the percentage difference between Chorus' Controllable Costs and those of the Comparable Group has increased compared to the percentage difference for the twelve month period beginning July 1, 2006 and ending June 30, 2007, then the Controllable Mark-Up will be reduced with effect as of January 1, 2010 until December 31, 2020, unless as a result of the 2015 Benchmark it is further reduced, to the lower of 12.50% or the percentage that is equal to 16.72% minus the amount of the increase described above. If the 2015 Benchmark indicates that the percentage difference between Chorus' Controllable Costs and those of the Comparable Group has increased compared to the percentage difference determined during the 2009 benchmarking, the Controllable Mark-Up then in effect shall be reduced based on the results of the 2015 Benchmark, with effect as of January 1, 2016 until December 31, 2020.

On February 3, 2011 Chorus and Air Canada agreed to proceed to binding arbitration for the 2009 benchmarking exercise contemplated in the CPA to assess if certain rates charged to Air Canada under the CPA should be adjusted downwards in the period from 2010 forward. It is anticipated the arbitration will cover the methodology of approach for benchmarking as Air Canada and Chorus have yet to agree on a common methodology to compare Chorus's Controllable Costs against the Comparator Group (and adjustments thereto to account for, among other things, fleet type and size and geographical deployment). Chorus is confident that the methodology it has proposed is both fair and appropriate and has concluded no adjustment will be required to the CPA rates billed to Air Canada in 2010 as a result of the benchmarking exercise, if it is adopted. There can be no assurance that the methodology Chorus has used to estimate the outcome of the benchmarking exercise will ultimately be the basis of conducting the benchmarking exercise as a result of the arbitration process. If Chorus' methodology is not consistent with any arbitration decision, operating results and financial condition may be negatively impacted.

The CPA Amending Agreement provides for changes to the long range fleet plan, reflecting the agreement of Air Canada and Chorus to renew the fleet of Covered Aircraft. Air Canada and Chorus agreed that the fleet of Covered Aircraft shall be reduced from 133 aircraft to a guaranteed minimum number of 125 aircraft (the "Guaranteed Minimum Number of Covered Aircraft"). The reduction in Covered Aircraft to the Guaranteed Minimum Number of Covered Aircraft has commenced. (Refer to Section 4 – Fleet for further discussion.)

On April 30, 2010, Chorus signed a purchase agreement with Bombardier regarding an order for 15 Q400 NextGen turboprop aircraft. It Is expected that one aircraft will be delivered per month commencing in May 2011. (Refer to Section 2 – Overview, for further discussion regarding these deliveries.) Chorus and Air Canada have agreed to use commercially reasonable efforts to agree to the rates to be charged for the new turboprop aircraft prior to their delivery, failing which the matter shall be determined in accordance with the dispute resolution provisions in the CPA. Following the delivery of the second new turboprop aircraft in June 2011, the number of aircraft comprising the Covered Aircraft will return to the Guaranteed Minimum Number of Covered Aircraft and two of the CRJ-100 aircraft may be treated as unassigned aircraft for scheduling purposes.

Upon the arrival of each remaining turboprop aircraft, one CRJ-100 or CRJ-200 will be removed from the fleet of Covered Aircraft and replaced with one arriving turboprop aircraft, such that the number of aircraft shall remain at the Guaranteed Minimum Number of Covered Aircraft. Upon the removal of the twelfth CRJ-100 or CRJ-200 aircraft, Air Canada and Chorus shall use commercially reasonable efforts to agree to new rates for this aircraft type. Pursuant to the terms of the CPA Amending Agreement, Air Canada has agreed to pay the costs associated with the removal of the CRJ-100 and CRJ-200 aircraft from the fleet of Covered Aircraft.

Pursuant to the terms of the CPA Amending Agreement, Air Canada and Chorus also agreed, effective as of August 1, 2009, to treat the rent charged to Chorus for three of the CRJ-100 aircraft as a pass-through cost. Chorus and Air Canada have also agreed to a process for deploying up to eight CRJ-100 aircraft ("Swing Aircraft"). Air Canada may commence the use of such Swing Aircraft to operate Scheduled Flights in 2011, subject to agreed upon scheduling parameters, following the delivery of a third new turboprop aircraft to Chorus. The rent to be charged for the Swing Aircraft shall also be treated as a pass-through cost. All or some of these Swing Aircraft may be removed from Chorus' fleet by Air Canada. The Swing Aircraft in Chorus' fleet from time to time, if any, are in addition to the Guaranteed Minimum Number of Covered Aircraft.

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 insurance and corporate real estate services, environmental affairs services and legal 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.

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 ground handling services, a division of Air Canada, provides ground handling services.

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

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

Chorus has a significant amount of transactions with Air Canada and its subsidiaries. Air Canada and its subsidiaries represented 97.8% of Chorus' operating revenues for the year ended December 31, 2010 (99.2% for the year ended December 31, 2009). Approximately 12.8% and 14.9% of Chorus' operating expenses for the years ended December 31, 2010 and 2009, respectively, were incurred with Air Canada and its subsidiaries.

13. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2011 to 2015:

(expressed in thousands of Canadian dollars)	2011 $	2012 $	2013 $	2014 $	2015 $
Defined benefit pension plans, current service	17,100	17,600	18,100	18,600	19,100
Defined benefit pension plans, past service	6,000	5,900	5,900	5,500	-
Defined contribution pension plans	8,600	9,800	10,200	10,600	11,000
Projected pension funding obligations	31,700	33,300	34,200	34,700	30,100

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

The funding requirements for the Chorus pilots' registered pension plan are estimated based on the January 1, 2010 actuarial valuation for that plan and an estimate of the pilot payroll over the projection period. They also take into account the benefit improvements granted for service on and after July 1, 2010 as a result of the recent negotiations between Chorus and the pilot's union. The estimated funding requirements for the supplemental executive retirement

chorus aviation inc.

plan are based on a funding policy adopted by Chorus and the January 1, 2010 actuarial valuation for that plan with updates to data as at December 31, 2010.

The January 1, 2010 actuarial valuation for the Chorus pilot's registered plan uses a smoothed value of the plan asset which amortizes investment gains and losses over a five year period with a cap on the smoothed value of assets at 110% of market value of assets.

Changes in the economic conditions, mainly the investment returns generated by the plan assets and changes in interest rates, will impact the financial position of these plans and, hence, future required contributions. These projections are updated annually (refer to Caution regarding forward-looking information on page 2 of this MD&A.)

14. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Caution regarding forward-looking information on page 2 of this MD&A). The significant accounting policies of Chorus are described in note 2 of the December 31, 2010 consolidated financial statements of Chorus Aviation Inc.

Income taxes

Chorus uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

Chorus' provision for income taxes is made up as follows:

(expressed in thousands of Canadian dollars)	As at December 31, 2010 %	$
Reconciliation of statutory tax rate:		
Income tax expense at the Canadian statutory tax rate	29.9	15,114
Adjusted for the effect of:		
Fund earnings distributed to Unitholders; therefore not subject to tax	(42.4)	(21,422)
Change in valuation allowance	(138.4)	(69,961)
Permanent differences – non-deductible expenses	6.1	3,092
Other	(4.1)	(2,093)
Income tax recovery, as reported in the consolidated statement of income and effective tax rate	(148.9)	(75,270)

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The future tax assets and liabilities result from differences between the tax value and book value of the following items:

	As at December 31, 2010 $	2009 $
Future income tax assets		
Property and equipment – differences in net book value and undepreciated capital cost	13,067	7,862
Deferred lease inducements	10,173	10,282
Intangibles	40,537	37,703
Other	-	1,068
	63,777	56,915
Future income tax liabilities		
Other	1,801	-
Net future income tax asset before valuation allowance	61,976	56,915
Less: Valuation allowance(1)	-	70,209
Net future income tax asset (liability)	61,976	(13,294)

1) At December 31, 2010, Chorus re-assessed its future income tax asset and determined that it was more likely than not that the future assets would be realized, resulting in a change in the previously recorded valuation allowance to increase the future tax asset to the amount that is considered more likely than not to be realized.

Employee future benefits

The significant policies related to employee future benefits, consistent with Section 3461, *"Employee Future Benefits"* of the CICA Handbook, relating to Chorus' defined benefit pension plan for its pilots, the supplemental executive retirement plan for Chorus executives, and the Other Employee Future Benefits are as follows:

- The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, and management's best estimate of expected plan investment performance, salary escalation and retirement ages 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.
- The cost of the other employee future 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.
- The expected return on plan assets is based on the long-term expected rate of return on plan assets and the fair value of the plan assets. It is reasonably possible that management's estimate of the long-term rate of return may change as management continues to assess future investments and strategies and as a result of changes in financial markets.
- Past service costs arising from plan amendments to the defined benefit pension plan and the supplemental executive retirement plan are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. This period is currently 11 years for the pension plan and 11.25 years for the supplemental executive retirement plan.
- Cumulative unrecognized net actuarial gains and losses of the defined benefit pension plan and the supplemental executive retirement plan in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets at the beginning of the year are amortized over the average remaining service

periods of active members expected to receive benefits under the plan (currently 11 years for the pension plan and 11.25 years for the supplemental executive retirement plan).

- The fiscal year-end date, and the measurement date of the plan's 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 future 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).

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

- The discount rate used to determine the pension and benefit obligation was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.
- Chorus' expected long-term rate of return on assets assumption is based on economic conditions as of the measurement date and the specific portfolio mix of plan assets. Management, in conjunction with its actuaries, reviews anticipated future long-term performance of individual asset categories and considers the asset allocation strategy adopted by Chorus. These factors are used to determine the average rate of expected return on the funds invested to provide for the pension plan benefits. While the review considers recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. This assumption may change as management continues to assess future investments and strategies and as a result of changes in financial markets.
- The health care inflation used to determine cost of other employee future benefits costs is based on recent industry experience and long-term expectations. The weighted average health care inflation assumption used for the health care plans is 7.03% per annum for 2011 and 4.5% per annum for 2012 and later years.
- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, consequently increasing or decreasing the pension or benefit expense for future years. In accordance with GAAP, this difference is not recognized immediately as income or expense, but rather is amortized into income over future periods.

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

	Fiscal year ended December 31,	
	2010	2009
Weighted average assumptions used to determine accrued benefit obligation		
• Discount rate	5.7	6.8
• Rate of compensation increase	2.5 – 5.0	2.3 – 5.0
• Health care inflation – Select	6.9	7.0
• Health care inflation – Ultimate	4.5	4.5
• Year ultimate trend reached	2030	2030
Weighted average assumptions used to determine pension and benefit costs		
• Discount rate	6.8 – 6.9	7.1
• Expected long-term rate of return on assets	3.8 – 6.5	7.1
• Rate of compensation increase	2.3 – 5.0	1.3 – 5.0
• Health care inflation – Select	7.0	6.5
• Health care inflation – Ultimate	4.5	4.5
• Year ultimate trend reached	2030	2012

Intangibles

Intangible assets with finite lives are carried at their cost, net of amortization; while assets with indefinite lives are not amortized and are reviewed annually for impairment.

The CPA Asset has a finite life, is carried at cost and amortized over the initial term of ten years plus two five year renewal periods.

In the fourth quarter of 2009, Chorus changed its estimate of the useful life of the CPA Asset to coincide with the extended term of the CPA provided under the CPA Amending Agreement. This change has been applied prospectively. The change had the effect of decreasing amortization by $2.5 million for the year ended December 31, 2009, and $9.9 million annually thereafter.

Property and equipment

Property and equipment was originally recorded at cost. As at December 31, 2010 the net book value of Chorus' property and equipment was $211.1 million (including deposits made on Q400 aircraft).

Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Aircraft and flight equipment are depreciated over 20 to 30 years, with 5 - 20% estimated average residual values. Improvements to owned aircraft are capitalized and amortized over the remaining service life of the aircraft. Improvements to aircraft on operating leases are amortized over the term of the lease.

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. Leasehold improvements are amortized over the lesser of the lease term or five years. Ground and computer equipment are depreciated over five years.

Aircraft depreciable life is determined through economic analysis, a review of existing fleet plans and comparisons to other airlines operating similar fleet types. Residual values are estimated based on Chorus' historical experience with regards to the sale of aircraft and spare parts, as well as future based valuations prepared by independent third parties.

Property under capital 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 capital leases are depreciated to estimated residual values over the life of the lease.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be used is measured by comparing the net book value of the asset to the undiscounted future cash flows expected to be generated by the asset. An impairment is recognized to the extent that the carrying amount exceeds the fair value of the asset.

Aircraft leases

Chorus has significant lease and sublease obligations for aircraft that are classified as operating leases and are not reflected as assets and liabilities on its balance sheet. In accordance with GAAP, tests were performed to determine the operating lease classification. Chorus' aircraft leases do not include any residual value guarantees.

15. ACCOUNTING POLICY CHANGES AND DEVELOPMENTS

Changes in accounting policies

Available for sale financial instruments

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income, except for investments in equity instruments that do not have a quoted market price in an active market which should be measured at cost. Transaction costs incurred to acquire available-for-sale financial instruments are included in the underlying balance. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income. Gains and losses realized on disposal of available-for-sale securities are recognized in net income.

Chorus' investment in LARAH has been classified as available for sale and measured at cost as there is no quoted price in an active market. LARAH and its subsidiaries are private companies with no quoted market price in an active market. Therefore the investment is recorded at cost and no fair value has been disclosed. Transaction costs of $1.2 million deemed to be directly attributable to the acquisition of the LARAH shares have been included in the cost of the investment.

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Chorus will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. Chorus has created an implementation team, which consists of internal resources and an external consultant. A changeover plan is being established to convert to the new standards within the allotted timeline, consisting of the following phases:

- Raise awareness and initial assessment – this phase involves performing a high level impact assessment to identify key IFRS areas that are likely to affect Chorus. Each accounting standard is reviewed under IFRS and is ranked as high, medium or low priority based on the differences from GAAP. Also, all relevant employees and board members are made aware of the changeover and the relevant timelines. Chorus completed this phase in the third quarter of 2008.

- Detailed assessment - each section is reviewed and analyzed for accounting or disclosure differences between Canadian GAAP and IFRS. Once differences have been identified they are reviewed for potential impacts to existing accounting policies, information systems and business processes. An action plan is then developed for each impact area. This phase is substantially complete.

- Implementation and review – the action plan developed in the detailed assessment phase is implemented to create, as necessary, new accounts, system changes, process changes and financial statement models. Accounting policies are approved, including transition elections in IFRS 1 (First time adoption of IFRS). This phase is in progress.

The following table outlines the key activities of the IFRS transition plan and the status of each of those activities:

	Key activities	Status
Financial Statement Preparation	Identify differences in Canadian GAAP/IFRS accounting policies Select IFRS policies Select transition options (IFRS 1) Create draft IFRS statements	The diagnostic phase of GAAP/IFRS differences was completed in the third quarter of 2008. Draft IFRS statements are being developed and continue to be updated with changes to the Chorus business and changes to IFRS standards. Chorus continues to progress toward quantification of identified differences on transition to IFRS.
Training	Introduce an appropriate level of knowledge to the finance group, and the board of directors	All members of the finance group that are affected by changes to process have been part of the development of the new IFRS process and have been trained on the relevant differences in the standards. The board of directors and senior management have received IFRS presentations keeping them updated on the potential changes that may affect Chorus and training as to how and why those changes are taking place. Operational staff have been updated on any changes that will affect their job as a result of IFRS.
Information Technology (IT) Infrastructure	Identify any required updates or modifications to the IT systems.	Chorus has analyzed all required information under IFRS and does not believe any changes to its IT infrastructure will be necessary to facilitate the change-over.
Control Environment	For all accounting process changes, assess control design and effectiveness implementation of internal controls over financial reporting ("ICFR").	All identified material changes to ICFR have been assessed and tested by the internal audit department.
Business activities	Identification of impact of IFRS changes on compensation packages	Compensation packages are being assessed and revised to address any changes to financial statement indicators and non-GAAP financial measures as a result of the adoption of IFRS as well as Chorus' changeover to a corporate structure.

Chorus' transition to IFRS in 2011 is expected to have a significant impact on the opening balance sheet as at January 1, 2010. The full effects are still being determined, however Chorus has identified the following areas as significant standards likely to impact to impact the consolidated financial statements. Additionally, an analysis of changes is still in progress and not all decisions have been made where choices of accounting policies are available These assessments are based on available information and expectations as of the date of this MD&A and thus, are subject to change based on new facts and circumstances.

IFRS exemptions that are expected to apply to Chorus on conversion to IFRS are outlined in the following table:

Exemptions available under IFRS 1	Description of exemption	Policy selection
Business combinations	Chorus may elect not to apply IFRS 3 retrospectively to past business combinations prior to the date of transition to IFRS. This election would leave the classification of business combinations as reported under previous GAAP.	Chorus is still analyzing the implications of accounting for past business combinations under IFRS and has not made any decisions on this election.
Fair value as deemed cost	Chorus may elect to measure an item of property, plant and equipment at the date of transition to IFRS at its fair market value and deem it to be the new cost basis for IFRS.	Chorus does not expect to apply this exemption and will continue to measure property and equipment and intangible assets at historical cost.
Employee benefits	Chorus may elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS.	Chorus expects to elect to recognize all cumulative actuarial gains and losses on pension and other employee benefit plans on conversion directly in retained earnings.

Summary of accounting policy changes on transition to IFRS

Chorus has identified the following material differences between accounting policies as applied under current GAAP and policies expected to apply under IFRS:

Accounting policy	
Property and equipment	**Capitalization of major maintenance events** Under IAS 16, the cost of major maintenance events to owned or capitalized assets are required to be capitalized and depreciated over the life of the maintenance cycle. Chorus will be required to capitalize maintenance on major overhaul events related to its owned or capitalized aircraft. The cost of the maintenance will be treated as a separate component of the aircraft and depreciated over the time period between maintenance events. The cost of the following overhaul will be capitalized and the process will continue to repeat itself over the life of the asset. **Historical cost or revaluation model** *Policy choice*: Either a cost or revaluation model can be used to value classes of property and equipment

<table>
<tr><td></td><td> Policy selection: Chorus expects to use the cost model for all classes of property and equipment
Expected impact: Capitalizing maintenance costs will have the effect of increasing property and equipment by approximately $14.0 million on January 1, 2010. Subsequent to transition, maintenance expense related to owned aircraft overhauls which historically flowed through “aircraft maintenance materials, supplies and services” on the statement of income; will now be charged to “depreciation and amortization of property and equipment”. Major maintenance costs on operating leased aircraft will continue to be charged to “aircraft maintenance materials, supplies and services” as incurred. </td></tr>
<tr><td>Employee benefits</td><td> Actuarial gains and losses of employee benefits
Policy choice: IAS 19 permits entities to recognize employee benefits using one of the following two methods:

recognise a portion of actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:
(a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
(b) 10% of the fair value of any plan assets at that date.
This is the method currently being applied under Canadian GAAP known as the corridor approach
any systematic method that results in faster recognition of actuarial gains and losses, provided that the basis is applied consistently from period to period. If an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them in other comprehensive income.

Policy selection: Chorus expects to recognize actuarial gains and losses as incurred through other comprehensive income
IFRIC 14 - Limit on a defined benefit asset, minimum funding requirements and their interaction
IFRIC 14 has been issued to clarify paragraph 58 of IAS 19 which limits the measurement of a defined benefit asset to “the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan” plus cumulative unrecognized actuarial losses and past service cost. IFRIC 14 provides guidance on the following three issues:

when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19.
how a minimum funding requirement might affect the availability of reductions in future contributions.
when a minimum funding requirement might give rise to a liability.

Canadian GAAP and IFRS differ in the method used to calculate the defined benefit asset limit and Canadian GAAP does not address accounting for an additional liability due to minimum funding requirements. </td></tr>
</table>

	Expected impact: Chorus continues to analyze the impact of changes to the accounting policy for the opening balance sheet. The IFRS 1 election to recognize all cumulative translation gains and losses at the date of transition, the limit on the defined benefit asset and the calculation of the additional minimum funding requirement under IFRIC 14 is expect to result in an increase to the liability with an offsetting charge to retained earnings. Subsequent to transition, actuarial gains and losses will flow through other comprehensive income which will have no impact on net income; however it is expected to create more volatility with the defined benefit asset or liability. Income related to the market return on plan assets is also expected to create more volatility as it will fluctuate with the market value of the plan assets rather than a smoothed value of the plan assets based on the current value as per Canadian GAAP.
Leases	Under IAS 17 a lease is classified as a finance lease (equivalent to a capital lease under Canadian GAAP) or an operating lease. A lease is considered to be a finance lease if substantially all the risks and rewards of ownership of the asset pass from the lessor to the lessee at the inception of the lease. Unlike Canadian GAAP, there are no quantitative measures used to determine the classification of the lease, rather a qualitative analysis must be performed on each lease. *Expected impact:* Chorus has performed a detailed review of all leases and determined there will not likely be any lease reclassifications on transition to IFRS.
Impairment of assets	Under IAS 36, an impairment assessment is required if there are indications of impairment, similar to the requirement under Canadian GAAP. An impairment loss is recognized when the carrying amount of an asset, or cash generating unit, exceeds the recoverable amount. The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use. The value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. Under Canadian GAAP the recoverable amount is initially calculated based on undiscounted future cash flows; therefore the likelihood of having an impairment under IFRS is significantly greater than Canadian GAAP. Further, under Canadian GAAP, impairment losses are the difference between the carrying amount of the asset or group of assets and the fair value. Unlike Canadian GAAP, IAS 36 requires, under certain circumstances, the reversal of impairment losses in subsequent periods. *Expected impact:* Chorus has not finalized its determination of whether it will apply the IFRS 1 business combination exemption and, therefore, has not determined the carrying amount of its assets at January 1, 2010. An impairment analysis can only be completed when the assessment of the application of this IFRS 1 exemption has been determined.
Long-term investment	Under IAS 39, available for sale equity securities are only permitted to be measured at cost if the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. An entity is normally expected to be able to estimate fair value. Under Canadian GAAP, available for sale equity securities that do not have a quoted market price in an active market, such as the investment in LARAH, are measured at cost. *Expected impact:* As the investment in LARAH was made in the second quarter of 2010, there will be no impact on the opening balance sheet. However, it is expected that there will be more volatility in the future as the investment in LARAH is adjusted to fair value.

16. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

Disclosure controls and procedures within Chorus have been designed to provide reasonable assurance that all relevant information is identified to the Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

An evaluation of the design and effectiveness of the operation of Chorus' disclosure controls and procedures has been conducted by management, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2010, Chorus' disclosure controls and procedures, as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of Chorus' financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above. Based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting was effective as of December 31, 2010.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There has been no change in Chorus' internal control over financial reporting that occurred during the year ended 2010 that has materially affected, or is reasonably likely to materially affect, Chorus' or the Partnership's internal control over financial reporting.

The Audit, Finance and Risk Committee of the board of directors of Chorus reviewed this MD&A, and the consolidated financial statements of Chorus for December 31, 2010, and Chorus' board of directors approved these documents prior to their release.

17. OUTLOOK

The discussion that follows represents forward-looking information. Refer to Caution regarding forward-looking information on page 2 of this MD&A.

In 2010, Chorus completed the first phase of its re-fleeting plan with Air Canada, as prescribed under the amended CPA, by removing ten and returning nine of the CRJ-100/200 aircraft to the lessors from the Covered Aircraft. In 2011, Chorus will begin the second phase of this re-fleeting plan with the introduction of 15 Q400 aircraft; deliveries will commence in June 2011. In 2011, Chorus will take delivery of eight aircraft and place seven into service. The balance of the fleet will be introduced into service in 2012. The Covered Aircraft will increase to 125 as of July 2011 and at that time, Air Canada will begin removing one CRJ-100 or CRJ-200 aircraft for each subsequent Q400 delivery. This re-fleeting program will better position Chorus to operate more efficiently in the current high fuel cost environment and bring down the average age of the Covered Aircraft operated for Air Canada under the CPA.

Chorus will complete its first winter season flying for Thomas Cook by April 2011 and will re-activate this flying for the 2011-2012 winter season in November 2011.

Based upon the 2011 winter schedule and planning assumptions received from Air Canada and the initial planned flying for Thomas Cook, Chorus anticipates billing between 390,000 and 400,000 Block Hours for the year ending December 31, 2011.

18. RISK FACTORS

Risks Relating to the Relationship with Air Canada

Dependence on Air Canada

Chorus is directly affected by the financial and operational strength of Air Canada and its competitive position. In the event of any decrease in its financial or operational strength, Air Canada’s ability to make full payment of amounts owing to Chorus may be adversely affected. In addition, if Air Canada's competitive position is materially weakened, it could affect the utilization of the Covered Aircraft.

In the recent past, Air Canada has, like other network carriers, sustained significant operating losses and may sustain significant losses in the future. Air Canada's business, results from operations and financial condition are subject to a number of risks, including:

- Air Canada has substantial commitments for capital expenditures, including for the acquisition of new aircraft; fuel costs, which continue to fluctuate and recently reached historically high levels, constitute a significant portion of Air Canada's operating expenses;
- labour conflicts or disruptions can have a material adverse effect on Air Canada's business, results from operations and financial condition;
- the airline industry is highly competitive and subject to price discounting; and
- the risk factors described under "Risks Relating to the Industry".

Air Canada is the sole marketing agent for Chorus' Covered Aircraft capacity and is solely responsible for establishing schedule, routes, frequency and ticket prices for Chorus. To the extent Air Canada does not effectively and competitively market the routes serviced through Chorus, the utilization of the Covered Aircraft could be reduced with the result that Chorus' operating margin in dollar terms would be reduced, all of which could have a material adverse effect on Chorus’ business, resulting from operations and financial conditions.

In addition, Air Canada is responsible for establishing Chorus' operating plans for the Covered Aircraft, including schedules, Block Hours, departures, ASMs and load factors for each aircraft type included in the Covered Aircraft, and any changes thereto. Should such operating plans not be provided to Chorus on a timely basis in accordance with the CPA, Chorus' operations could be materially adversely affected.

Liquidity issues

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

Termination of the CPA

Substantially all of Chorus’ current revenues are received pursuant to the CPA with Air Canada which currently covers all of Chorus’ existing operating fleet (except four Dash 8 aircraft, one CRJ-200 aircraft and six Boeing 757 aircraft). The CPA Amending Agreement extended the initial term of the CPA from December 31, 2015 to December 31, 2020. The CPA will be automatically renewed for two additional five year periods, unless either party gives notice to the other of its intention not to renew within one year prior to the expiry of the initial term or any renewal term. In addition, either

party is entitled to terminate the CPA at any time upon the occurrence of an event of default. Events of default include, without limitation:

- bankruptcy or insolvency of the other party;
- suspension or revocation of Chorus' right to operate as a scheduled airline;
- failure by Air Canada or Chorus to pay amounts when due where such default continues for a period of 30 days after notice;
- failure by Air Canada or Chorus to comply with any of its obligations under the CPA, such default continues for a period of 30 days after notice;
- failure to operate more than 50% of the Covered Aircraft for more than seven consecutive days or failure to operate 25% of the Covered Aircraft for more than 21 consecutive days, other than as a result of an order of a governmental authority affecting the industry generally or as a result of any action by Air Canada, any strike by Air Canada employees or any force majeure (including any cessation, slow-down, interruption of work or any other labour disturbance);
- failure by Chorus to meet certain performance criteria;
- default by Chorus with respect to any material term, if such default continues for more than the allotted period of grace, if any;
- a default by Air Canada or Chorus with respect to a material term of any other material agreement between Chorus and Air Canada if such default continues for more than the allotted period of grace, if any;
- failure by Chorus to maintain adequate insurance; and
- failure by Chorus to comply with Air Canada's audit and inspection rights.

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

Under the CPA, if a change of control of Chorus (other than in favour of Chorus) occurs without the consent of Air Canada, Air Canada may terminate the CPA. The existence of this right may limit Chorus' ability to negotiate or consummate the sale of all or part of its business to another entity or otherwise participate in any consolidation in the airline industry.

The CPA provides that upon the expiry or termination of the CPA, other than termination as a result of a default by Chorus or Air Canada, all leases between Chorus and Air Canada (or any affiliate of Air Canada) in respect of Covered Aircraft and spare engines shall automatically be terminated and Air Canada (or any affiliate of Air Canada) shall have the right to repossess the Covered Aircraft and the spare engines. There can be no assurance that Chorus will be able to find replacement aircraft in these circumstances. In the event that Chorus is able to find replacement aircraft, there can be no assurance that Chorus will be able to do so on terms as favourable as the terms of its current leases with Air Canada (or any affiliate of Air Canada). Unless Chorus is able to find replacement aircraft on reasonable terms, Chorus' ability to offer scheduled and charter flights to any carrier would be materially adversely affected, which would have a material adverse effect on Chorus' business, results from operations and financial condition.

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

The CPA Amending Agreement also provides Air Canada with the right to revise the MADUG in the event Air Canada's domestic market share for the twelve month period from October 1, 2014 to September 30, 2015 has decreased by a fixed percentage compared to its domestic market share for the twelve month period from August 1, 2008 to July 31, 2009. In the event of such a decrease, the CPA Amending Agreement requires that Air Canada and Chorus agree upon a revised MADUG by November 17, 2015, failing which Air Canada shall have the right to unilaterally set a revised

MADUG by sending Chorus notice by November 20, 2015. The CPA Amending Agreement provides Chorus with the right to send Air Canada notice by December 18, 2015, of Chorus' intention to either accept the revised MADUG or exercise its right to terminate the CPA as of December 31, 2016.

There can be no assurances that Chorus and Air Canada will, if required, agree to a revised MADUG or that, if the parties do not agree and Air Canada unilaterally sets a revised MADUG level, such revised MADUG level will be acceptable to Chorus. If the CPA is terminated, Chorus' revenue and earnings would be significantly reduced or eliminated unless Chorus is able to enter into satisfactory alternative business arrangements. There is no assurance that Chorus would be able to enter into satisfactory alternative business arrangements or that such arrangements would be as favourable to Chorus as the CPA. Any such termination, or failure to enter into satisfactory substitute arrangements, would have a material adverse effect on Chorus' business, results from operations and financial condition.

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

Reduced utilization levels

While the CPA requires Air Canada to meet certain minimum utilization levels for Chorus' aircraft, Air Canada determines, in its sole discretion, which routes Chorus flies. If Air Canada was unable to find sufficient capacity for its own aircraft or was able to operate at a competitive cost compared to Chorus or use other suppliers at competitive cost, or for any other reason, Air Canada could reduce Chorus' flights to the minimum utilization levels or could require Chorus to fly its aircraft on routes that may under-utilize Chorus' aircraft capacity or may make it more difficult for Chorus to reach incentive targets. Any such reduction or requirement would likely result in lower revenues earned by Chorus under the CPA, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Though Chorus would still be guaranteed a minimum revenue, if its aircraft were underutilized by Air Canada, Chorus would lose the ability to recover a margin on the direct operating costs of flights that would otherwise have been realized had Chorus' aircraft been more fully utilized. Chorus would also lose the opportunity to earn incentive compensation. The minimum average daily utilization guarantee will not apply in the event Chorus fails to reach the minimum number of Block Hours due to its own default or an inability to supply sufficient capacity.

Pursuant to the terms of the CPA, Air Canada and Chorus have agreed that the MADUG will not be less than 339,000 annual Block Hours, including after having taken into account the reduction in the number of Covered Aircraft described in "Recent Developments – Amendments to the Capacity Purchase Agreement with Air Canada", subject to Air Canada's one-time right to revise the MADUG in the circumstances described above.

Force Majeure

Air Canada's and Chorus' obligations under the CPA (other than any financial obligations) will be suspended if, and for so long as, any event of force majeure prevents a party from meeting its obligations pursuant to the CPA. In addition, Air Canada and Chorus recognize that an event of force majeure may inadvertently result in one party being in default of a collective agreement to which it is a party. As a result of any event of force majeure that occurs during the term of the CPA, Air Canada and Chorus may decide to renegotiate certain terms of the CPA, including, without limitation, rates for the payment of fees by Air Canada, minimum capacity purchase guarantees as well as certain elements of the then current three-year, annual or seasonal operating plans and the long range fleet plan, including Block Hours and departures, ASMs, airports to which Chorus will operate and the number of Covered Aircraft. Such changes to the terms

of the CPA, whether temporary or long-term, could have a material adverse effect on Chorus' business, results from operations and financial condition.

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

Air Canada provides a number of important services to Chorus, including ticket sales, reservations and call center services, designator codes, information technology, de-icing services and glycol usage, fuel purchasing services and passenger, aircraft and traffic handling services. If the CPA is not renewed beyond its original term or subsequent renewal terms, or is otherwise terminated, Chorus would either need to provide these services internally or contract with third parties for such services. There can be no assurance that Chorus would be able to replace these services on a cost effective or timely basis. In addition, pursuant to the MSA, Air Canada provides certain services to Chorus for a fee. These services include insurance, corporate real estate services, environmental affairs services and legal services. If the MSA is terminated, Chorus would either need to provide these functions internally or contract with third parties for such functions. There can be no assurance that Chorus would be able to replace these services on a cost-effective or timely basis. Chorus' inability to replace these services on a cost effective or timely basis could have a material adverse effect on Chorus' business, results from operations and financial condition.

Changes in costs and fees

Chorus is paid fees by Air Canada on a variety of different metrics based on Chorus' estimated controllable costs for each calendar year in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Chorus' estimated Scheduled Flights Revenue for each calendar year in the applicable period. Air Canada is responsible for scheduling and pricing the flights, and absorbs the risk of variations in ticket prices, passenger loads and fuel prices. If such controllable costs exceed Chorus' estimates, Chorus may realize decreased profits or losses under the CPA, and may be unable to generate sufficient cash flow to pay its debts on time and Chorus may have to reduce its expansion plans. If any of these events occurs, Chorus' business, results from operations and financial condition could be materially adversely affected.

For the periods commencing 2009 and 2012, Chorus and Air Canada established and will establish rates for each of the succeeding three years. There can be no assurance that the estimates of the future costs used and to be used in negotiating such rate resets is and will be accurate.

The CPA Amending Agreement amended the Rates established for the 2009-2011 Rate Period. The Rates negotiated and reflected in the Rate Amending Agreement were established to enable Chorus to achieve a Controllable Target Margin of 14.32%, corresponding to a Controllable Target Mark-Up of 16.72% on Chorus' Controllable Costs. However, pursuant to the terms of the CPA Amending Agreement, Air Canada and Chorus agreed that the Controllable Mark-Up of 16.72% shall only apply as of and from January 1, 2009 through to July 31, 2009. Effective commencing August 1, 2009, an agreed set of revised rates will be effective, enabling Chorus to achieve a Controllable Target Margin of 11.11%, corresponding to a Controllable Mark-Up of 12.50% on Chorus' Controllable Costs. If Controllable Costs exceed Chorus' estimates, Chorus may realize decreased profits or losses under the CPA, and may be unable to generate sufficient cash flow to pay its debts on time and Chorus may have to reduce its expansion plans. If any of these events occurs, Chorus' business, results from operations and financial condition could be materially adversely affected.

The CPA Amending Agreement also provides for adjustments to the Controllable Mark-Up in certain circumstances. Commencing January 1, 2010, if the Annual Delivered Block Hours are less than 375,000 Block Hours, the Controllable Mark-Up will be increased, to a maximum of 16.72%, to compensate Chorus for increased Unit costs and lost margin due to the reduction in flying. If annual Delivered Block Hours are greater than 375,000 Block Hours, the Controllable Mark-Up of 12.50% shall only apply to Chorus' fixed controllable charges and the Controllable Mark-Up of 12.50% shall be reduced to 5% on Chorus' variable controllable charges.

The Controllable Mark-Up may also be reduced as a result of the 2009 Benchmark and the 2015 Benchmark. If the 2009 Benchmark indicates that the percentage difference between Chorus' Controllable Costs and those of the Comparable Group has increased compared to the percentage difference for the twelve month period beginning July 1, 2006 and ending June 30, 2007, the Controllable Mark-Up will be reduced with effect as of January 1, 2010 until December 31, 2020, unless as a result of the 2015 Benchmark it is further reduced, to the lower of 12.50% or the percentage that is equal to 16.72% minus the amount of the increase described above. If the 2015 Benchmark indicates that the percentage difference between Chorus' Controllable Costs and those of the Comparable Group has increased

compared to the percentage difference determined during the 2009 benchmarking, the Controllable Mark-Up then in effect shall be reduced by the results of the 2015 Benchmark, with effect as of January 1, 2016 until December 31, 2020. Any such reduction in the Controllable Mark-Up could have a material adverse effect on Chorus' business, results from operations and financial conditions.

Air Canada Pilots Association ("ACPA") Scope Clauses and Small Jets Settlement Agreement

Air Canada's collective bargaining agreement with ACPA and the Small Jets Settlement Agreement entered into by Air Canada, Chorus, ACPA and the Air Line Pilots Association ("ALPA") limit the number of regional jet aircraft which can be operated by Chorus under the CPA. The Small Jets Settlement Agreement also prevents Chorus from operating the CRJ705 aircraft if configured in excess of 75 seats, inclusive of all classes, and sets out a minimum ratio of ASMs flown by Air Canada compared to the CPA ASMs flown by Chorus. These restrictions may cause Air Canada to reduce the level of capacity it purchases from Chorus under the CPA, prevent Chorus from expanding its market share, or impede Chorus' fleet development which could significantly reduce Chorus' expected growth, revenue and earnings. Chorus cannot ensure that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions for Chorus.

Covered aircraft reductions

Subject to regulatory restrictions, the CPA does not preclude Chorus from entering into capacity purchase agreements with, or providing airline services to, or making investments in, other carriers as long as Chorus' ability to perform its obligations under the CPA is not impaired as a result. However, if Chorus enters into an agreement with another carrier to provide regional airline services (other than charter flights), whether on a capacity purchase or other economic basis, Air Canada will have the right to reduce the number of Covered Aircraft, on a one-for-one basis, by the number of aircraft to be operated under such other agreement, thereby reducing Chorus' ability to earn revenue from Air Canada.

Exclusivity arrangements

Chorus does not benefit from exclusivity arrangements preventing Air Canada from allocating some or all of its regional capacity requirements internally or to another carrier under a capacity purchase agreement. Any such action by Air Canada could have a material adverse effect on Chorus' business, results from operations and financial condition.

Potential conflicts with Air Canada

Conflicts may arise between Air Canada and Chorus in a number of areas, including:

- Chorus' and Air Canada's respective rights and obligations under the CPA or other agreements between Chorus and Air Canada;
- the nature and quality of the services Air Canada provides to Chorus and the services Chorus provides to Air Canada;
- the terms of Air Canada's and Chorus' respective collective bargaining agreements;
- amendments to any of the existing agreements between Chorus and Air Canada, including the CPA; and
- reductions in the number of Covered Aircraft in accordance with the CPA.

Chorus may not be able to resolve any potential conflicts with Air Canada and, even if any such conflicts are resolved, the resolution may be on terms and conditions less favourable to Chorus, and Chorus' business, results from operations and financial condition could be materially adversely affected as a result.

Limited ability to participate in improved market conditions

While the capacity purchase business model and target margin reflected in the CPA reduce Chorus' financial risk and exposure to fluctuations for many of its potentially volatile costs, they also limit Chorus' potential to experience higher earnings growth from improved market conditions.

Risks Relating to Chorus

Bill C-310 and Bill C-541

On November 24, 2009, Bill C-310, An Act to Provide Certain Rights to Air Passengers, was reported back from the Standing Committee on Transport, Infrastructure and Communities. The Committee recommended that Bill C-310 not proceed any further. A revised Bill C-541, An Act Respecting the Rights of Air Passengers, received first reading on June 15, 2010. Bill C-541 provides obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. If enacted in its current form, Bill C-541 could lead to significant costs for air carriers, including Chorus, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Despite the Committee's recommendations regarding Bill C-310, management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form currently proposed by Bill C-310, Bill C-541 or otherwise.

Employees

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

Labour costs and labour relations

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

Most of Chorus' employees are unionized and its collective bargaining agreements all expired at the end of June 2009. On August 30, 2009, Chorus reached a tentative three year agreement with its maintenance and engineering employees who are represented by the CAW. That tentative agreement was subsequently ratified on September 12, 2009 by a union vote. On December 3, 2009, Chorus reached a tentative three year agreement with its Customer Services and Aircraft Services divisions, also represented by the CAW. That tentative agreement was subsequently ratified on December 16, 2009 by a union vote. On March 25, 2010 Chorus reached a three year agreement with its dispatcher employees represented by CALDA. On June 25, 2010, Chorus reached a six year agreement with its pilots represented by ALPA, which was ratified on July 9, 2010 by a union vote. On June 30, 2010, Chorus reached a six year agreement with its flight attendants represented by CFAU, which was ratified on July 16, 2010 by a union vote. On September 9, 2010, Chorus reached a three year agreement with its crew schedulers (represented by CAW) which was ratified on September 14, 2010 by a union vote.

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

Condition to labour productivity enhancements

During the restructuring of Chorus' predecessor under the CCAA, one of the improvements made in the collective agreement with ALPA, representing Chorus' pilot group, was the implementation of productivity enhancements which require a minimum threshold of aircraft to be maintained in the fleet in order for the productivity enhancements to be available to Chorus. The productivity enhancements primarily relate to the work and scheduling provisions of the collective agreement which enables Chorus to schedule pilots for more hours in a given month at their normal hourly rate of pay. Failure by Chorus to maintain a minimum fleet of 125 aircraft after December 31, 2006 would result in a loss

of the productivity enhancements, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Leverage and restrictive covenants in current and future indebtedness

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

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to new public financing (if required by Chorus) has been negatively impacted by these events, which may impact the ability of Chorus to obtain financing in the future on acceptable terms. Any failure of Chorus in the future to obtain required financing on acceptable terms could have a material adverse effect on Chorus' business, results of operations and financial condition.

Dilution of Shareholders

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

Uncertainty of dividend payments

Payment of dividends are dependent upon sufficient operating cash flows generated by Chorus, financial requirements of Chorus and the satisfaction of solvency tests on the payment of dividends pursuant to the CBCA.

Level of indebtedness – refinancing risk

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

Managing growth

Management regularly reviews potential growth opportunities and business acquisition opportunities that they believe may be complementary to Chorus. As part of any such initiative, management conducts customary due diligence with the goal of identifying and evaluating material risks. Notwithstanding their review, management may be unsuccessful in identifying all such risks or realizing the intended synergies of any given initiative. Any such failure could have a material adverse effect on results of operation and its financial condition could be adversely impacted. In addition, management's inability to effectively manage growth could have a material adverse impact on Chorus' business, operations and prospects.

Reliance on key personnel

The success of Chorus depends on the abilities, experience, industry knowledge and personal efforts of senior management and other key employees, and Chorus' ability to retain and attract skilled employees. Chorus' growth plans may put additional strain and demand on management and on Chorus' employees and produce risks in both

productivity and retention levels. In addition, Chorus may not be able to attract and retain additional qualified management as needed in the future. The loss of the services of such key personnel could have a material adverse effect on the business, results from operations, financial condition or future prospects of Chorus.

Risks relating to financial instruments

For a description of the interest rate risk, credit risk, liquidity risk and currency risk associated with Chorus' financial instruments, see the discussion in Section 11 - Financial Instruments and Risk Management.

Risks Relating to Thomas Cook

On April 2, 2010, Chorus signed a Flight Services Agreement with Thomas Cook to operate no less than six Boeing 757-200 aircraft. The service commenced on November 5, 2010. The failure by Thomas Cook to adequately fulfill its obligations to Chorus under the Flight Services Agreement, or other unexpected interruptions or cessation of Thomas Cook's business, could have a material adverse effect on Chorus, its business, results from operations and financial conditions.

Revenues generated from services provided by Chorus to Thomas Cook may be negatively impacted by certain economic and geopolitical conditions in the countries outside of Canada and the U.S. to which Chorus will now be flying under the Flight Services Agreement. Such conditions, and any resulting negative impact on revenues, could have a material adverse effect on Chorus' business, results from operations and financial conditions.

In addition, many of the types of risks referring to Air Canada that are described in this section, such as those relating to liquidity, contractual terminations, utilization levels, force majeure, cost estimates made by Chorus when entering into rate arrangements and potential conflicts, also apply to Chorus' relationship with Thomas Cook.

Risks Relating to the Industry

Economic and geopolitical conditions

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

Fuel costs

Fuel costs represent a major expense to air carriers. Since 2005, fuel prices have increased to and have fluctuated at near historically high levels. Should fuel prices remain at such levels or further increase, demand for air travel may decrease as a result of fuel surcharges added to airline fares and Air Canada may be unable to pass on any further increases to its customers through fuel surcharges. Though, under the terms of the CPA Chorus' fuel costs are reimbursed by Air Canada and any resulting reduction in passenger revenues is principally at Air Canada's risk, this could have a material adverse effect on Chorus' business, results from operations and financial condition if Air Canada were to reduce its capacity usage or were unable to meet its obligations under the CPA.

Impact of competition on Air Canada's need to utilize Chorus' services

The airline industry is highly competitive. Air Canada competes with other major carriers as well as low cost carriers on its routes, including routes that Chorus flies under the CPA. Competitors could rapidly enter markets Chorus serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Chorus' regional operations to Air Canada. In addition to traditional competition among airlines, the industry faces competition from ground transportation alternatives. Video teleconferencing and other methods of electronic communication have also added a new dimension

of competition to the industry as businesses travelers seek substitutes to air travel. Any of the foregoing events could have a material adverse effect on Chorus' business, results from operations and financial condition.

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

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

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

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

Terrorist attacks

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

Epidemic diseases

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

Interruptions or disruptions in service

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

Dependence on technology

Chorus relies in part on technology, including computer and telecommunications equipment and software to increase revenues, reduce costs, and operate its business. Proper implementation and operation of technology initiatives is

fundamental to Chorus' ability to operate a profitable business. Chorus continuously invests in new technology initiatives to remain competitive, and its continued ability to invest sufficient amounts to enhance technology will affect Chorus' ability to operate successfully. An inability to invest in technological initiatives would have a material adverse effect on Chorus' business, results from operations and financial condition.

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

Seasonal nature of the business, other factors and prior performance

Under the CPA, Chorus is paid fees by Air Canada on a variety of different metrics based on Chorus' estimated controllable costs in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Chorus' estimated Scheduled Flights Revenue in the applicable period. However, Chorus' quarterly results could differ from those contemplated by the target margin based on a variety of factors, including the timing of capital expenditures and changes in operating expenses, such as personnel and maintenance costs, over the course of a fiscal year.

Chorus has historically experienced considerably greater demand for its services in the second and third quarters of the calendar year and significantly lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months, thereby increasing the flying hour requirements of Air Canada. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' revenues under the CPCA do not fluctuate significantly with Passenger Load Factors.

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

Regulatory matters

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, licensing, competition, noise levels, the environment and, in some measure, pricing. Additional laws and regulations may be proposed, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional regulations or decisions by Transport Canada, the Canadian Transportation Agency, the Treasury Board or other domestic or foreign governmental entities may have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on Chorus' business, results from operations and financial condition.

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

Environment and greenhouse gas emissions

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

Third party war risk insurance

There is a risk that the Government of Canada may not continue to provide an indemnity for third party war risk liability coverage, which it is currently providing Chorus and certain other carriers in Canada. Any such discontinuance could have a material adverse effect on Chorus' business, results from operations and financial condition. In the event that the Government of Canada does not continue to provide such indemnity or amends such indemnity, Chorus and other industry participants would have to seek such coverage from commercial insurance providers. Alternative solutions, such as those proposed by International Civil Aviation Organization ("ICAO") and IATA have not developed as planned due to actions taken by other countries and the recent availability of supplemental insurance. ICAO and IATA are continuing their efforts in this area. However, the achievement of a global solution is not likely in the immediate or near future. The United States federal government has set up its own facility to provide war risk coverage to United States carriers, thus removing itself as a key component of any global plan.

Furthermore, the London aviation insurance market has announced its intention to introduce a new standard war and terrorism exclusion clause applicable to aircraft hull and spares, and similar exclusions to airline passenger and third party liability policies. Such clauses would exclude claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or bio chemical materials. The Government of Canada indemnity program is designed to address these types of issues as they arise, but the Government of Canada has not yet decided to extend the existing indemnity to cover this exclusion. Unless and until the Government of Canada does so, the loss of coverage exposes Chorus to this new uninsured risk and may result in Chorus being in breach of certain regulatory requirements or contractual arrangements, which may have a material adverse effect on Chorus' business, results from operations and financial condition.

Casualty losses

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

Risks Relating to Current Legal Proceedings

In February 2006, Chorus commenced proceedings before the Ontario Superior Court of Justice ("Ontario Court") against the Toronto Port Authority ("TPA"), Porter Airlines Inc. ("Porter") and other defendants (collectively with Porter, the "Porter Defendants") after Chorus became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, Porter counterclaimed against Chorus and Air Canada alleging various tort claims, including conspiracy, and violations of competition law, including that Chorus and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850,000 in damages. Concurrently with the Ontario Court proceedings, Chorus commenced judicial review proceedings against the TPA before the Federal Court of Canada ("Federal Court") relating to Chorus' access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, in the Federal Court proceedings, Porter filed a defence and counterclaim against Chorus and Air Canada making allegations and seeking damages similar to those in the Ontario Court counterclaim. On October 16, 2009, Chorus discontinued its action in the Ontario Court against the Porter Defendants and the TPA. On the same date, the counterclaim filed by Porter in the Ontario Court against Chorus and Air Canada was stayed pending the outcome of the proceeding in Federal Court. On March 29, 2010, Chorus discontinued its action in the Federal Court against the TPA, in which the Porter Defendants intervened and were made parties. On May 14, 2010 Porter discontinued its counterclaim in the Federal Court. The counterclaim against Chorus and Air Canada brought by Porter in the Ontario Court continues to be stayed. However, Porter has commenced the process to lift the stay of this counterclaim. Chorus maintains that Porter's counterclaim is without merit. If the stay is lifted, the counterclaim, will be vigorously contested by Chorus and Air Canada in court. If Chorus is not successful in defending the counterclaim, it could be subject to a material damages award.

Risks Relating to the Convertible Debentures

Matters affecting trading prices for the convertible debentures

The TSX approved the listing of the Convertible Debentures and the Shares issuable upon conversion, redemption or repayment thereof. There is currently no market through which the securities may be sold and purchasers may not be able to resell securities purchased under the short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of securities, and the extent of issuer regulation.

No assurance can be given that an active or liquid trading market for the Convertible Debentures will develop or be sustained. If an active or liquid market for the Convertible Debentures fails to develop or be sustained, the prices at which the Convertible Debentures trade may be adversely affected. Whether or not the Convertible Debentures will trade at lower prices depends on many factors, including the liquidity of the Convertible Debentures, prevailing interest rates and the markets for similar securities, the market price of the Chorus common Shares, general economic conditions and Chorus' financial condition, historic financial performance and future prospects. Further, the common Shareholders will suffer dilution if Chorus decides to redeem outstanding Convertible Debentures for Shares or to repay outstanding principal amounts thereunder at maturity of the Convertible Debentures by issuing additional Shares.

Credit risk and prior ranking indebtedness; absence of covenant protection

The likelihood that purchasers of the Convertible Debentures will receive payments owing to them under the terms of the Convertible Debentures will depend on the financial health of Chorus and its creditworthiness. In addition, the Convertible Debentures are unsecured obligations of Chorus and are subordinate in right of payment to all Chorus' existing and future senior indebtedness. Therefore, if Chorus becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, Chorus' assets will be available to pay its obligations with respect to the Convertible Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Convertible Debentures then outstanding. The Convertible Debentures are also effectively and structurally subordinate to claims of creditors (including trade creditors) of Chorus' subsidiaries except to the extent Chorus is a creditor of such subsidiaries ranking at least pari passu with such other creditors.

Conversion following certain transactions

In the case of certain transactions, each Convertible Debenture will become convertible into the securities, cash or property receivable by a holder of Shares in the kind and amount of securities, cash or property into which the Convertible Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Convertible Debentures in the future. For example, if Chorus were acquired in a cash merger, each Convertible Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on Chorus' future prospects and other factors.

19. ADDITIONAL INFORMATION

Additional information relating to Chorus, including the Fund's Annual Information Form and the Management Circular dated October 4, 2010 is available on SEDAR at www.sedar.com or on Chorus' website at www.flyjazz.ca, under Investors.

20. GLOSSARY OF TERMS

7503695 – 7503695 means 7503695 Canada Inc., a corporation incorporated under the Canada Business Corporations Act on April 14, 2010;

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

Aviation GP – Aviation GP means Aviation General Partner Inc., a corporation incorporated under the Ontario Business Corporations Act on November 18, 2010, to act as the general partner of the Partnership;

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

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

Controllable Costs – Controllable Costs mean for any period, all costs and expenses incurred and paid by Chorus with respect to the Scheduled Flights and the Aircraft Services, as defined in the Partnership Agreements, other than pass-through costs, but including any incentive compensation expense;

Controllable Revenue – Controllable Revenue means operating revenue derived from Jazz Controllable Costs under Partnership Agreements;

Cost per Available Seat Mile (CASM) – Cost per Available Seat Mile means the operating expense per Available Seat Mile;

Covered Aircraft – Covered Aircraft are Chorus' aircraft subject to the CPA;

CPA – CPA means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and the Partnership, as amended by the Rate Amending Agreement and the CPA Amending Agreement, and as may be further amended;

CPA Amending Agreement – CPA Amending Agreement means the agreement to amend the CPA between the Partnership and Air Canada dated September 22, 2009;

CPA Asset – CPA Asset means the intangible asset consisting of Chorus' rights under the CPA;

Credit Facilities – Credit Facilities mean the senior secured syndicated facilities in the aggregate amount of $150 million established pursuant to a credit agreement dated February 2, 2006, between Chorus, as borrower, the financial institutions identified therein, as Lenders and Royal Bank of Canada, as administrative agent;

Flight Services Agreement – Flight services agreement means the contractual flying agreement between Thomas Cook Canada and Chorus;

FTE – FTEs are full-time equivalents in respect of employee staffing levels;

Fund – Fund means Jazz Air Income Fund;

IPO – IPO means initial public offering;

Jazz GP – Jazz GP means Jazz Air Holding GP Inc., a corporation incorporated under the Canada Business Corporations Act on August 23, 2005, to act as the general partner of Jazz Air LP;

LARAH – LARAH means Latin American Regional Aviation Holding Corp;

Maintenance Capital Expenditures – represent expenditures incurred to sustain operations or Chorus' productive capacity;

Operating Aircraft – Operating Aircraft means Covered Aircraft under the CPA plus charter aircraft, plus Thomas Cook aircraft, less new aircraft deliveries which have not yet entered commercial service;

Operating expenses – Operating expenses means operating expenses before amortization of CPA Asset;

Partnership Agreements – Partnership Agreements mean those contracts signed by Jazz for contractual flying;

Pass through costs - Pass through costs mean those costs that are reimbursed under Partnership Agreements;

Pass through revenue – Pass through revenue means operating revenue derived from costs that are reimbursed under Partnership Agreements;

Pluna – Pluna means Pluna Líneas Aéreas Uruguayas S.A;

Productive capacity management strategy - represents capital expenditures required to sustain operations. Capital expenditures are made in support of ongoing fleet requirements, such as aircraft communication systems, cockpit standardization, regulatory compliance, maintenance information systems infrastructure, aircraft rotable parts and leasehold improvements.

Rate Amending Agreement – Rate Amending Agreement means the agreement to amend and re-set the rates between the Partnership and Air Canada dated July 28, 2009;

Shareholders – Shareholders mean holders of Shares;

Shares – Shares mean common Shares of Chorus Aviation Inc.;

Scheduled Flights – Scheduled Flights mean the flights operated by the Covered Aircraft whose routes, schedules and fares are determined by Air Canada in accordance with the CPA;

Scheduled Flights Revenue – Scheduled Flights Revenue means, for any period, all revenues generated by Chorus under the CPA from aircraft services and Scheduled Flights excluding revenues resulting from the reimbursement by Air Canada of Chorus' pass-through costs and from the payment by Air Canada of performance incentives;

The Partnership - The Partnership means Jazz Aviation LP;

Thomas Cook – Thomas Cook means Thomas Cook Canada Inc.;

Trust – Trust means Jazz Air Trust;

Unitholders – Unitholders mean holders of the Units;

Units or Fund Units – Units or Fund Units mean units of the Fund;

Variable Voting Shares – Variable Voting Shares mean Class A common Variable Voting Shares of Chorus; and

Voting Shares – Voting Shares mean Class B Common Voting Shares of Chorus.