



2011

ANNUAL INFORMATION FORM

March 29, 2012

TABLE OF CONTENTS

EXPLANATORY NOTES	1
CORPORATE STRUCTURE	1
THE CHORUS BUSINESS	2
REGULATORY ENVIRONMENT.....	19
RISK FACTORS.....	24
MARKET FOR SECURITIES	36
TRANSFER AGENT AND REGISTRAR.....	37
DIVIDEND RECORD	37
DESCRIPTION OF CAPITAL STRUCTURE	37
DIRECTORS AND OFFICERS	40
CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS.....	44
CONFLICTS OF INTEREST	45
INTEREST OF EXPERTS.....	45
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	45
MATERIAL CONTRACTS.....	45
ADDITIONAL INFORMATION	45
GLOSSARY OF TERMS.....	47
SCHEDULE "A" CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE	A-1

EXPLANATORY NOTES

The information in this AIF is stated as at December 31, 2011, unless otherwise indicated.

Chorus and the Corporation - References herein to Chorus and the Corporation include references, as the context may require, to Chorus and its current and former subsidiaries, collectively (including, but not limited to Jazz Aviation LP (“Jazz” or the “Partnership”), Jazz Air LP, Aviation General Partner Inc., Jazz Air Holding GP Inc., Chorus Leasing I Inc., Chorus Leasing II Inc., Chorus Leasing III Inc. (collectively the “LeaseCos”), and 7503695 Canada Inc.), Chorus and one or more of its current and former subsidiaries, one or more of Chorus’ current and former subsidiaries, or Chorus itself.

Subsidiaries - References herein to the term “subsidiary” or “subsidiaries” refer, in relation to any entity, to any other entity, including a corporation or a limited partnership, which is controlled, directly or indirectly, by that entity.

Defined Terms - Capitalized terms are defined in the “Glossary of Terms” section at the end of this AIF.

Currency - Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to “\$” are to Canadian dollars.

Forward-looking statements - Forward-looking statements are included in this AIF. 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, 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 AIF. The forward-looking statements contained in this discussion represent Chorus’ expectations as of March 29, 2012, 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.

CORPORATE STRUCTURE

Chorus is the successor to the Fund following the completion of the conversion of the Fund from an income trust structure to a corporate structure by way of a court-approved plan of arrangement under the CBCA on December 31, 2010 (the “Arrangement”).

Under the Arrangement, Unitholders who were Qualified Canadians received Voting Shares on the basis of one Voting Share for each Unit transferred, and Unitholders who were not Qualified Canadians received Variable Voting Shares on the basis of one Variable Voting Share for each Unit transferred. The Shares provide the same voting rights and economic interests to holders that they had prior to the effective time of the Arrangement.

Chorus was incorporated on September 27, 2010 under the CBCA and did not carry on any active business prior to the Arrangement.

On February 28, 2011, Chorus incorporated three wholly-owned subsidiaries under the CBCA, Chorus Leasing I Inc., Chorus Leasing II Inc., and Chorus Leasing III Inc. The entities were established for the sole purpose of acquiring 15 Q400 NextGen turboprop aircraft (“Q400 aircraft”). See “The Chorus Business - Fleet”.

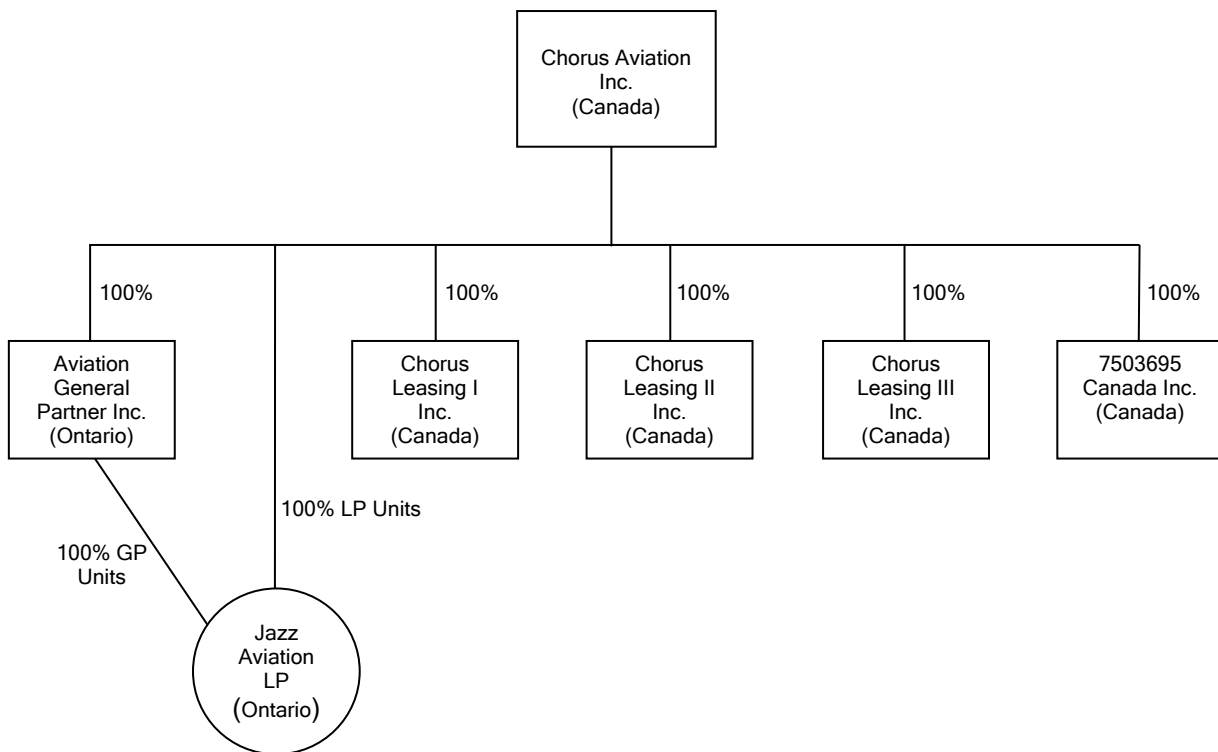
The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6100, P.O. Box 50, Toronto, Ontario M5X 1B8. The chief executive office of Chorus is located at 310 Goudey Drive, Enfield, Nova Scotia, B2T 1E4.

On January 5, 2011, 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, is now carried on by Jazz Aviation LP. As a result of this reorganization, Jazz Air LP was liquidated and dissolved and the Fund and the Trust were wound-up.

Additional information regarding Chorus’ corporate structure is provided in the consolidated financial statements for the year ended December 31, 2011 and the 2011 Management’s Discussion and Analysis of Results of Operations and Financial Conditions (“MD&A”) dated February 20, 2012, both of which are available on Chorus’ website at www.chorusaviation.ca and on SEDAR at www.sedar.com.

Organizational structure

The following chart illustrates the structure of Chorus as at March 29, 2012 (including the jurisdictions of establishment and incorporation of the various entities) after completion of the post-arrangement re-organization.



THE CHORUS BUSINESS

Overview

Chorus was established to acquire and hold, directly or indirectly, investments in the Partnership and its general partner Aviation General Partner Inc., 7503695 Canada Inc., the LeaseCos and other investments that it may acquire from time to time. Chorus operates the largest regional airline, and the second largest airline, in

Canada after Air Canada, based on fleet size. Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus and Air Canada are parties to the CPA, under which Air Canada currently purchases the greater part of Chorus' fleet capacity at pre-determined rates. Under the CPA, Chorus provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada, and to and from certain destinations in the United States. As at December 31, 2011, Chorus operated scheduled passenger service on behalf of Air Canada with approximately 781 departures per weekday to 56 destinations in Canada and 27 destinations in the United States, using 126 Covered Aircraft (refer to discussion on temporary increase in Covered Aircraft from 125 to 126 in "The Chorus Business - Fleet"). Chorus and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and provide valuable traffic feed to Air Canada's mainline routes. As approximately 39.4% of the passengers carried by Chorus connect to the Air Canada mainline network, the Chorus network provides substantial network feed revenue to Air Canada. Management believes that Chorus represents 50.0% of the flights in Air Canada's schedule.

Under the CPA, Chorus operates flights on behalf of Air Canada under the "Air Canada Express" tradename, formerly "Air Canada Jazz". Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft. 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, 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. Chorus is economically and commercially dependent upon Air Canada and certain of its subsidiaries as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services to Chorus. Chorus is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity.

For Air Canada, the CPA provides commercial flexibility, lower costs, and connecting traffic to main airport hubs. For Chorus, the CPA reduces business and financial risk, generates stable and predictable long-term cash flow, and provides a solid foundation to diversify and grow the corporation's business going forward.

Chorus also operates Boeing 757-200 aircraft on behalf of Thomas Cook to various sun destinations during the winter season (November through April) pursuant to the Flight Services Agreement. In November 2011, Chorus commenced its second season of flying under the Flight Services Agreement. Subject to its terms, this agreement will remain in place for three additional winter seasons (subject to any future extension).

Market Position in the Canadian Regional Airline Industry

Through its relationship with Air Canada, Chorus serves more destinations in Canada than any other airline. Management believes that the scope and diversity of Chorus' coverage area is a significant competitive advantage. As the only pan-Canadian regional airline, Chorus can shift capacity across regions as demand dictates.

Air Canada and Chorus served 116 North American destinations as at December 31, 2011. Chorus served 83 (or approximately 72%) of these destinations and, of these, Chorus was the sole provider of Air Canada services at 47 (or approximately 57%) stations. As at December 31, 2011, Chorus was the sole operator of aircraft with a capacity of 37 seats or greater at 23 North American airports.

As at December 31, 2011, Chorus' fleet of 139 operating aircraft consisted of 59 Bombardier regional jets, 74 Dash eight turboprop and six Boeing 757 aircraft. Chorus' fleet is significantly larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of turboprop aircraft, generally operating aircraft in the 19 to 70 seat range. These carriers are primarily stand-alone operators in niche markets. None of these carriers approaches the size and scope of operation of Chorus. Low-cost carriers, including WestJet, also compete with Air Canada on certain routes in Canada operated by Chorus.

Predictable and Stable Business Model

Chorus derived 95% of its revenues from Air Canada during 2011 (2010 - 98%, 2009 - 99%, 2008 - 99%). The CPA will expire on December 31, 2020, subject to certain renewal rights for two additional five-year periods. See “The Chorus Business – Capacity Purchase Agreement with Air Canada – Term and Termination of Agreement”.

As Chorus’ CPA operation is not directly exposed to the risks relating to the volatility of certain variable costs (e.g. fuel) and relating to passenger revenues, management believes that Chorus’ risk profile is lower than other air transport companies. The CPA provides Chorus with stable and predictable cash flows while also generating profit opportunities through incentive payments for on-time performance, flight completion, baggage handling, and customer satisfaction.

The benefits of the CPA include:

- Less exposure to revenue volatility associated with ticket prices and passenger traffic. The number of aircraft operated by Chorus and Block Hours flown by such aircraft are the main drivers determining Chorus’ revenues from the CPA. As of December 31, 2011, 126 Covered Aircraft were used to provide services under the CPA (refer to discussion on temporary increase in Covered Aircraft from 125 to 126 in “The Chorus Business - Fleet”).
- Less exposure to cost volatility, as fuel costs, navigation fees, landing and terminal fees are passed through to Air Canada under the CPA. Although Chorus bears the risk of changes to its Controllable Costs, it is compensated by Air Canada for this risk by a mark-up on its estimated Controllable Costs.
- Ability to increase its profitability by reducing its Controllable Costs over time.
- Chorus is able to earn performance incentive payments if it achieves or exceeds certain operational targets.
- A guarantee of certain minimum levels of operating capacity.
- A term that expires in December 2020.

Other Business Opportunities.

Chorus’ diversification and growth has been generated mainly through new business development opportunities. Chorus continues to explore various types of relationships with other potential customers. Opportunities may exist for a variety of services and potential advisory arrangements capitalizing on Chorus’ airline operation expertise. (Refer to caution regarding forward-looking statements included in “Explanatory Notes” on page 1 of this AIF.)

Tour Operator Relationships

In 2010, Chorus entered into a five-year flight services agreement with Thomas Cook to provide Boeing 757-200 capacity to Thomas Cook’s Sunquest Division. Service began in November of 2010 with six 757-200 aircraft operating winter seasonal services from certain Canadian gateway cities to sun destinations in the Caribbean, Mexico and Central America. Chorus continues to explore opportunities to provide services to other tour operators to expand this segment of its business.

Charter, ACMI and Groundhandling Operations

Chorus offers charter services to Canadian and international locations. Chorus has been able to attract a wide variety of charter customers, including sports teams, fishing lodges, oil and gas companies, various provincial forestry ministries, musical groups and corporate clients. All revenues from the charter operations accrue directly to Chorus as ancillary revenues. Generally, margins on charter services are higher as customers are prepared to pay a premium for flights that fit their needs and schedule.

Chorus currently operates two 37-seat Dash 8-100, two 50-seat Dash 8-300 and one CRJ-200 aircraft as part of its dedicated charter fleet. Chorus is targeting growth within its charter operation through the pursuit of ongoing and new charter programs.

Under the CPA, Chorus is permitted to use the Covered Aircraft for ad hoc charter services in consideration for the payment of a charter fee to Air Canada, provided such services do not interfere with the CPA schedule.

Chorus' ground handling services business has grown year over year with long-term contracts at many Canadian stations with several customers. Chorus also provides ad hoc services, which include ramp handling, passenger services, de-icing and ground service equipment rental to customers. Chorus is constantly looking for new opportunities at all of its existing stations to expand the ancillary ground handling business further.

Maintenance, Repair and Overhaul Operations

Chorus' technical operations team performs regional jet and turboprop line maintenance, heavy maintenance and aircraft modifications to support Chorus' operations. The technical operations team maintains one of the largest Dash 8 fleets in the world. Chorus is also developing considerable expertise in the repair and overhaul of CRJ-100, 200 and 705 series Bombardier regional jets. Chorus has the ability to offer maintenance, repair and overhaul operations.

Strategic Partnerships

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, a Uruguayan airline. The remaining 25% equity interest in Pluna is held, indirectly, by the Government of Uruguay. Chorus appoints one of the seven directors on the Pluna board of directors.

Fleet

Chorus' operating fleet as at December 31, 2011 and the planned operating fleet for 2012 are shown below:

	Actual			Planned	
	December 31, 2010	New Deliveries or returns	December 31, 2011	2012 Fleet Changes	December 31, 2012
CRJ-100/200 (50 seats)	48	(5)	43	(8)	35
CRJ-705 (75 seats)	16	-	16	-	16
Dash 8 - 300 (50 seats)	28	-	28	-	28
Dash 8 - 100 (37 seats)	36	-	36	-	36
Q400 (74 seats)	-	10	10	5	15
Boeing 757-200 (211 seats)	6	-	6	-	6
Total	134	5	139	(3)	136

All aircraft in Chorus' operating fleet as of December 31, 2011 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.

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 125 aircraft, the "Guaranteed Minimum Number of

Covered Aircraft". The reduction in Covered Aircraft to the Guaranteed Minimum Number of Covered Aircraft was completed in April 2010.

In 2010, Chorus signed a purchase agreement with Bombardier for a firm order for 15 Q400 aircraft and options for 15 additional aircraft. The first Q400 aircraft was delivered on May 26, 2011, and entered into service on June 7, 2011. Effective July 1, 2011, following the entry of the second Q400 aircraft into service, the number of aircraft comprising the Covered Aircraft returned to 125, being the Guaranteed Minimum Number of Covered Aircraft. Upon the delivery of each remaining Q400 aircraft, one CRJ-100 will be removed from the fleet of Covered Aircraft, such that the number of aircraft shall remain at the Guaranteed Minimum Number of Covered Aircraft.

On March 8, 2011, Chorus and Air Canada agreed to the "Second Amending Agreement" to facilitate acquisition and leasing of the Q400 aircraft. Under the Second Amending Agreement, Air Canada agreed that the Q400 aircraft may be acquired by one or more of Chorus' subsidiary leasing companies, which will then lease such aircraft to Jazz, as Covered Aircraft. The parties also agreed to the timing of scheduling of the Q400 aircraft into commercial service, based upon the anticipated delivery date of such aircraft.

On October 18, 2011, Chorus and Bombardier signed a change order in respect of delivery dates regarding the original purchase agreement for the Q400 aircraft. Chorus took delivery of the ninth and tenth Q400 aircraft prior to December 31, 2011, whereas the original agreement had contemplated delivery of the ninth and tenth Q400 aircraft in January 2012 and February 2012, respectively, and the eleventh aircraft on March 1, 2012.

Chorus issued, to a third party, a 48 day, non-interest bearing promissory note to finance the tenth aircraft, which bridged the period between the purchase date on December 16, 2011 and the February 2, 2012 draw under the EDC long-term financing. The promissory note, with a principal amount of \$23.0 million, was secured by a first priority interest in the tenth Q400 Aircraft. On February 2, 2012, Chorus repaid its promissory note. In February and March 2012, Chorus drew EDC financing for the tenth and eleventh Q400 aircraft. The two term loans are repayable by Chorus to EDC in semi-annual instalments of \$US1.0 million each, mature in February 2024 and March 2024, respectively, and each term loan is secured by one Q400 aircraft and two PWA 150A engines. Financing arrangements for the tenth and eleventh aircraft are described under "The Chorus Business - Debt Financing".

The eighth aircraft was scheduled into service by Air Canada earlier than planned. This increased the Covered Aircraft temporarily to 126 at December 31, 2011. As at January 1, 2012, the Covered Aircraft returned to 125 with one CRJ-100 removed from service. The ninth and tenth aircraft were used by Chorus as operational spares until their respective scheduled service dates of February 1, 2012 and March 1, 2012.

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 five of the CRJ-100 aircraft as a pass-through cost.

Pursuant to the terms of the CPA, Chorus and Air Canada agreed to re-set detailed Rates (subject to the terms of the contract) applicable to the period commencing on January 1, 2012 and ending on December 31, 2014. The new Rates will be retroactive to January 1, 2012. Negotiations regarding this rate re-set are in progress.

CRJ-100/200

The 50-seat Bombardier CRJ-100/200 is a twin engine regional jet aircraft designed to provide superior performance and operating efficiencies for the regional airline industry. The CRJ-200 has more efficient engines than the CRJ-100, a longer flight range and larger pay-load capability. All 43 CRJ-100/200 in Chorus' fleet at December 31, 2011 are leased or subleased from Air Canada or its subsidiary, Air Canada Capital Ltd., with the exception of one, which is leased from a third party. These leases and subleases expire between 2012 and 2024.

CRJ-705

Chorus' CRJ-705s feature leather seats and are configured into ten Executive Class seats and 65 Economy Class seats. In-flight entertainment systems have been installed in every seat back of these aircraft. The CRJ-705 provides Chorus with the capability to offer services comparable to a mainline aircraft.

The CRJ-705 is an economical aircraft due to its operational efficiencies and lower trip costs. The efficiency, range, size and versatility of the CRJ-705 allows Chorus to economically fly longer and high frequency routes, and to offer superior comfort and non-stop services to its customers. 15 CRJ-705 aircraft currently in Chorus' fleet are subleased from Air Canada Capital Ltd., and one is leased from a third party. These subleases and leases expire in 2022 and 2024.

Dash 8-300

The 50-seat Bombardier Dash 8-300 is a twin engine medium range turboprop aircraft. Of the 28 Dash 8-300 in Chorus' fleet, 19 are owned by Chorus and nine are leased from third parties. These leases expire between 2015 and 2016.

Dash 8-100

The Bombardier Dash 8-100 is a twin engine turboprop medium range aircraft with a seating capacity of 37 passengers, is well suited to thin short-haul markets. Of the 36 Dash 8-100 aircraft in Chorus' fleet, 29 are owned by Chorus and seven are leased from Air Canada Capital Ltd. These leases expire between 2012 and 2013.

Boeing 757-200

The Boeing 757-200 is a long-range single-aisle narrow body jet operated by Chorus in a 211 seat, all-economy class configuration. Chorus operates six 757-200 under the brand name Thomas Cook Canada for Thomas Cook's tour operator division Sunquest, seasonally from November to April. The six aircraft are subleased for the winter season from Thomas Cook Airlines in the United Kingdom.

Bombardier Q400 NextGen

The Q400 aircraft is an efficient high-speed turbo-prop aircraft with attractive economics that is able to operate on stage lengths of up to 750 miles. It features 74 seats in an economy class configuration and the "NextGen" interior with larger overhead bins, sculpted sidewalls and LED lighting. As at December 31, 2011, Chorus had taken delivery of ten aircraft, all of which are owned.

Scope Clause

Scope clauses are an industry norm for network airlines operating in conjunction with regional carriers and are typically found in the collective agreements entered into by the applicable pilot union groups. Chorus, like many regional airlines, is restricted in the type of services it can provide to Air Canada by scope provisions in the collective agreement between Air Canada and ACPA, which represents Air Canada's pilots. The small jets settlement agreement between Chorus, Air Canada, ACPA and ALPA (the "Small Jets Settlement Agreement") provides for a process under which orders for regional jets are allocated between Air Canada and Chorus. It also provides for the types and number of jets that can be flown by Chorus on behalf of Air Canada, and sets out a mechanism for resolving disputes regarding regional jet additions to either fleet. More specifically, the Small Jets Settlement Agreement provides that:

- Chorus may maintain a fleet of Covered Aircraft of 57 CRJ-100/200 and 16 CRJ-705 aircraft.
- If either Air Canada or Chorus seeks to increase the fleet of Covered Aircraft, they must notify ACPA and ALPA in writing of the proposed increase and then meet with ACPA and ALPA to discuss and, if possible, agree on the increase and any terms in connection therewith. Where no agreement is reached, the matter is referred to an arbitrator or a mediator who will then make a decision, taking into account the business case put forward by the respective parties and the impact of the matter at hand on the respective pilot groups.
- Chorus may not operate the CRJ-705 as Covered Aircraft if configured in excess of 75 seats, inclusive of all classes.

- There are no limits to the number of turboprop aircraft that Chorus may operate for Air Canada.
- As was previously the case, Air Canada must ensure that a minimum number of ASMs are flown by Air Canada compared to ASMs flown by Chorus under the CPA, as defined in the ACPA collective agreement.

On two separate occasions the Chorus fleet of Covered Aircraft has been modified through the Small Jets Settlement Agreement process. In 2005, Chorus took delivery of an additional eight CRJ-200 aircraft beyond the 50 aircraft maximum described in the Small Jets Settlement Agreement. The additional eight Covered Aircraft were permitted to be added to Chorus' fleet following an arbitration completed in accordance with the Small Jets Settlement Agreement. In 2007, Chorus took delivery of the sixteenth CRJ-705, also a Covered Aircraft, pursuant to the Small Jets Settlement Agreement process.

Capacity Purchase Agreement with Air Canada

Overview and Scope of Agreement

Pursuant to the CPA, Air Canada purchases from Chorus the capacity of the Covered Aircraft in consideration for the payment of certain fees by Air Canada to Chorus. During the period from October 1, 2004 to December 31, 2011, Chorus derived substantially all of its revenues (2011 - 95%; 2010 - 98%; 2004-2009 - 99%) from services provided under the Initial CPA and CPA. On July 28, 2009, Chorus announced that a mutually beneficial agreement had been reached with Air Canada to amend the terms of the CPA. See "The Chorus Business - Amendments to the CPA". In addition, on March 8, 2011 the Second CPA Amending Agreement was signed between the parties to facilitate the introduction of Q400 aircraft as Covered Aircraft.

Under the CPA, Chorus operates Scheduled Flights on behalf of Air Canada using the Covered Aircraft and provides scheduled passenger service, including but not limited to, flight and cabin crews, aircraft maintenance, flight dispatch and in some cases, airport operations. Air Canada determines routes and controls scheduling, ticket prices, product distribution, seat inventories, marketing and advertising for the Scheduled Flights. Air Canada is entitled to all revenues (except bar and buy-on board sales) resulting from the Scheduled Flights, including ticket sales, baggage charges, passenger charges and employee pass travel service charges. Air Canada is also entitled to all revenues resulting from all Cargo Services.

Chorus and Air Canada have agreed on a long-range fleet plan which sets out the number of Covered Aircraft, by aircraft type, for the term of the CPA. The total number of Covered Aircraft cannot, at any time during the term of the CPA, be reduced below certain thresholds set out in the existing long-range fleet plan without the mutual agreement of Air Canada and Chorus, except if Chorus enters into an agreement with another air carrier to provide regional airline services (other than charter flights). Air Canada has the right to reduce the number of Covered Aircraft, on a one-for-one basis, based on type, and by the number of aircraft to be operated under such an agreement.

Air Canada may periodically require changes to the fleet composition, including any increase in aircraft of any type, provided that any such changes do not reduce the total number of Covered Aircraft set forth in the existing long-range fleet plan and that any replacement aircraft does not reduce the economic benefits to Chorus under the CPA.

Fees Payable by Air Canada

The fees payable by Air Canada to Chorus on a monthly basis are broken down into a number of categories. These payment categories fall into two broad groups: those that vary based on Covered Aircraft utilization and those that are fixed. The most important of the variable payments are the Block Hour and Flight Hour payments paid by Air Canada for each Block Hour and Flight Hour flown by Chorus' Covered Aircraft. Other variable payments, such as cycle payments and the passenger payments, are relatively small. The other group of payments, such as aircraft rent, do not change regardless of the Covered Aircraft's utilization and are designed to correspond to Chorus' costs for these items, plus a mark-up.

Type of Fee	Calculation	Included in Rate
Block Hour Payments	Block Hour rate for each aircraft type multiplied by actual Block Hours flown by each aircraft type in the month	<ul style="list-style-type: none"> • Salaries, wages, and benefits for flight and cabin crew • Block Hour-driven direct maintenance labour costs • Block Hour-driven direct maintenance, material, and supply costs
Flight Hour Payments	Flight Hour Rate for each aircraft type multiplied by actual Flight Hours flown by each aircraft type in the month	<ul style="list-style-type: none"> • Flight Hour-driven direct maintenance, material, and supply costs
Cycle Rate Payments	There are a number of cycle rates applicable for each aircraft type, each of which is multiplied by actual number of cycles (being one take off and one landing) completed by each aircraft type in the month, although certain of the cycle rates apply only for departures from certain airports	<ul style="list-style-type: none"> • Total crew cycle costs • Cycle or frequency-driven direct maintenance, materials and supplies • Aircraft parking • Aircraft services labour (internal Chorus provided passenger, ground handling and other airport support services) and purchased terminal handling (ground handling supplied by Air Canada or any other third party) • At certain airports, the salaries, wages and benefits of Chorus' employees stationed at that airport
Passenger Rate Payments	There are a number of passenger rates applicable to each aircraft type, each of which is multiplied by the actual number of passengers carried onboard each aircraft type in the month	<ul style="list-style-type: none"> • Catering delivery charges • Onboard product • Passenger inconvenience • Baggage delivery • Other factors
Aircraft Ownership Payment (Variable)	The aircraft ownership payment is comprised of two components: (i) the aircraft ownership variable rate for each aircraft type, which is multiplied by the number of aircraft of that type subject to the CPA in that month, and (ii) aircraft ownership variable rate per Flight Hour for each aircraft type which is multiplied by the Flight Hours flown in that month (for all aircraft of the relevant type)	<ul style="list-style-type: none"> • Interests costs, lease costs, and depreciation and amortization costs relating to the Covered Aircraft • Depreciation costs and amortization costs • Transaction and service fees on aircraft leases • Aircraft hull insurance costs • Third party component inventory ownership charges

Type of Fee	Calculation	Included in Rate
Aircraft Ownership Payment (Fixed)	Aircraft Ownership Payment for each aircraft type	<ul style="list-style-type: none"> • Depreciation on rotables/tooling • Insurance management fee • Spare engine lease costs
Fixed Cost Payment	Fixed cost rate for all Covered Aircraft	<ul style="list-style-type: none"> • Salaries, wages, and benefits for management, administrative, and technical services staff and some unionized staff • Rent and facilities costs • Employee uniform costs • Communications • Non-aircraft insurance • Utilities • Office equipment rentals, office supplies • Workers' compensation costs • Travel costs • Training and development costs • Information system costs • Ground service equipment costs • Brand image costs • Miscellaneous costs, fees and services

In addition to the principal categories described above, Air Canada compensates Chorus for:

- Scheduled Flights cancelled at the request of Air Canada or as a result of Air Canada-directed schedule changes occurring after the date when Chorus crews have been determined and crew schedules committed for the month; and
- Scheduled Flights cancelled due to weather or air traffic control directives during the month. Air Canada and Chorus share the costs related to ferry flights (flights to position aircraft for Scheduled Flights) during the month.

Chorus also receives certain fees from Air Canada for ground handling services provided by Chorus to Air Canada.

Air Canada also reimburses Chorus, without mark-up, for certain pass-through costs incurred directly by Chorus, such as fuel, navigation, landing and terminal fees and certain other costs.

Rates and Specified Mark-Up

The rates for the payments of fees described above have been agreed upon for each calendar year until December 31, 2011. Pursuant to the terms of the CPA, Chorus and Air Canada agreed to re-set detailed Rates (subject to the terms of the contract) applicable to the period commencing on January 1, 2012 and ending on December 31, 2014. The new Rates will be retroactive to January 1, 2012. Negotiations regarding this rate re-set are in progress.

Notwithstanding such agreement, these rates may be revised from time to time:

- as a result of permitted changes in Chorus' fleet which are not contemplated in the long-range fleet plan and which result in an aggregate increase or decrease in the number of Covered Aircraft of any single type in excess of 20% of what is contemplated in the current long-range fleet plan; or
- with respect to certain rate components, based on Chorus' actual costs incurred during a particular period.

Under the CPA, Chorus is paid fees by Air Canada on a variety of different metrics based on Chorus' estimated Controllable Costs for each calendar year marked-up by a specified percentage. See "The Chorus Business - Amendments to the CPA", for a description of current rates, and possible adjustments thereto, applicable under the CPA.

The Controllable Mark-Up may be reduced as a result of benchmarking Chorus' Controllable Costs to those of a group of comparable operators (the "Comparable Operators"). Under the CPA, this benchmarking was to be effected in 2010 (based on information from Chorus' 2009 calendar year - the "2009 Benchmark") and again in 2016 (using information from Chorus' 2015 calendar year - the "2015 Benchmark"). If the 2009 Benchmark reveals that the percentage difference between Chorus' Unit Costs and the median controllable unit costs, stage length adjusted, of the Comparable Operators has increased compared to the percentage difference of these costs for the twelve month period beginning July 1, 2006 and ending June 30, 2007, the Controllable Mark-Up shall be reduced accordingly 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 change in Controllable Mark-up resulting from the 2009 Benchmark. If the 2015 Benchmark indicates that percentage difference between Chorus' Controllable Costs and the median controllable unit costs, stage length adjusted, of the Comparable Operators has increased compared to the percentage difference determined during the 2009 Benchmark, 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. The comparison of Chorus' Unit Costs to the median controllable unit costs, stage length adjusted, shall be subject to adjustments required to reflect the differences between Chorus and each Comparable Operator in fleet type and size, aircraft utilization, currency, geographical deployment and growth relative to Chorus.

Chorus and Air Canada were unable to reach an agreement in 2010 on the results of the 2009 Benchmark. On February 3, 2011, Chorus and Air Canada agreed to proceed to binding arbitration in respect of the 2009 Benchmark (the "Arbitration"). On October 3, 2011, Air Canada delivered its claim in the Arbitration (the "AC Claim"). In the AC Claim, Air Canada seeks a declaration that the appropriate methodology for comparing Chorus' Unit Costs to the adjusted median controllable unit costs of the Comparable Operators is a "component unit cost driver methodology" or "CUCD". The AC Claim further seeks a declaration that the proper application of the CUCD for the purpose of the 2009 Benchmark results in a reduction of the Controllable Mark-Up from 12.50% to 9.54%, effective from January 2010. Air Canada claims that, if the Controllable Mark-Up is reduced from 12.50% to 9.54%, Chorus would be required to repay Air Canada the amount of \$26.0 million in respect of payments made by Air Canada to Chorus in 2010. Air Canada is seeking an order that Chorus be required to pay Air Canada that amount, or such other amount as the arbitration panel may determine, as well as any other amount necessary to account for the adjustment of Controllable Mark-Up for payments made by Air Canada to Chorus in 2011 and on a going-forward basis. The AC Claim also alleges that the formula for calculating the compensating Mark-Up ought to be adjusted to take into account any reduction in the Controllable Mark-Up.

On November 7, 2011, Chorus delivered its Defence and Counterclaim in the Arbitration (the "Chorus Claim"). In the Chorus Claim, Chorus asserts that the relevant provisions of the CPA provide that the preferred methodology to be applied for comparing Chorus' Unit Costs to the adjusted median controllable unit costs of the Comparable Operators shall be on a "cost per available seat mile" or "CASM" basis. Chorus further asserts that if a CASM methodology is applied with the appropriate normalizations and adjustments, no adjustment to the Controllable Mark-Up will be required as a result of the 2009 Benchmark. As a result, Chorus believes that it is not required to repay Air Canada any amounts in respect of payments made in 2010 or 2011 and its Controllable Mark-Up will remain at 12.50% going forward until at least the 2015 Benchmark. In the alternative, Chorus asserts that, even if the arbitration panel were to accept that CASM was not an appropriate methodology, the CUCD methodology proposed by Air Canada in the AC Claim is not an "alternate market recognized benchmark" as contemplated by the CPA. In the further alternative, the Chorus Claim asserts that, even if CUCD were to be found to be an "alternate recognized benchmark", a proper application of the CUCD methodology with the appropriate normalizations and adjustments would not result in the adjustment to the

Controllable Mark-Up claimed by Air Canada. Finally, Chorus states that the CPA does not provide for any adjustment to the compensating Mark-Up formula resulting from an adjustment to the Controllable Mark-Up as a consequence of the 2009 Benchmark exercise. Hearing of the Arbitration has been scheduled for June 2012.

Although Chorus believes that the methodology it has proposed is both fair and reasonable and consistent with the relevant provisions of the CPA, there can be no assurances that the methodology Chorus has proposed will ultimately be the basis of conducting the 2009 Benchmark exercise as a result of the arbitration process. If Chorus' methodology is not consistent with any arbitration decision, operating results, financial condition and liquidity may be materially negatively impacted by any resulting reduction in the Controllable Mark-Up.

No amounts have been recorded in the accounts of Chorus in 2010 or 2011 related to this claim as management has determined that it is not probable that the AC Claim will be successful and it is not practicable to determine an estimate of the possible financial effect, if any, with sufficient reliability.

Performance Incentives

In addition to the fees described above, Chorus can earn certain performance incentive payments up to 2.36% of its Scheduled Flights Revenue for the relevant period based on four operational performance incentive categories: on-time performance, flights actually flown, incidences of mishandled luggage at airports where Chorus is responsible for luggage handling, and other customer satisfaction measures related to in-flight and check-in satisfaction.

Operating Plans and Scheduling

Air Canada provides Chorus with a high level three-year operating plan, which sets out any changes to the number of Covered Aircraft and Active Aircraft on a monthly basis and the frequencies, Block Hours, airport activity, load factors and ASMs for each aircraft type for the next three calendar years, subject to any agreed upon changes during such period. Air Canada also delivers each year a high level operating plan for the upcoming calendar year for budget and planning purposes.

Air Canada and Chorus also jointly agree on a seasonal operating plan prior to the start of each summer and winter schedule period, which includes Air Canada's forecast regarding:

- Block Hours and departures by aircraft type, ASMs and passenger volume;
- the airports to which Chorus will operate Scheduled Flights; and
- specific dates for the commencement of service to or from new airports, if any.

Air Canada also delivers rolling monthly schedules which may vary from the final seasonal schedules. Chorus operates based on such monthly schedules as long as the volume of flying required to meet the schedule change does not increase or decrease the total Block Hours for any aircraft type by more than 5%, as compared with the Guaranteed Block Hours. If the variance is greater than 5%, Air Canada and Chorus are required under the CPA to agree on changes to rates and aircraft.

Return of Aircraft

The CPA provides that Air Canada shall bear the cost and expense of the removal of aircraft from the Covered Aircraft fleet, the return of such aircraft to lessors and all return condition obligations contained in any lease, sublease or loan arrangement relating to the Covered Aircraft or the spare engines used to support the Covered Aircraft (the "Spare Engines") after October 1, 2004. Any such return condition obligations attributable to the possession, use or operation of any Covered Aircraft or any Spare Engine prior to October 1, 2004 shall be borne by Chorus.

Minimum Average Daily Utilization Guarantee

Under the CPA, Air Canada agreed to pay Chorus for certain daily minimum levels of operating capacity ("MADUG") calculated based on the assumption that total annual Block Hours will not be less than 339,000. The MADUG 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. 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, Air Canada will have the right to revise MADUG. If Air Canada and Chorus have not agreed upon a revised MADUG by November 17, 2015, Air Canada will have the right to unilaterally set a revised MADUG by sending Chorus notice by November 20, 2015. Chorus will then be required to provide Air Canada with notice by December 18, 2015 accepting the revised MADUG or terminating the CPA effective December 31, 2016.

Minimum Capacity Guarantee

Payments are made by Air Canada to Chorus based on Block Hours actually flown during a given seasonal period. However, such payments may not be less than a minimum of 95% of the Block Hours set forth in the applicable final seasonal schedule delivered by Air Canada (expressed in Block Hours per aircraft type per day) (the "Guaranteed Block Hours"), unless 95% of such Guaranteed Block Hours are less than the total Block Hours required pursuant to the MADUG set out in the CPA for that aircraft type. In the event that in any Schedule Period the Guaranteed Block Hours for any aircraft type (expressed in Block Hours per day per aircraft) is less than the MADUG for that aircraft type, the Minimum Capacity Guarantee calculation will be made using the MADUG for that aircraft type instead of 95% of the Guaranteed Block Hours.

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 (as defined in the CPA) prevents that party from meeting its obligations pursuant to the CPA. Upon the occurrence of an event of force majeure, Air Canada and Chorus will, as soon as reasonably possible given the nature of the event of force majeure, meet and work together to minimize the impact of such event of force majeure.

Code-sharing

The CPA requires Chorus to use Air Canada's two-letter flight designator code (AC), or any other code specified by Air Canada and belonging to a Star Alliance™ partner or other partner of Air Canada, to identify its flights operated by Chorus under the CPA in the computer reservation system.

Ground Handling and Cargo Services

Under the CPA, Air Canada is responsible for providing ground handling services at airports where Air Canada performs ground handling services. Chorus is responsible for performing or obtaining such services at all other locations. Chorus performs such services for Air Canada at certain airports for a fee. As of December 31, 2011, out of the 83 airports serviced by Chorus, Air Canada provided ground handling services at 18 airports, Chorus provided ground handling services at six airports, and ground handling services at the remaining airports were provided by other third parties. Chorus and Air Canada have entered into the Air Canada Ground Handling Agreement for the provision of such ground handling services to Chorus at airports serviced by Air Canada.

Air Canada has sole responsibility for, and is entitled to all revenue from, Cargo Services. Air Canada has the right to transfer the cargo capacity of the Scheduled Flights to a party of its choice. Chorus has access to limited cargo capacity for purposes of moving aircraft parts and other materials.

Charter Flights

Chorus is entitled to operate charter flights during the term of the CPA, with the Covered Aircraft (subject to the payment of a charter fee to Air Canada) or with other aircraft provided that Chorus continues to meet its obligations under the CPA and does not market such flights as Air Canada flights. Chorus is responsible for all incremental costs and expenses associated with such flights and is entitled to all revenues. Chorus is required to obtain Air Canada's consent in respect of certain charter program services, which consent may not be unreasonably withheld.

Facilities

Under the CPA, Air Canada is responsible for the costs associated with:

- opening, closing and moving maintenance and crew bases, where such changes are due to changes required by Air Canada to operate the Scheduled Flights;
- any additional facilities required as a result of increased frequency of Scheduled Flights; and
- any required relocation of Chorus to comparable airport facilities reasonably acceptable to Chorus contiguous to Air Canada leased premises, ramp, gate and office space.

Term and Termination of Agreement

The CPA will expire on December 31, 2020, subject to renewal on terms to be negotiated for two additional five-year periods unless either party gives written notice of non-renewal to the other not less than one year prior to the end of the initial term or the first five year renewal term. Either party is entitled to terminate the CPA at any time upon occurrence of an event of default.

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 will automatically be terminated and Air Canada (or the affiliate of Air Canada) will have the right to repossess the Covered Aircraft and the Spare Engines. In the event that the CPA is terminated as a result of Chorus' default, all such leases will not be terminated and Chorus will remain liable for its obligations under the aircraft leases. If the CPA is terminated as a result of a default by Air Canada, Chorus will have the right to terminate any of such leases, which right must be exercised concurrently with the termination of the CPA.

Other Agreements with Air Canada

Master Services Agreement

In addition to the CPA, Chorus and Air Canada have entered into a MSA under which Air Canada provides certain services to Chorus in return for a fee based on the fair market value of such services. The services contemplated by the MSA provide Chorus with infrastructure support and are mostly administrative in nature, including information technology services, French language training, insurance claims services, and environmental affairs services. The most significant services relate to information technology whereby Chorus benefits from the agreements signed by Air Canada with each of IBM and BCE Nexxia, as well as Air Canada's internal information technology resources.

Chorus and Air Canada may elect to terminate any services under the MSA (without terminating the whole agreement) or the entire MSA, upon one year's prior written notice. Also, the MSA terminates upon the termination of the CPA. Unless Air Canada terminates the MSA following a default by Chorus of its obligations under the MSA, Air Canada is required to provide certain transitional services to Chorus.

Air Canada Ground Handling Agreement

Pursuant to the Air Canada Ground Handling Agreement, Air Canada has agreed to provide certain aircraft related ground handling services to Chorus, including baggage handling and processing, baggage, cargo and mail loading and uploading, and aircraft servicing at 18 airports in Canada.

The ground handling services must be provided by Air Canada in accordance with Chorus' procedures and instructions. Chorus may maintain a representative to supervise the services rendered by Air Canada. In respect of passenger related ground handling services for charter flights operated by Chorus, Chorus and Air Canada are required to negotiate and agree on the specific services to be rendered by Air Canada and the fees payable by Chorus in connection with any such charter flights.

The current term of the Air Canada Ground Handling Agreement expires December 31, 2014, subject to automatic renewal for additional three year periods at the end of this term and each renewal term unless

Chorus or Air Canada provides notice of its intention not to renew the agreement at least one year prior to the end of the then current term, and also provided that the parties can agree on rates for the renewal term. No such notice of non-renewal has been given by either party.

Logos and Trademarks

Air Canada Express™, Air Canada Jazz™, Jazz™, Air Canada™, Air Canada Design™, Air Canada and Design™ and other trademarks are trademarks owned or registered by Air Canada in Canada and the United States. Air Canada has granted a license to use the Air Canada Jazz™, Jazz™, Air Canada™, Air Canada Design™, Air Canada and Design™ and other trademarks in Canada and the United States in association with the provision of scheduled airline services in regions of Canada and across the Canada – United States border. Chorus also owns additional trademarks in connection with its regional airline business.

Under the Trademark License Agreement, Air Canada granted Jazz Aviation LP a royalty-free, non-exclusive, non-sublicensable, non-assignable right to use certain trademarks owned or registered by Air Canada around the world including Jazz and those which incorporate the Air Canada name, and/or Air Canada's roundel design, solely in association with the CPA operations. In the event the CPA is terminated or expires, the Trademark Licence Agreement provides for a termination of the licence six months later. Under the Special Trademark Licence Agreement, Jazz Aviation LP and Air Canada agreed that in the event the CPA is terminated or expires, Air Canada will transfer all rights to the Jazz mark to Jazz Aviation LP and the parties will discontinue the use of the combined Jazz and Air Canada marks.

Chorus' trademarks and brand name assets are an important part of its business. Chorus benefits from the goodwill established for the Jazz brand name. Chorus protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions and confidentiality procedures.

Amendments to the CPA

As a result of CPA Amendments entered into in 2009:

- The initial term of the CPA was extended from December 31, 2015 to December 31, 2020.
- 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 to a MADUG that will not result in less than 339,000 annual Block Hours, notwithstanding the temporary reduction in the number of Covered Aircraft to 123 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 January 2016 in the event that 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 providing Chorus with 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.
- Rates for the 2009-2011 Rate Period were set. Such rates 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, as part of the CPA Amendments, Air Canada and Chorus agreed that the Controllable Mark-Up of 16.72% would only apply as of and from January 1, 2009 through to July 31, 2009. Commencing August 1, 2009, an agreed set of revised rates became effective, under which Chorus achieves a Controllable Target Margin of 11.11%, corresponding to a Controllable Mark-Up of 12.50% on Chorus' Controllable Costs.

- Three remaining CPA rate periods were established: (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 will review and agree in writing on the rates for the next rate period. Negotiations regarding this rate re-set are in progress. The components of each rate type to be considered in developing each new rate are set out in the schedules to the CPA and are based on costs incurred by Chorus. The CPA also specifies that the rates are to be established so as to enable Chorus to achieve the Controllable Target Margin which corresponds to the Controllable Mark-Up. If Chorus and Air Canada cannot agree on new rates, the matter is subject to the arbitration provisions in the CPA.
- The parties agreed that the Controllable Mark-Up will be adjusted 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, on the other hand, the 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 for Block Hours in excess of 375,000.
- The Controllable Mark-Up may also be reduced as a result of the 2009 Benchmark process and the 2015 Benchmark process described above.
- Changes were made to the long-range fleet plan, reflecting the commitment of Air Canada and Chorus to renew the fleet of Covered Aircraft. Air Canada and Chorus agreed that the fleet of Covered Aircraft will be reduced from 133 aircraft to the Guaranteed Minimum Number of Covered Aircraft.
- Following the delivery of the second new Q400 aircraft in June 2011, the number of aircraft comprising the Covered Aircraft returned to the Guaranteed Minimum Number of Covered Aircraft. Upon the arrival of each remaining Q400 aircraft, one CRJ-100 or CRJ-200 was removed from the fleet of Covered Aircraft and replaced with one arriving Q400 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 are required to use commercially reasonable efforts to agree to new rates for this aircraft type. Air Canada 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 five of the CRJ-100 aircraft as a pass-through cost.

Under the Second CPA Amending Agreement (entered into in connection with the integration of the Q400 aircraft as Covered Aircraft):

- Air Canada agreed that the Q400 aircraft may be acquired by one or more of Chorus' subsidiary leasing companies, which will then lease such aircraft to Jazz Aviation LP as Covered Aircraft;
- Air Canada and Chorus agreed on formulae to calculate the lease rental factor to determine the Q400 aircraft monthly lease payments, a credit to Air Canada based upon the Controllable Mark-Up in effect at the time applicable to such aircraft; and
- Chorus and Air Canada agreed to the timing of scheduling of the Q400 aircraft into commercial service based upon the anticipated delivery date of such aircraft.

Competition

As Canada's only nationwide pan-Canadian regional airline operating scheduled air services and as the only regional carrier operating regional jets within Canada, Chorus enjoys a unique position in the Canadian regional airline market.

Chorus' fleet is five times larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of primarily turboprop aircraft, most of which operate aircraft in the 19 to 70 seat range. These carriers operate primarily independent services, flying in niche markets. Few other regional airlines in Canada operate under capacity purchase agreements, and those who do have relationships with Air Canada only operate turboprop aircraft. Since May 2011, Air Canada has had a capacity purchase agreement in place with Sky Regional Airlines to operate five Q400 aircraft from Toronto City Centre (Island) Airport (the "TCCA"). None of these carriers approach the size and scope of operation of Chorus, as their fleets usually have less than 15 aircraft. These smaller regional carriers include Air Georgian, Central Mountain Air, Hawkair, Pacific Coastal Airlines, and Transwest Air in Western Canada; Calm Air, Air Creebec in Central Canada; Provincial Airlines and Air Labrador in Atlantic Canada; and First Air, Canadian North and Air Inuit in Canada's North.

Low-cost carrier WestJet also competes with Air Canada on certain routes in Canada and in the U.S. on routes operated by Chorus. As well, Porter Airlines, which operates from the TCCA, competes with Air Canada in various domestic and transborder market pairs operated by Chorus.

Air Canada and Chorus compete against a variety of United States network airlines and their regional carriers in respect of transborder markets, most of who operate under capacity purchase agreements with various major United States network airlines. These carriers operate under their capacity purchase agreement partner brands such as United Express, US Airways Express, Delta Connection, American Eagle and Horizon Airlines.

With the addition of its Thomas Cook Canada 757-200 operation in 2010 Chorus now competes in a segment of the Canadian airline business - flying for tour operators. Carriers competing in this segment include CanJet, Air Transat, and Sunwing Airlines. Both Air Transat and Sunwing are airline divisions of vertically integrated travel companies.

Facilities

Chorus owns two buildings, one in Halifax, Nova Scotia, where Chorus' Chief Executive Offices are located, and one in London, Ontario. Chorus conducts heavy maintenance, repair and overhaul operations at both of its Halifax and London facilities. The Halifax facility is located at the Halifax Robert L. Stanfield International Airport, and is comprised of office and hangar space. The London facility is located at the London International Airport, and is comprised of office and hangar space. The land comprising Chorus' Halifax and London facilities is leased from the applicable airport authority.

The following is a description of the principal facilities leased by Chorus. The first three facilities listed below are leased by Chorus from Air Canada.

- Hangar, parking and office space at Toronto Pearson
- Hangar and office space at Calgary International Airport
- Hangar and office space at Montreal-Pierre Elliott Trudeau International Airport
- Hangar and office space at Vancouver International Airport
- Office space at Airway Center at Toronto

In addition to the foregoing, Chorus currently leases shop hangar space, airport terminal building spaces, hangars, office spaces, counters, maintenance offices, baggage make-up, and parking spaces throughout Canada. See "The Chorus Business – Capacity Purchase Agreement with Air Canada – Facilities".

Debt Financing

During 2011, Chorus signed nine separate loan agreements totaling \$173.2 million with EDC, which provided committed financing for the majority of the purchase price of each of the nine related Q400 aircraft deliveries. Each loan has a maturity of 12 years and bears interest at a fixed rate. The remaining amount of the purchase price not financed through EDC was funded by applying aircraft deposits previously made by Chorus to the manufacturer and from working capital. At December 31, 2011, the net book value of property and equipment pledged as collateral under EDC financing was \$189.9 million.

In February and March 2012, Chorus drew EDC financing for the tenth and eleventh Q400 aircraft. The two term loans are repayable by Chorus to EDC in semi-annual instalments of \$US1.0 million each, mature in February 2024 and March 2024, respectively, and each term loan is secured by one Q400 aircraft and two PWA 150A engines.

Under its financing agreement with EDC, beginning in the second quarter of 2011, the “Jazz Group” (currently comprised of Jazz and the LeaseCos) is required to maintain a maximum adjusted leverage ratio of 2.25:1 and a minimum adjusted interest coverage ratio of 1.66:1. As at December 31, 2011, the Jazz Group was in compliance with these covenants. Failure by the Jazz Group to satisfy either such ratio at an applicable time would constitute an event of default under the financing agreement, which could have a material adverse effect on Chorus.

The financing agreement with EDC also has several covenants which are specific to Jazz as the lessee of the Q400 aircraft, including:

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

Jazz is in compliance with both of these continuous covenants.

As additional security under the financing agreements, the aircraft leases between Jazz and the LeaseCos have been assigned to EDC. Also, Chorus Aviation Inc. has provided a limited recourse guarantee to EDC and pledged the issued shares of the LeaseCos to EDC as security for such guarantee.

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 Share (the “Conversion Price”). The Debentures are not redeemable by Chorus 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 shares 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.

Lease financing

In 2007 and 2010, Chorus entered into common terms agreements 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 common terms agreements.

People

As at December 31, 2011, Chorus had 4,777 FTE employees compared to 4,694 FTE employees for 2010. This reflects a 1.8% increase from 2010.

90 percent of Chorus employees are unionized. Currently both the pilots and flight attendants are working under collective agreements that run until their expiry in July of 2015. The collective agreements governing Chorus’ maintenance and engineering employees and crew schedulers, both represented by the Canadian Auto Workers (CAW) and its flight dispatch employees, represented by the Canadian Air Line Dispatchers

Association (CALDA), will expire on June 30, 2012. In accordance with the Canada Labour Code provisions governing collective bargaining in the Federal sector, Chorus has received official notices to open the bargaining process from the CAW representing the maintenance and engineering employees and from CALDA. Chorus anticipates also receiving such notice from the CAW representing the crew scheduler employees by the end of March 2012.

Chorus' customer service and aircraft services agents, represented by the Canadian Auto Workers, (CAW) have a collective agreement in force until January 15, 2013. As per the Canadian Labour Code, Chorus expects this bargaining unit to serve notice to open bargaining in October of 2012.

REGULATORY ENVIRONMENT

In Canada, commercial air transportation falls wholly within the jurisdiction of the federal government. The *Canada Labour Code* and associated regulations govern all of Chorus' operations with respect to industrial relations, workplace health and safety, and employment standards. The commercial air transportation policy, maintenance standards, operations standards, aircraft airworthiness, pilot and cabin crew licensing and certification, safety and ground, and navigation facilities are the responsibility of the Minister of Transport. Chorus aircraft, pilots, cabin crew, mechanics, maintenance operations and all aspects of its commercial and charter air service operations are subject to the inspection, licensing, certification and compliance requirements of Transport Canada under the *Aeronautics Act*, *Canadian Aviation Regulations* and the standards issued pursuant to the Act and Regulations. The Canadian Transportation Agency (the "Agency") is responsible under the *Canada Transportation Act* (the "CTA") and *Air Transport Regulations* for issuing air carrier licenses for both domestic and international services, and for regulating air charter operations, equipment and crew leasing (wet leases, block space and code share arrangements), certain air tariffs and the terms and conditions of carriage. The Agency may also investigate, mediate or hear air travel complaints. The commercial and charter air services of Chorus are subject to the licensing, charter operations, international fare, terms of carriage, insurance requirements and air travel complaint jurisdiction of the Agency, as further described below.

Due to the uncertainty of long-term regulatory requirements, Chorus cannot provide assurance that it will not incur substantial costs to meet requirements or whether they will be material.

Domestic Services

The 1987 deregulation of the domestic airline industry allowed carriers to establish fares as well as terms and conditions of carriage without government regulation. The CTA provides for free market entry to the extent that a carrier can demonstrate that (i) it is "Canadian", defined in the CTA as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians; (ii) it can operate safely; (iii) it is suitably insured; and (iv) it meets the minimum financial requirements set out in the *Air Transport Regulations*.

On February 6, 2009, the Government of Canada introduced Bill C-10, the *Budget Implementation Act*, which proposed amendments to the CTA relating to foreign ownership restrictions on domestic air carriers. Bill C-10 received Royal Assent on March 12, 2009. The Governor in Council now has the authority on the recommendation of the Minister of Transport to fix by order, a day on which the Governor in Council may by regulation, set new foreign ownership limits up to a maximum of 49% foreign ownership. The regulations may specify that the new limits apply generally to all non-Canadian investors or, alternatively may specify increased foreign ownership limits available to specific classes of non-Canadians to be identified in the regulations.

On April 24, 2009, the members of the National Airlines Council of Canada ("NACC"), made up of Chorus, Air Canada, Air Transat and WestJet, voluntarily amended their respective tariffs to include passenger service commitments consistent with *Flight Rights Canada*, the Government of Canada's air travel consumer protection initiative. The amended sections of the international tariffs took effect following the Agency's approval.

More recently, there has been proposed legislation that would impose obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. A private member's bill, Bill C-310, *An Act to Provide Certain Rights to Air Passengers*, received second reading in 2009 and a revised private member's bill, Bill C-541, *An Act Respecting the Rights of Air Passengers*, received first reading in 2010, but both bills died on the order paper with dissolution of Parliament. If enacted, either bill would have led to significant costs for air carriers, including Chorus, which

could have had a material adverse effect on Chorus' business, results from operations and financial condition. There is currently no similar bill before Parliament and management cannot predict whether such proposed legislation will be reintroduced or eventually enacted, or if enacted whether its provisions will be in the form previously proposed by Bill C-310 and Bill C-541.

Transborder Services

Transborder services between Canada and the United States are provided pursuant to the 1995 Canada-US Air Services Agreement. This agreement gives Canadian air carriers unlimited route rights to provide "own aircraft" services between points in Canada and points in the United States. The carriage of local traffic between points within one country by carriers of the other country, commonly known as cabotage, continues to be prohibited.

Under the 1995 Canada-US Air Services Agreement, carriers of both countries are free to set their own prices for transborder services according to market forces. Prices may only be disallowed under special circumstances if the authorities of both countries agree, for example in response to predatory or monopolistic pricing behaviour on specific routes. In November 1997, Canada and the United States concluded an agreement that allows Canadian and US carriers to code-share to, from and via, each other's territory, with carriers from other countries provided the other country allows code-sharing and the carriers hold the underlying rights to serve that country. Air Canada code-shares with certain Star Alliance® partners via Canada and the United States and certain of these Star Alliance® partners' codes appear on some transborder Scheduled Flights.

On November 11, 2005, Transport Canada announced that the governments of Canada and the United States had negotiated an Open Skies Agreement which further liberalizes air transportation services. The agreement, which came into force on March 12, 2007, allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. Cabotage, the right to operate flights between two points within the other country, remains prohibited.

In the United States, the FAA prohibits a United States certificated air carrier from wet leasing an aircraft from a foreign licensed air carrier. A wet lease is an arrangement under which a carrier leases an aircraft together with crew to operate the aircraft. Until March 24, 2008, this rule prohibited a capacity purchase type of agreement whereby a United States air carrier would buy and hold out in its own name all of the capacity of an aircraft operated by a foreign air carrier. Effective March 24, 2008, the United States Department of Transportation ("DOT") published a Notice concerning its policy on leasing arrangements between United States certificated air carriers and non-United States air carriers. The policy has now been changed to relax the prohibition. Contracts for non-United States airlines to provide aircraft and crew will now be permitted if, on application to the DOT, it is determined the non-United States air carrier meets the regulatory criteria. Flying operated under such newly permitted contracts cannot include point-to-point flying within the United States.

Other International Services

Chorus does not currently have a licence to operate a scheduled international service to any country other than the United States, but the Government of Canada has entered many bilateral air transport agreements with other countries under which Chorus is eligible to apply for licensing and operate abroad on a reciprocal basis.

Charter Services

Chorus maintains a license issued by the Agency to operate non-scheduled international service between Canada and any other country. Charter operations are generally not covered by bilateral agreements, although charter services are covered under the 1995 Canada-US Air Services Agreement. Canadian government policy permits any Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities.

In April 2000, the Minister of Transport announced a new policy governing international passenger charter air services. This policy removed restrictions such as advance booking, minimum stay requirements and prohibitions on one way travel. To preserve a distinction between charter and scheduled international services,

this policy retains the requirements that the entire seating capacity of an aircraft be chartered and that charter carriers be prohibited from selling seats directly to the public.

Competition matters

In July 2000, the Government of Canada amended the CTA, the *Competition Act* and the *Air Canada Public Participation Act* to address the competitive airline environment in Canada and ensure protection for consumers. The revised legislation included airline-specific provisions concerning "abuse of dominance" under the *Competition Act*, later supplemented by creating "administrative monetary penalties" for a breach of the abuse of dominance provisions by a dominant domestic air carrier.

In July 2003, the Competition Tribunal released its reasons and findings in a proceeding between the Commissioner of Canada and Air Canada which had considered the approach to be taken in determining whether Air Canada was operating below "avoidable costs" in violation of one of the new airline-specific abuse of dominance provisions. The Competition Tribunal applied a very broad cost test in its decision. In September 2004, the Commissioner of Competition published a letter describing the enforcement approach that would be taken in future cases involving the airline-specific abuse of dominance provisions, which included a statement that the Tribunal's 2003 approach to avoidable costs remains relevant.

In 2009, legislative amendments relating to the airline specific provisions of the *Competition Act* were included in Bill C-10, the *Budget Implementation Act*. With the enactment of Bill C-10, the airline specific provisions of the *Competition Act* concerning "abuse of dominance", as well as the administrative monetary penalties for such abuses, have been repealed. Bill C-10 introduced administrative monetary penalties for abuses of dominance by dominant firms generally, with the result that the Competition Tribunal is now empowered to levy administrative monetary penalties for abuse of dominance by a dominant firm operating in any industry in an amount not exceeding \$10 million and, for each subsequent order, an amount not exceeding \$15 million. While Bill C-10 repealed the airline specific provisions of the *Competition Act*, pricing below avoidable cost may be considered an anti-competitive act for purposes of the generally applicable abuse of dominance provisions.

On December 16, 2011, the Government of Canada announced that the Agency would proceed with developing regulations requiring air carriers to include all fees and taxes in their advertised prices in accordance with *An Act to Amend the Canada Transportation Act and the Railway Safety Act and to Make Consequential Amendments to Other Acts*. The intent of the regulations is to ensure greater transparency for Canadians and allow consumers to easily determine the total price of an air service in order to make an informed choice. Chorus and its fellow members of NACC believe the Agency's initiative is a much-welcomed step to facilitate consumer's access to full cost airfares. Chorus does not sell air fares to the public, so management cannot predict the degree to which this legislation may have an indirect effect on its business through its contracts with Air Canada and Thomas Cook.

Official Languages Act

Air Canada is subject to the *Official Languages Act* (the "OLA"), which among other things, requires it to ensure that any member of the traveling public can communicate with and obtain services in either official language, French and English, where there is significant demand for those services in that language (Part IV of the OLA) and to allow employees to work in either official language (Part V of the OLA).

In 2000, Parliament passed amendments to the Air Canada Public Participation Act to impose on Air Canada the obligation to ensure any of its subsidiaries' customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services. Under the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language.

In 2007, Bill C-36, *An Act to amend the Air Canada Public Participation Act* received first reading. It proposed requirements on the air service undertaking owned and operated by Chorus to offer customer or consumer services in both official languages, but it died on the order paper when Parliament dissolved.

On October 17, 2011, the Minister of Transport introduced Bill C-17, *An Act to Amend the Air Canada Public Participation Act*. If passed into law, Bill C-17 would render designated carriers contracted to Air Canada, including Chorus, directly accountable to the Commissioner of Official Languages and subject to recourse in the event of non-compliance under the OLA. These provisions are not applicable to all air carriers operating in Canada and would result in increased costs to Chorus, and potentially impact Chorus' competitive position. Bill C-17 could have a material adverse affect on Chorus' business, results from operations and financial condition.

Security Initiatives

Chorus' first priority is to ensure the safety and security of all passengers and crew members on all flights.

Following the September 11, 2001 terrorist attacks, the Minister of Transport issued new air security measures, including increased passenger and baggage screening and enhanced security procedures at check-in gates and on-board the aircraft. Other countries such as the United States and the United Kingdom have similarly imposed additional security requirements. In response to these new measures, Chorus reinforced the cockpit doors on all of its aircraft and requires passengers to produce valid identification prior to boarding all flights.

In December 2001, the Minister of Transport announced several security initiatives including a new Canadian Air Transport Security Authority responsible for the provision of key air security services, an expanded program of armed police on aircraft to cover selected domestic and international flights, and an air travelers security charge ("ATSC"). The Government of Canada introduced the ATSC on April 1, 2002 and revises the charges periodically.

In 2002, the Canadian government implemented its Advance Passenger Information / Passenger Name Record ("API/PNR") Program to identify potentially high risk individuals and address other border security issues. Canadian and foreign carriers are required by regulation to provide the Canada Border Services Agency with specific personal information on all passengers and crew members on board international flights destined to Canada at the time of departure, as well as to provide access to passenger name records in the carriers' internal reservation systems. Foreign countries including the United States have enacted and have established similar information requirements with respect to flights operating into and/or from their territory.

On May 6, 2004, Bill C-7, *An Act to amend certain Acts of Canada in order to enhance public safety* (known as the *Public Safety Act*, 2002) received royal assent. The legislation amends certain provisions of the *Aeronautics Act* (Canada) so as to further develop the scope and objectives of the existing national aviation security regime. The amendments include requirements for Canadian carriers and foreign carriers operating into Canada to provide, upon request, information concerning specified flights or persons to the Minister of Transport, the Royal Canadian Mounted Police and the Canadian Security Intelligence Service for transportation security or national security purposes. These amendments came into force on May 11, 2004.

On August 10, 2006, Transport Canada announced the implementation of heightened security measures after a foiled attack with liquid explosives at Heathrow Airport in London, England. Since September 26, 2006, in accordance with new Transport Canada security measures, Chorus allows passengers to bring on board limited and prescribed quantities of liquids, gels and aerosols.

In June 2007, the Government of Canada implemented the Passenger Protect Program to identify individuals who may pose a threat to aviation security and to disrupt their ability to cause harm or threaten aviation by taking action, such as by preventing them from boarding an aircraft. Chorus has fully implemented measures to comply with the Passenger Protect Program and with similar "no-fly" and "selectee" list requirements imposed by the U.S. Transport Security Agency.

As of October 31, 2009 the United States implemented the Secure Flight Program. This program requires Canadian Airlines to collect and submit added passenger information such as full name, date of birth, and gender to the U.S. Transportation Administration, for flights that land in the United States. Chorus bears the entire cost of implementing the Secure Flight Program as it pertains to Chorus' operations.

On March 23, 2011, the Canadian Parliament amended the *Aeronautics Act*. Canadian airlines are now required to collect and submit certain personal information for flights that fly over the United States, such as flights to Chorus' Caribbean destinations.

Chorus works with the Canadian Air Transport Security Agency and other agencies to continuously improve security measures and to ensure that any innovation adopted by Chorus maintains the highest degree of security.

Safety Initiatives

On June 15, 2005, the Minister of Transport announced regulatory amendments to further enhance aviation safety through the implementation of safety management systems. The goals of safety management systems are to increase the sophistication and proactiveness of safety practices, to instil a consistent and positive safety culture, and to help improve upon the already extremely high safety performance of airline operators. Amendments to the *Canadian Aviation Regulations* require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. These amendments came into force on May 31, 2005.

In 2006, Bill C-6, *An Act to amend the Aeronautics Act and to make consequential amendments to other Acts*, received second reading, but died on the order paper when Parliament dissolved. Bill C-6 sought, among other things, to address integrated management systems and to authorize the establishment of voluntary reporting programs under which information relating to aviation safety and security may be reported. In 2008, the Minister of Transport reintroduced the bill as Bill C-7, but it died while in third reading when Parliament dissolved. Management cannot predict if or when such proposed legislation will be reintroduced or enacted.

Chorus implemented a safety management system in accordance with the amendments to the *Canadian Aviation Regulations*. The President and Chief Executive Officer, Joseph D. Randell, has been appointed as the executive currently accountable for Chorus' safety management system and Chorus' Vice President of Safety, Quality & Environment is responsible for the implementation of the safety management system. Chorus is in compliance or surpasses all regulatory requirements. Amongst Canadian and many other airline operators, Chorus' highly integrated safety management system model is considered to be industry leading, and has attracted a degree of international attention through several forums including the International Aviation Safety Seminar.

Environmental Matters

In 2002, Canada ratified the Kyoto Protocol, thereby committing it to legislating reductions in air emissions which contribute to climate change. On October 21 2006, the federal government issued a notice of intent to develop and implement regulations and other measures to reduce air emissions. As part of this Regulatory Framework for Air Emissions, the federal government continues to support harmonized international efforts to limit or reduce both domestic and international aviation emissions of greenhouse gases and air pollutants. In December 2009, representatives from approximately 170 countries met in Copenhagen, Denmark to negotiate a successor treaty to the Kyoto Protocol. The resulting Copenhagen Accord is non-binding, representing the political consensus of the participating states. On January 31, 2010, Canada submitted a non-binding commitment under the Copenhagen Accord to the United Nations Framework on Climate Change to reduce greenhouse gas emissions by 17% from 2005 levels by 2020. On December 12, 2011, Canada withdrew from the Kyoto Protocol.

At present, there are no Canadian laws requiring the aviation industry to reduce GHG emissions. However, industry stakeholders have been working voluntarily to account for and reduce GHG emissions for a number of years. In 2005, Canada reached a voluntary agreement on the reduction of GHG emissions with its aviation industry. This voluntary agreement between the Government of Canada and the members of ATAC set out a GHG emission reduction goal on a per unit basis. ATAC members committed to a fuel efficiency improvement target of 24% from 1990 levels by 2012 (measured in litres of jet fuel/revenue tonne kilometre). Chorus was a member of ATAC at the time the voluntary agreement was signed and, since 2008, has been a member of the National Airlines Council of Canada (NACC). The NACC has committed to the continued support of the MOU objectives and member airlines continue to voluntarily provide emission data and information under this agreement. Chorus is committed to improving fuel efficiency and has a number of fuel efficiency initiatives underway which are monitored closely at an executive level.

Chorus believes that it is in compliance in all material respects with the terms of applicable government regulations. Chorus is committed to conducting its operations in a manner that complies with all legal

requirements relating to health and safety and the environment, and regularly evaluates and monitors its related activities.

To date, environmental laws and regulations have not had a material adverse effect on the business or financial condition of Chorus. However, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. Chorus is not able to predict future costs which may be incurred in order to comply with future environment regulations.

Chorus considers the environment a component of business decisions in planning for, and making changes to materials, processes, equipment and facilities. Chorus communicates with customers, governments, local communities, unions, employees and suppliers to identify and resolve environmental issues, and it conducts business in compliance with applicable environmental law. Chorus conducts ongoing audits and takes corrective action to ensure compliance with environmental law and its management system, policies and procedures. Chorus' Corporate Environmental Policy is available at www.chorusaviation.ca.

Privacy

Chorus is subject to applicable privacy laws regarding the collection, use, disclosure and protection of passenger and employee data. Among other things, Canada's federal private sector privacy legislation, the *Personal Information Protection and Electronic Documents Act* ("PIPEDA"), governs the collection, use and disclosure of personal information in the course of commercial activities by a federally regulated business. In addition, the PIPEDA regulates the handling of employee personal information by federally regulated employers. The PIPEDA also applies to the collection or disclosure of personal information across provincial or Canadian international borders. The PIPEDA requires notice to, and informed consent by, the individuals whose personal information is collected, used or disclosed. The personal information may then only be used for the purposes for which it was originally collected and for which consent from individuals has been obtained or for limited other purposes specified in, or allowed by, the PIPEDA. Chorus has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation. Management believes that its privacy policy and practices comply with all applicable laws.

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, results 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

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

Termination of the CPA

Substantially all of Chorus' current revenues are received pursuant to the CPA which currently covers all of Chorus' existing operating fleet (except four Dash 8 aircraft, one CRJ-200 aircraft and six Boeing 757-200 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 Jazz 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 have access to other airport facilities or slots or as to the terms upon which Chorus could do so. Chorus' inability to secure access to sufficient airport facilities or slots, or ability to do so only with a significant cost increase, 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 "Chorus Business - Amendments to the CPA", 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, elements of the then current three-year, annual or seasonal operating plans, 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 centre services, designator codes, information technology, deicing 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 information technology services, French language training, insurance claims services and environmental affairs 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. 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 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. 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 (for a summary of the status of the ongoing arbitration proceeding between Chorus and Air Canada regarding the 2009 Benchmark, see "The Chorus Business, Capacity Purchase Agreement with Air Canada, Rates and Specified Mark-up").

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, any of which could significantly reduce Chorus' opportunities for growth, revenue and earnings. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot ensure that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions for Chorus.

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, which would reduce Chorus' revenue earned 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 or other forms of contractual arrangements. Air Canada's use of other regional carriers could negatively impact opportunities for increasing Chorus' flying under the CPA.

Potential conflicts with Air Canada

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

- the 2009 Benchmark and/or the 2015 Benchmark (for a summary of the status of the ongoing arbitration proceeding between Chorus and Air Canada regarding the 2009 Benchmark, see “The Chorus Business, Capacity Purchase Agreement with Air Canada, Rates and Specified Mark-up”);
- Chorus’ and Air Canada’s respective rights and obligations under the CPA or other agreements between Chorus and Air Canada, including conflicts based on differing interpretations of the contract language;
- 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. Any such result could have a material adverse effect on Chorus’ business, results from operations and financial condition.

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 benefit from earnings growth arising as a result of improved market conditions.

Risks Relating to Chorus

Bill C-310, Bill C-541 and Bill C-17

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. Bill C-541 died on the order paper when the 40th Parliament, 3rd Session was dissolved on March 26, 2011. If enacted in the form proposed by Bill C-541, such legislation could lead to significant costs for air carriers, including Chorus, which could have a material adverse effect on Chorus’ business, results from operations and financial condition. 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.

On October 17, 2011, Bill C-17, An Act to Amend the Air Canada Public Participation Act, received first reading. If passed into law, Bill C-17 would render designated carriers contracted to Air Canada, including Chorus, directly accountable to the Commissioner of Official Languages and subject to recourse in the event of non-compliance under the Official Languages Act. These provisions are not applicable to all air carriers operating in Canada and would result in increased costs to Chorus, and potentially adversely impact Chorus’ competitive position. Bill C-17, if enacted, could have a material adverse effect on Chorus’ business, results from operations and financial condition.

Employees

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

Labour costs and labour relations

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

90 percent of Chorus employees are unionized. Currently both the pilots and flight attendants are working under collective agreements that run until their expiry in July of 2015. The collective agreements governing Chorus' maintenance and engineering employees and crew schedulers, both represented by the Canadian Auto Workers (CAW) and its flight dispatch employees, represented by the Canadian Air Line Dispatchers Association (CALDA), will expire on June 30, 2012. In accordance with the Canada Labour Code provisions governing collective bargaining in the Federal sector, Chorus has received official notices to open the bargaining process from the CAW representing the maintenance and engineering employees and from CALDA. Chorus anticipates also receiving such notice from the CAW representing the crew scheduler employees by the end of March 2012.

Chorus' customer service and aircraft services agents, represented by the Canadian Auto Workers, (CAW) have a collective agreement in force until January 15, 2013. As per the Canadian Labour Code, Chorus expects this bargaining unit to serve notice to open bargaining in October of 2012.

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 that are consistent with Chorus' expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Chorus.

Leverage and restrictive covenants in current and future indebtedness

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

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

Dilution of Shareholders

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

Uncertainty of dividend payments

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

Level of indebtedness - refinancing risk

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

Diversification and growth

Management regularly reviews potential diversification and growth opportunities and business acquisition opportunities that they believe may be complementary to Chorus. As part of any such initiative, management conducts customary due diligence and performs analysis with the goal of identifying and evaluating material risks. Notwithstanding their review, management may be unsuccessful in identifying all such risks or realizing the intended synergies of any given initiative, or in successfully executing a particular diversification or growth transaction. Any such failure 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. As Chorus seeks to diversify and/or grow, this may put additional strain and demand on management and on Chorus' employees and produce risks in both productivity and retention levels. In addition, Chorus may not be able to attract and retain additional qualified management as needed in the future. The loss of the services of such key personnel could have a material adverse effect on the business, results from operations, financial condition or future prospects of Chorus.

Risks relating to financial instruments

For a description of the interest rate risk, credit risk, liquidity risk and currency risk associated with Chorus' financial instruments, see the discussion in the 2011 MD&A dated February 20, 2012, Section 11, regarding Financial Instruments and Risk Management, which is available at www.sedar.com.

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 in respect of 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. 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 and/or Air Canada may be unable to pass on any further increases to its customers through fuel surcharges. This could have a material adverse effect on Chorus' business, results from operations and financial condition if Air Canada were to reduce its capacity usage or as a result 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. WestJet recently announced its intention to move ahead with plans to launch an affiliated low cost, short haul regional airline. 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 business 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' diversification or growth opportunities

As well as 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 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

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. However, with the addition of flights operated on behalf of Thomas Cook, the demand in the first and third quarters of the calendar year is now expected to exceed demand in the second and fourth quarters. This new demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the summer months under the Air Canada CPA and the high number of leisure travelers that prefer to travel to southern destinations during the winter months under the Thomas Cook Flight Services Agreement. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' revenues do not fluctuate significantly with Passenger Load Factors.

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

Under the 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'

actual quarterly results could differ from those contemplated by the target margin based on a variety of factors, including the timing of capital expenditures and changes in operating expenses, such as personnel and maintenance costs, over the course of a fiscal year.

Regulatory matters

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

Chorus is also subject to domestic and United States laws regarding privacy of passenger and employee data. 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 availability of supplemental insurance. 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.

The London aviation insurance market has introduced a new standard war and terrorism exclusion clause applicable to aircraft hull and spares and have announced their intentions for similar exclusions to airline passenger and third party liability policies. These clauses 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, 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 2011, Chorus and Air Canada agreed to proceed to binding arbitration in respect of the 2009 Benchmark under the CPA (the "Arbitration") (see "The Chorus Business, Capacity Purchase Agreement with Air Canada, Rates and Specified Mark-up" for a description of the Arbitration). If Chorus is not successful in the Arbitration, Chorus' operating results, financial conditions and liquidity may be negatively materially impacted.

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 \$850.0 million 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 was reinstated on February 22, 2011. Chorus maintains that Porter's counterclaim is without merit. The counterclaim will be vigorously contested by Chorus in court. If Chorus is not successful in defending the counterclaim, it could be subject to a material damages award. It is not practicable to determine an estimate of the possible financial effect, uncertainties related to the amount or timing of any outflows or the possibility of any reimbursement. Accordingly, no amounts have been recorded in the accounts of Chorus related to this claim.

Chorus is currently involved in a number of proceedings regarding employee challenges to the mandatory retirement provisions contained in certain of its collective agreements, including but not limited to the Jazz Aviation LP - ALPA collective agreement which incorporates provisions of the pension plan terms and conditions applicable to pilots requiring them to retire no later than age 65. Chorus has fully or partially resolved some of these proceedings and is currently defending others. At this time, it is not possible to determine with any degree of certainty the extent of any liability that may result from Chorus not succeeding in its defence of these proceedings.

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 Shares, general economic conditions and Chorus' financial condition, historic financial performance and future prospects. Further, the 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.

MARKET FOR SECURITIES

The Class A Variable Voting Shares, the Class B Voting Shares and the Debentures are traded on the TSX under the trading symbols "CHR.A", "CHR.B", and "CHR.DB" respectively. The following table sets forth the price range and trading volume of the Class A Variable Voting Shares, the Class B Voting Shares and the Debentures as reported by the TSX for the months of January to, and including, December 2011.

	<u>Class A</u> <u>Variable Voting Shares</u>				<u>Class B</u> <u>Voting Shares</u>				<u>Debentures</u>			
	High	Low	Average Daily Trading Volume	Total Monthly Volume	High	Low	Average Daily Trading Volume	Total Monthly Volume	High	Low	Average Daily Trading Volume	Total Monthly Volume
2011												
January	5.59	4.70	30,593	611,854	5.89	5.03	545,612	10,912,242	114.00	110.56	327	6,540
February	5.25	4.53	56,782	1,078,853	5.25	4.75	508,463	9,660,791	116.00	109.21	468	8,900
March	5.65	4.71	58,800	1,352,411	5.41	5.11	374,930	8,623,383	113.00	111.00	368	8,460
April	5.45	5.14	14,522	290,440	5.40	5.13	207,374	4,147,477	113.00	111.50	585	11,700
May	5.38	4.77	86,772	1,822,203	5.30	4.81	344,449	7,233,424	112.50	111.45	842	17,690
June	5.34	4.85	30,041	660,908	5.27	4.93	537,264	11,819,808	111.90	105.01	160	3,530
July	5.09	4.82	8,493	169,861	5.08	4.80	150,222	3,004,443	113.43	110.00	244	4,880
August	4.94	4.03	21,845	480,588	4.96	4.00	331,534	7,293,747	109.50	97.51	2,416	53,160
September	4.46	3.65	9,611	201,832	4.40	3.66	207,029	4,347,611	105.00	101.00	2,165	45,460
October	4.10	3.15	21,236	424,716	4.03	3.11	302,911	6,058,220	104.25	100.00	766	15,320
November	4.00	3.19	19,525	429,542	3.85	3.17	207,111	4,556,435	104.50	102.50	1,232	27,100
December	3.39	2.57	124,760	2,495,204	3.39	2.65	613,143	12,262,862	109.19	102.50	1,199	23,970

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Shares and the Debentures is Canadian Stock Transfer Company Inc. as administrative agent for CIBC Mellon Trust Company, at its principal offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

DIVIDEND RECORD

The current dividend policy of Chorus is \$0.15 per common Share per quarter. 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' financial condition including 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.

Subsequent to the initial public offering of the Fund (the predecessor entity to Chorus), from February 2, 2006 to February 28, 2006, the Fund paid a distribution of \$0.0703 per Unit. From March 1, 2006 until December 31, 2006, the Fund paid monthly distributions to its Unitholders in the amount of \$0.0729 per Unit.

On November 9, 2006, the board of trustees of the Fund approved an increase in monthly distributions to Unitholders from \$0.0729 to \$0.0838 per unit, commencing with the distribution declared for the month of January 2007.

On July 28, 2009, the trustees of the Fund resolved to reduce the cash distributions in light of the amendments to the CPA and to otherwise improve liquidity during an uncertain period. Effective with the distribution payment paid in September 2009 to Unitholders of record on August 31, 2009, the cash distributions were reduced by approximately 40% to \$0.60 per Unit annually.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Chorus is comprised of an unlimited number of Variable Voting Shares and Voting Shares. As of March 29, 2012, 12,929,253 Variable Voting Shares and 111,086,218 Voting Shares were issued and outstanding. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of Chorus' articles of amalgamation, as amended.

Variable Voting Shares

Voting

The holders of the Variable Voting Shares are entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of Chorus, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA. The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians, as such term is defined in the CTA ("Qualified Canadians") and are entitled to one vote per Variable Voting Share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of votes attaching to all issued and outstanding voting shares, exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify), or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify) 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% (or any higher percentage that the Governor in Council may by regulation specify) 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% (or any higher percentage that the Governor in Council may by regulation specify) of the votes that may be cast at such meeting.

The Government of Canada's Bill C-10, the *Budget Implementation Act 2009*, provides that the provisions relating to voting securities in the ACPPA will upon implementation be repealed and the CTA will be amended to provide the Governor in Council with flexibility to increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council

made on the recommendation of the Minister of Finance, in the case of the ACPPA, and on the recommendation of the Minister of Transport, in the case of the CTA.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Chorus of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of Chorus properly applicable to the payment of dividends, any dividends declared and payable by Chorus on the Variable Voting Shares. The Variable Voting Shares rank equally as to dividends on a share-for-share basis with the Voting Shares participating on an as-converted basis. All dividends declared in any fiscal year of Chorus shall be declared in equal or equivalent amounts per share on all Variable Voting Shares, and Voting Shares participating on an as-converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Variable Voting Shares or the Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Chorus ranking prior to the Variable Voting Shares, upon liquidation, dissolution or winding up of Chorus or other distribution of Chorus' assets among its shareholders for the purpose of winding up its affairs, the holders of the Variable Voting Shares and Voting Shares shall be entitled to receive the remaining property of Chorus and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of Chorus or of the holder, if (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Qualified Canadian; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, be made to all or substantially all the holders of the Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share that is subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares in response to the offer.

If the Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Voting Shares resulting from the conversion shall be re-converted automatically, and without further act from Chorus or the holder, into Variable Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the Chorus articles of amalgamation.

Constraints on Ownership of Shares

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians.

Voting Shares

Voting

The holders of the Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of Chorus (except where the holders of a specified class are entitled to vote separately as a

class as provided in the CBCA), and each Voting Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of Chorus.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Chorus of any other class ranking senior to the Voting Shares, the holders of the Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of Chorus properly applicable to the payment of dividends, any dividends declared and payable by Chorus on the Voting Shares and the Voting Shares shall rank equally as to dividends on a share-for-share basis with the Variable Voting Shares participating on an as-converted basis and all dividends declared in any fiscal year of Chorus shall be declared in equal or equivalent amounts per share on all Voting Shares and Variable Voting Shares on an as-converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Voting Shares or the Variable Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Chorus ranking senior to the Voting Shares, upon liquidation, dissolution or winding up of Chorus or other distribution of Chorus' assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares shall be entitled to receive the remaining property of Chorus and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with other similar restrictions, 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 Qualified Canadian.

In the event that an offer is made to purchase Variable Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, be made to all or substantially all the holders of the Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share that is subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Voting Shares for the purpose of depositing the resulting Variable Voting Shares in response to the offer.

If the Variable Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Variable Voting Shares resulting from the conversion shall be re-converted automatically, and without further act from Chorus or the holder, into Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the Chorus articles of amalgamation.

Constraints on Ownership of Shares

The Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Qualified Canadians.

Declaration as to Canadian Status

Chorus' articles of amalgamation, as amended, provide that: (i) the Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by persons who are Qualified Canadians; and (ii) the Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians.

Repurchase of Shares

Chorus may, from time to time, purchase shares for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Convertible Debentures

Information regarding the Debentures can be found under “The Chorus Business - Debt Financing - Convertible Debentures”.

DIRECTORS AND OFFICERS**Directors of Chorus**

The name, municipality of residence and principal occupation of each of the directors are, as of the date hereof, as set forth below. Such individuals have served as directors of Chorus since the dates set forth opposite their respective names. The directors of Chorus stand for election annually. Biographies for each of the directors are available on Chorus’ website at www.chorusaviation.ca.

Name and Municipality of Residence	Principal Occupation	Director of Chorus or its predecessors since
Gary M. Collins ⁽¹⁾ Vancouver, British Columbia	Senior Vice President, Belkorp Industries Inc., an investment holding company	May 8, 2008
Benjamin C. Duster, IV ⁽²⁾ Atlanta, Georgia	Corporate Director	March 24, 2010
Karen Cramm ⁽³⁾ Halifax, Nova Scotia	Corporate Director	December 6, 2010
Richard D. Falconer Toronto, Ontario	Corporate Director	March 1, 2012
Sydney John Isaacs ⁽⁴⁾ Westmount, Québec	Consultant, Senior Vice President, Corporate Development and Chief Legal Officer, ACE Aviation Holdings Inc., an investment holding company	January 1, 2008
G. Ross MacCormack ⁽⁵⁾ Newport, Vermont, United States	Aviation Consultant	January 24, 2006
Richard H. McCoy ⁽⁶⁾ Toronto, Ontario	Corporate Director	January 24, 2006 Chairman since January 1, 2008
John T. McLennan ⁽⁷⁾ Mahone Bay, Nova Scotia	Corporate Director	January 24, 2006
Joseph D. Randell Wellington, Nova Scotia	President and Chief Executive Officer, Chorus	January 24, 2006

(1) Member of the Audit, Finance and Risk Committee and Chair of the Governance and Nominating Committee

(2) Member of the Audit, Finance and Risk Committee and the Human Resources and Compensation Committee

(3) Chair of the Audit, Finance and Risk Committee

(4) Member of the Governance and Nominating Committee

(5) Chair of the Human Resources and Compensation Committee and a member of the Governance and Nominating Committee

(6) Chairman of the Board of Directors

(7) Member of the Audit, Finance and Risk Committee and the Human Resources and Compensation Committee

Each of the foregoing directors has held the same principal occupation for the previous five years, except (i) Mr. Collins who, prior to April 2007, was President and Chief Executive Officer of Harmony Airways, from December 2004 to December 2006 and from June 2001 to December 2004 was Minister of Finance for the Province of British Columbia, (ii) Ms. Cramm who was a partner of Deloitte & Touche LLP for 27 years, retiring in August 2009, and (iii) Mr. Falconer who was Vice Chairman and Managing Director, CIBC World Markets Inc. from 1993 until he retired on January 31, 2011.

Officers of Chorus

The following table sets out, for each of the executive officers of Chorus as of March 29, 2012, the person's name, municipality of residence, positions with Chorus, principal occupation and date of first appointment as an executive officer. Biographies for each of the executive officers are available on Chorus' website at www.chorusaviation.ca.

<u>Name and Municipality of Residence</u>	<u>Position with Chorus</u>	<u>Principal Occupation</u>	<u>Executive Since</u>
Richard H. McCoy Toronto, Ontario	Chairman	Corporate Director	January 1, 2008
Joseph D. Randell Wellington, Nova Scotia	President and Chief Executive Officer	President and Chief Executive Officer, Chorus and Jazz	January 1, 2001
Colin Copp Delta, British Columbia	Chief Administrative Officer, Jazz	Chief Administrative Officer, Jazz	August 1, 2004
Richard Flynn Dartmouth, Nova Scotia	Chief Financial Officer	Chief Financial Officer, Chorus and Jazz	May 30, 2005
Jolene Mahody Halifax, Nova Scotia	Chief Operating Officer, Jazz	Chief Operating Officer, Jazz	August 1, 2004
David Deveau Hammonds Plains, Nova Scotia	Vice President, Safety, Quality and Environment, Jazz	Vice President, Safety, Quality and Environment, Jazz	June 13, 2011
Franco Giampa London, Ontario	Vice President, Airports & System Operations Control, Jazz	Vice President, Airports & System Operations Control, Jazz	March 1, 2011
Steven Linthwaite Guelph, Ontario	Vice President, Flight Operations, Jazz	Vice President, Flight Operations, Jazz	September 3, 2007
Barbara Snowdon Bedford, Nova Scotia	General Counsel and Corporate Secretary	General Counsel and Corporate Secretary, Chorus and Jazz	June 20, 2007
Richard Steer Georgetown, Ontario	Vice President, Maintenance and Engineering, Jazz	Vice President, Maintenance and Engineering, Jazz	March 16, 2005
Scott Tapson Bedford, Nova Scotia	Vice President, Business Development	Vice President, Business Development, Chorus and Jazz	August 1, 2004

Each of the foregoing officers has held an executive officer position with Chorus and its predecessors for the previous five years, except: (i) Barbara Snowdon, who, prior to June 20, 2007, was Senior Counsel, Commercial and Airline Affiliates for Air Canada from January 1, 2001 to May 31, 2007, (ii) Steven Linthwaite, who, prior to September 3, 2007 was Director, Flight Operations for Jazz from January 2, 2006 to September 3,

2007, (iii) Franco Giampa, who, prior to March 1, 2011 was Director, Airports for Jazz from March 2003 to March 1, 2011, and (iv) David Deveau, who, prior to June 13, 2011 was Director, Safety, Quality and Environment for Jazz from June 23, 2008 to June 13, 2011 and Executive Director, Policy and Information Management for the Province of Nova Scotia from July 7, 2003 to June 22, 2008.

As at March 29, 2012, the Directors and Officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly 2,000 Variable Voting Shares representing approximately 0.02% of the outstanding Variable Voting Shares and 699,369 Voting Shares representing approximately 0.63% of the outstanding Voting Shares.

Audit, Finance and Risk Committee

The primary purpose of the Audit, Finance and Risk Committee is to assist the Board of Directors of Chorus in fulfilling their responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures, the adequacy of internal accounting controls and procedures, and the quality and integrity of financial statements.

Charter of the Audit, Finance and Risk Committee

The charter of the Audit, Finance and Risk Committee, as approved on May 31, 2011, is set out in Schedule A to this AIF.

Composition of the Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee is composed of four members, as follows: Karen Cramm (Chair), Gary M. Collins, John T. McLennan and Benjamin C. Duster, IV. Each member of the Audit, Finance and Risk Committee is independent of each of Chorus and Aviation GP and financially literate as required under Multilateral Instrument 52-110 - Audit Committees.

Relevant Education and Experience of the Audit Committee Members

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

- (i) **Karen Cramm, FCA** is a Chartered Accountant and holds master's degrees in business administration (MBA) and in public administration (MPA). Mrs. Cramm was a Partner of Deloitte & Touche ("Deloitte") for twenty-seven years before retiring on August 31, 2009. While an active Partner of Deloitte, she practiced in the Financial Services Group with a focus on Reorganization Services and Forensic & Dispute Services and held two specialist designations: one in insolvency and restructuring (CA•CIRP) and the other in investigative and forensic accounting (CA•IFA). She was also licensed as a Trustee in Bankruptcy. Mrs. Cramm has served as President of the Institute of Chartered Accountants of Nova Scotia and was elected as a Fellow of that Institute (FCA) on December 6, 1991 in recognition of distinguished service to the profession. From September 1, 1993 to August 31, 1999, Mrs. Cramm served as the Managing Partner of the Deloitte Halifax Office. She was elected to the Canadian Deloitte Board of Directors for fourteen years and during that time she chaired and served on various committees of the Deloitte Board.
- (ii) **Gary M. Collins** is Senior Vice President of Belcorp Industries Inc., a position he has held since April 2007. Mr. Collins was the President and Chief Executive Officer of Harmony Airways from December 2004 until December 2006. From October 1991 to December 2004 he was a member of the British Columbia Legislative Assembly and held the portfolio of Minister of Finance from June 2001 to December 2004. Mr. Collins is a director of Lantic Inc. (Rogers Sugar) and Liquor Stores North America Inc.
- (iii) **Benjamin C. Duster, IV** is Senior Advisor of Watermark Advisors LLC, a FINRA licensed broker dealer, specializing in mergers and acquisitions, strategic advisory and private capital raises for privately owned businesses. He specializes as an independent director on the boards of public companies

undergoing or contemplating transforming organizational change requiring the development and/or implementation of new managerial, operational and strategic initiatives. From 2002 until its sale to Essar Steel in 2007, Mr. Duster served as Chairman of the Board of Algoma Steel, Inc., a C\$1.9 billion integrated steel producer based in Sault Ste. Marie, Ontario. From 1997 to 2001, Mr. Duster was Managing Director at Wachovia Securities, responsible for building and leading its mergers and acquisitions advisory practice. From 1989 to 1997, Mr. Duster was Vice President, Mergers and Acquisitions at Salomon Brothers, specializing in bankruptcy reorganizations, financial restructurings and troubled company acquisitions. Mr. Duster's publicly listed directorships include Accuride Corporation (NYSE); Netia, SA (Poland), and WBL Corporation Limited (Singapore Stock Exchange).

- (iv) **John T. McLennan** is a corporate director. Mr. McLennan is a director of Amdocs Ltd. and Emera Inc. Mr. McLennan is Chairman of Emera Inc. Mr. McLennan was Vice-Chairman and Chief Executive Officer of Allstream from May 2000 until June 2004. Prior to that position, he served as AT&T Canada's Vice Chairman and Chief Executive Officer. He was also the founding President of Jenmark Consulting Inc., President and Chief Executive Officer of Bell Canada, President of Bell Ontario as well as Chairman, President and Chief Executive Officer of BCE Mobile Communications Inc. Mr. McLennan has also served as President and Chief Executive Officer of Cantel Wireless and Executive Vice President of Mitel Communications Inc.

Independence of External Auditors

The Audit, Finance and Risk Committee reviews and approves the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by Chorus and Aviation GP's external auditor prior to the commencement of such work. In this regard, the Audit, Finance and Risk Committee prepares a report for presentation to the Shareholders quarterly or annually, as required, regarding the Audit, Finance and Risk Committee's approval of such non-audit services in the period.

The Audit, Finance and Risk Committee also requires and reviews a report from the external auditor, if deemed appropriate by the Audit, Finance and Risk Committee, of all relationships between the external auditor and its related entities and Chorus and Aviation GP and their related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor's professional judgment it is independent of Chorus and Aviation GP and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit, Finance and Risk Committee also reviews steps taken by the external auditor to address any findings in any of the foregoing reviews.

Auditors' Fees

Fees payable for the years ended December 31, 2011 and December 31, 2010 to PricewaterhouseCoopers LLP and its affiliates were \$969,342 and \$1,166,181, respectively, as detailed below:

	Year ended December 31,	
	2011	2010
Audit fees	\$305,814	\$ 306,967
Audit-related fees	207,896	215,054
Tax fees	455,632	641,340
All other fees	<u>-</u>	<u>2,820</u>
	<u>\$969,342</u>	<u>\$1,166,181</u>

The nature of each category of fees is described below.

Audit fees. Audit fees were paid for professional services rendered for the audit of Chorus and its affiliates annual financial statements, for the reviews of quarterly reporting by Chorus and for services normally provided

in connection with statutory and regulatory filings or engagements, including costs incurred in 2010 in connection with the proxy circular associated with the Arrangement.

Audit-related fees. Audit-related fees were paid for professional services related to pension plan audits, the translation of financial statements and related documents of Chorus, work completed in preparation for the transition to International Financial Reporting Standards and in 2010, a due diligence review completed in relation to the investment in LARAH.

Tax fees. Tax fees were paid for professional services rendered with respect to income taxes, including tax advice, tax planning and payroll tax consultation.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

The information provided in this section is current as of the date of this AIF.

Corporate Cease Trade Orders or Bankruptcies

Other than as set forth below, to the knowledge of Chorus: no director or executive officer of Chorus is, or has been in the last ten years: (i) a director, chief executive officer or chief financial officer of any company that (A) while that person was acting in that capacity, was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemptions under the securities legislation, for a period of more than 30 consecutive days, or (B) was the subject of an order of the type referred to in (A) above that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer of that company and which resulted from an event that occurred while that person was acting in a capacity as director, chief executive officer or chief financial officer of that company; or (ii) a director or executive officer of any company, that while that person was acting as director or executive officer of that company, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets:

- (i) G. Ross MacCormack was an officer of Air Canada when Air Canada filed for protection under the CCAA on April 1, 2003;
- (ii) John T. McLennan was the Chief Executive Officer of AT&T Canada when AT&T Canada filed for protection under the CCAA on October 15, 2002;
- (iii) Joseph D. Randell was the President and Chief Executive Officer of the Predecessor Company when it filed for protection under the CCAA on April 1, 2003;
- (iv) Scott Tapson was an officer of the Predecessor Company when it filed for protection under the CCAA on April 1, 2003; and
- (v) Richard Flynn was an officer of the Predecessor Company within a year before it filed for protection under the CCAA on April 1, 2003.

Penalties or Sanctions

To the knowledge of Chorus, no director nor executive officer of Chorus (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of Chorus, in the last ten years, no director nor executive officer of Chorus has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

CONFLICTS OF INTEREST

Except as disclosed below and elsewhere herein no director nor senior officer of the Corporation has any existing or potential material conflicts of interest with the Corporation.

INTEREST OF EXPERTS

PricewaterhouseCoopers LLP are the auditors of Chorus and have advised that they are independent with respect to Chorus within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Nova Scotia. The information provided in this section is current as of the date of this AIF.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the directors, or senior officers, as applicable, of (i) Chorus, or (ii) any associate or affiliate of the persons referred to in (i), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect Chorus or any of their subsidiaries.

The information provided in this section is current as of the date of this AIF.

MATERIAL CONTRACTS

Except for the CPA (as amended by the CPA Amendments and the Second CPA Amending Agreement), the particulars of each of which are described above in this AIF, all material contracts entered into by Chorus in 2011 were entered into in the ordinary course of business. No such other material contracts were required to be filed by Chorus under applicable securities legislation.

ADDITIONAL INFORMATION

Additional information relating to Chorus may be found on SEDAR at www.sedar.com and www.chorusaviation.ca.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Chorus' securities and securities authorized for issuance under equity compensation plans will be contained in Chorus' information circular for its annual meeting of Shareholders to be held on May 15, 2012. Additional financial information is provided in the Chorus Consolidated Financial Statements for the year ended December 31, 2011 and in Chorus' 2011 MD&A.

Chorus will, upon the delivery of a written request to the Corporate Secretary of Chorus, at 310 Goudey Drive, Enfield, Nova Scotia, B2T 1E4, provide to any person or entity, the documents specified below:

- (a) when Chorus is in the course of a distribution of its securities under a short form prospectus, or has filed a preliminary short form prospectus in respect of a proposed distribution of its securities:
 - (i) one copy of Chorus' latest AIF, together with one copy of any document or the pertinent pages of any document, incorporated therein by reference;
 - (ii) one copy of the consolidated audited financial statements of Chorus for the most recently completed financial year for which financial statements have been filed, together with the Auditors' Report

thereon, and one copy of any unaudited interim financial statements of Chorus for any period after its most recently completed financial year;

- (iii) one copy of the information circular of Chorus in respect of its most recent annual meeting of Shareholders that involved the election of directors of Chorus or one copy of any annual filing prepared instead of that information circular, as appropriate; and
 - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under subparagraphs (i) to (iii); or
- (b) at any other time, Chorus shall provide to any person or company one copy of any of the documents referred to in subparagraphs (a)(i), (ii) and (iii) above, provided that Chorus may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of Chorus' securities.

GLOSSARY OF TERMS

"2009-2011 Rate Period" means the rate period commencing January 1, 2009 and ending on December 31, 2011;

"ACE Aviation" means ACE Aviation Holdings Inc., a corporation incorporated under the CBCA;

"ACMI" means aircraft, crews, maintenance support and insurance;

"ACPA" means the Air Canada Pilots Association;

"Active Aircraft" means Covered Aircraft other than aircraft being modified, undergoing scheduled maintenance or being painted;

"Agent" has the meaning ascribed thereto under "The Chorus Business - Debt Financing";

"AIF" means this Annual Information Form

"Air Canada Ground Handling Agreement" means the ground handling services agreement dated September 26, 2005 between Jazz Aviation LP and Air Canada, successor to ACGHS Limited Partnership;

"Aircraft Ownership Payment" shall have the meaning ascribed thereto under "The Chorus Business – Capacity Purchase Agreement with Air Canada";

"ALPA" means the Air Line Pilots Association;

"Annual Delivered Block Hours" has the meaning ascribed thereto under "The Chorus Business - Amendments to the CPA";

"Arrangement" has the meaning ascribed thereto under "Corporate Structure";

"ASMs" mean a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the number of miles flown;

"ATAC" means the Air Transport Association of Canada;

"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 returned to the wheels of the aircraft, divided by 60;

"Bombardier" means Bombardier Inc.;

"Cargo Services" mean all freight, Canada Post mail and small package service carried on Scheduled Flights;

"CALDA" means the Canadian Air Line Dispatchers Association;

"CAW" means the Canadian Auto Workers;

"CBCA" means the Canada Business Corporations Act, as amended;

"CCAA" means the Companies' Creditors Arrangement Act, as amended;

"Chorus Leasing I" means Chorus Leasing I Inc., a corporation incorporated under the CBCA;

"Chorus Leasing II" means Chorus Leasing II Inc., a corporation incorporated under the CBCA;

"Chorus Leasing III" means Chorus Leasing III Inc., a corporation incorporated under the CBCA;

"Comparable Operators" has the meaning ascribed thereto under "The Chorus Business - Capacity Purchase Agreement with Air Canada - Rates and Specified Mark-Up";

"Controllable Costs" has the meaning given in the CPA;

“**Controllable Mark-Up**” has the meaning given in the CPA;

“**Controllable Target Margin**” has the meaning given in the CPA;

“**Controllable Target Mark-up**” has the meaning given in the CPA;

“**Conversion Price**” means \$5.25 per Share;

“**Covered Aircraft**” means Chorus’ aircraft subject to the CPA;

“**CPA**” means the amended and restated capacity purchase agreement effective January 1, 2006 between Air Canada and Jazz, as subsequently amended from time to time;

“**CPA Amending Agreement**” has the meaning ascribed thereto under “The Chorus Business - Overview”;

“**CPA Amendments**” mean the separate amendments to the CPA entered into between Air Canada and Jazz on July 28, 2009, September 22, 2009 and March 8, 2011.

“**CTA**” means the Canada Transportation Act and the regulations thereunder, as amended;

“**Debentures**” mean the \$86.25 million principal amount of 9.50% convertible unsecured subordinated debentures of Chorus due December 31, 2014;

“**DOT**” means the United States Department of Transportation;

“**EDC**” means Export Development Canada;

“**FAA**” means the United States Federal Administration Authority;

“**Federal Court**” means the Federal Court of Canada;

“**Fixed Cost Payment**” shall have the meaning ascribed thereto under “The Chorus Business - Capacity Purchase Agreement with Air Canada”;

“**Flight Hour Rate**” has the meaning given in the CPA;

“**Flight Hours**” has the meaning given in the CPA;

“**Flight Services Agreement**” means the flight services agreement dated April 2, 2010 between Thomas Cook and Jazz;

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

“**Fund**” means Jazz Air Income Fund, an unincorporated, open-ended trust established under the laws of the Province of Ontario;

“**GHG**” means green house gas;

“**Guaranteed Block Hours**” shall have the meaning ascribed thereto under “The Chorus Business – Capacity Purchase Agreement with Air Canada”;

“**Guaranteed Minimum Number of Covered Aircraft**” has the meaning ascribed thereto under “The Chorus Business - Fleet”;

“**IATA**” means the International Air Transport Association;

“**ICAO**” means the International Civil Aviation Organization;

“**Initial CPA**” means the capacity purchase agreement between Air Canada and the Successor Partnership which was in effect from October 1, 2004 until December 31, 2005. The Initial CPA was replaced with the CPA effective January 1, 2006;

“**Jazz**” means Jazz Aviation LP, together with its general partner, Aviation GP, and their respective subsidiaries and predecessors; and, in particular, reference to Jazz in respect of a time period prior to October 1, 2004 are references to the business of Jazz as carried on by Jazz Air Inc., which was liquidated on September 30, 2004, and references to Jazz in respect of the time period from October 1, 2004 until February 2, 2006 are references to the business of Jazz as carried on by the Successor Partnership, unless the context requires otherwise;

“**Jazz GP**” means Jazz Air Holding GP Inc., a corporation incorporated under the CBCA on August 23, 2005 to act as the general partner of Jazz Air LP;

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

“**Jazz Aviation LP Partnership Agreement**” means the limited partnership agreement dated November 18, 2010 pursuant to which Jazz Aviation was formed;

“**LARAH**” means Latin American Regional Aviation Holding Corporation;

“**LeaseCos**” means Chorus Leasing I, Chorus Leasing II, and Chorus Leasing III, collectively;

“**Lenders**” has the meaning ascribed thereto under “The Chorus Business - Debt Financing”;

“**LP Units**” mean the limited partnership units of Jazz LP;

“**MADUG**” means minimum average daily utilization guarantee;

“**Management**” means management of Jazz;

“**Maturity Date**” means December 31, 2014;

“**MSA**” means the master services agreement dated September 24, 2004 between Jazz and Air Canada;

“**OLA**” means the Official Languages Act (Canada), as amended;

“**Ontario Court**” means the Ontario Superior Court of Justice;

“**Pass-Through Cost**” has the meaning given in the CPA;

“**PIPEDA**” means the *Personal Information Protection and Electronic Documents Act* (Canada);

“**Pluna**” means Pluna Líneas Aéreas Uruguayas S.A.

“**Porter**” means Porter Airlines Inc.;

“**Porter Defendants**” has the meaning ascribed thereto under “Risk Factors - Risks Relating to Current Legal Proceedings”;

“**Predecessor Company**” means Jazz Air Inc., a corporation incorporated under the laws of Canada and liquidated as of September 30, 2004;

“**Q400 aircraft**” has the meaning ascribed thereto under “Corporate Structure”;

“**Qualified Canadian**” means a “Canadian” for the purposes of the CTA, defined as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians;

“**Scheduled Flights**” mean the flights on the Covered Aircraft whose routes, schedules and fares are determined by Air Canada in accordance with the CPA;

“**Second CPA Amending Agreement**” has the meaning ascribed thereto under “The Chorus Business - Overview”;

“Shareholder” means a holder of Shares;

“Shares” means Class A Variable Voting Shares and Class B Voting Shares of Chorus Aviation Inc.;

“Small Jets Settlement Agreement” shall have the meaning ascribed thereto under the “The Jazz Business – Scope Clause;

“Spare Engine” means any spare engine used to support a Covered Aircraft;

“Successor Partnership” means Jazz Air Limited Partnership, a limited partnership established under the laws of the Province of Québec, which carried on the regional airline business from October 1, 2004 until February 2, 2006;

“TCCA” means the Toronto City Centre (Island) airport;

“Thomas Cook” means Thomas Cook Canada Inc.;

“Toronto Pearson” means Toronto Lester B. Pearson International Airport;

“TPA” means the Toronto Port Authority;

“Trademark License Agreement” means the trademark license agreement dated September 30, 2004 between Air Canada and Jazz;

“Trust” means Jazz Air Trust, an unincorporated, open ended trust established under the laws of the Province of Ontario;

“TSX” means the Toronto Stock Exchange;

“Unit Costs” has the meaning given in the CPA;

“Unitholders” mean the holders of Units;

“Units” mean units of the Fund; and

“Variable Voting Shares” means Class A variable voting shares in the capital of Chorus Aviation Inc.; and

“Voting Shares” means Class B voting shares in the capital of Chorus Aviation Inc.

SCHEDULE "A"
CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE
(the "Committee")
OF THE BOARD OF DIRECTORS OF CHORUS AVIATION INC.
(the "Corporation")

1. Purpose

The primary purpose of the Committee is to assist the board of directors of the Corporation (the "Board") in fulfilling applicable public Corporation obligations respecting audit committees and to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting.

2. Composition and Qualification

- (a) The Committee shall be comprised of three (3) or more directors as determined by the Board, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations.
- (b) The members of the Committee shall be appointed by the Board to hold office from the time of their appointment until the next annual general meeting of the shareholders or until their successors are appointed. Unless a Chair is appointed by the Board, the members of the Committee may designate a Chair by a majority vote of all the Committee members. The Board may fill vacancies on the Committee by appointing another director to the Committee. The Board shall fill any vacancy if the membership of the Committee is less than three directors. Whenever there is a vacancy on the Committee, the remaining members may exercise all its power.
- (c) The members of the Committee shall have no relationships with management, the Corporation, and its related entities that in the opinion of the Board may interfere with their independence. In addition, a Committee member shall not receive, other than for service on the Board or the Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related parties or subsidiaries. The members of the Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Committee and in particular each member of the Committee shall be "financially literate".
- (d) The Committee may invite, from time to time, such person as it may see fit to attend its meeting and to take part in discussion and consideration of the affairs of the Committee. However, any such persons invited may not vote at any meeting of the Committee.
- (e) The Committee shall meet periodically, and more often as warranted, with the Chief Executive Officer to discuss any matters that the Committee or either of these individuals believes should be discussed privately. However, the Committee shall also meet periodically without management present.
- (f) The Board, may, at any time, remove any member of the Committee at its discretion and may accept the resignation of any member of the Committee.

3. Meetings and Procedure

- (a) The Committee shall meet at least quarterly, or more frequently as circumstances dictate. Such meetings may be held by telephone or by any other mean which enables all participants to communicate with each other simultaneously.

- (b) The Committee may fix its own procedure at meetings and for the calling of meetings except as may be otherwise provided by the Board.
- (c) A quorum for the transaction of business at a Committee meeting shall be a majority of the Committee members. All decisions and recommendations made by the Committee shall be made by a majority vote of the members present at the meeting.
- (d) The Committee shall have the authority to delegate any of its responsibilities to individual members and subcommittees as the Committee may deem appropriate in its sole discretion.
- (e) Notice of meetings shall be given by letter, facsimile, email or telephone not less than 24 hours before the time fixed for the meeting. Notice of meetings shall state the date, the place and the hour at which such meetings will be held. Members may waive notice of any meeting.
- (f) An “in-camera” session of the members of the Committee shall be held as part of each meeting of the Committee.
- (g) The minutes of the Committee meetings shall accurately record the significant discussions of, and decisions made by, the Committee, including all recommendations to be made by the Committee to the Board and shall be distributed to Committee members as well as to all the directors of the Corporation, with copies to the Chief Executive Officer of the Corporation.
- (h) The Committee, through its Chairman, shall report to the Board on all proceedings and deliberations of the Committee at the first subsequent meeting of the Board, and at such other times and in such manner as the Board may require or as the Committee in its discretion may consider advisable.
- (i) The Committee shall meet periodically in separate executive sessions with management (including the Chief Financial Officer) and the independent auditor, and have such other direct and independent interaction with such persons from time to time as the members of the Committee deem appropriate. The Committee may request any officer or employee of the Corporation or the Corporation’s outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The independent auditors will have direct access to the Committee at their own initiative.
- (j) Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by management and the external auditors as to any information technology, internal audit and other non-audit services provided by the external auditors to the Corporation and its subsidiaries.

4. Objectives

- (a) The objectives of the Committee are as follows:
 - (i) To assist the Board in the discharge of its responsibility to monitor the Corporation’s financial reporting and audit process.
 - (ii) To maintain and enhance the quality, credibility and objectivity of the Corporation’s financial reporting and to satisfy itself and oversee management’s responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
 - (iii) To assist the Board in its oversight of the independence, qualifications and appointment of the external auditor.

- (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
- (v) To provide independent communication between the Board and the internal auditor and the external auditor.
- (vi) To facilitate in-depth and candid discussions between the Committee and management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

5. Duties

To achieve its objectives, the Committee shall:

- (a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include, prior to their release, a review of the audited and unaudited annual and quarterly financial statements and related notes and Management's Discussion and Analyses ("MD&As") to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, information circulars, earnings press releases and other similar documents. The Committee shall also review the annual information form and other similar documents. These reviews will include:
 - (i) discussions with management and, where applicable, the external auditor and a consideration of the report by the external auditor to the Committee of matters related to the conduct of an audit;
 - (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case maybe, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;
 - (iii) a review of significant adjustments arising from an audit;
 - (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements and the adequacy of the management's responses in correcting audit related deficiencies;
 - (v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;
 - (vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;
 - (vii) a review of the nature and size of unadjusted errors of a non-trivial amount;

- (viii) a review with management of the results of external audits;
 - (ix) a review to ascertain that various covenants are complied with;
 - (x) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes; and
 - (xi) taking such other reasonable steps as it may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies.
- (b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such audited or unaudited annual or quarterly financial statements, MD&A, and the financial disclosure in any such annual information forms, earnings press releases, prospectuses, information circulars and other similar documents.
 - (c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Corporation's quarterly financial statements and related MD&A.
 - (d) Review with management, the external auditor and legal counsel, the Corporation's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements.
 - (e) Meet with the external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department.
 - (f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre-approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Committee. The Corporation shall ensure that funding is available to the Committee for payment of compensation to the external auditor.
 - (g) Review and pre-approve, or delegate to a member of the Committee the responsibility to review and approve and subsequently report to the Committee, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the external auditor prior to the commencement of such work. In this regard the Committee will prepare a report for presentation to the shareholders of the Corporation, as required by applicable law, regarding the Committee's policies and procedures for the approval of such non-audit services in the period, and implement from time to time a process in connection with non-audit services performed by the external auditor.
 - (h) Review annually the objectivity and independence of the external auditors. Request and review a report from the external auditor of all relationships or services involving the external auditor, the Corporation and their respective related entities, including all work performed and fees paid for such work of a non-audit nature, that may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that the external auditor is independent and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once annually the

Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Committee will also review steps taken by the auditing firm to address any findings in any of the forgoing reviews.

- (i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to ensure that such matters are adequately guarded against.
- (j) At least once each year:
 - (i) Meet privately with management to assess the performance of the external auditor.
 - (ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.
- (k) Ensure that external auditors are accountable to the Committee and the Board and shall report directly to the Committee and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Corporation to be proposed in the Corporation's proxy circular for shareholder approval and shall have authority to terminate the external auditors. If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire on the qualifications of the proposed auditors before making its recommendation to the Board. The Committee shall recommend to the Board the amount of the compensation to be paid to the external auditors.
- (l) Regarding the services provided by the internal audit department, the Committee will:
 - (i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work. The head of the internal audit function shall have unrestricted access to the Committee;
 - (ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit department;
 - (iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff;
 - (iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;

- (v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and
 - (vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.
- (m) Obtain from both the internal audit department and the external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.
- (n) As the Committee deems necessary, oversee, review and discuss with management, the external auditors and the internal auditors:
- (i) the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon management and general audit approach and scope of proposed audits of the financial statements of the Corporation and its subsidiaries, the overall audit plans, the responsibilities of management and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits.
 - (ii) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices including such changes recommended by management or the external auditors or which may result from proposed changes to applicable generally accepted accounting principles;
 - (iii) the adequacy and effectiveness of the Corporation's internal accounting and financial controls and the recommendations of management and the external auditors for the improvement of accounting practices and internal controls, any material weaknesses in the internal control environment;
 - (iv) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements;
 - (v) any reserves, accruals, provisions, estimates or management programs and policies;
 - (vi) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Corporation and their impact on the reported financial results of the Corporation;
 - (vii) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles; and
 - (viii) management's determination of goodwill impairment, if any, as required by applicable accounting standards.
- (o) Review policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal controls and internal or external auditing matters. The Committee should be satisfied that sufficient controls are in place to ensure that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in

place. The Committee should also be satisfied that processes are in place to ensure that all such complaints, regardless of significance, are presented to the Committee.

- (p) Review policies for approval of senior management expenses.
- (q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.
- (r) Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.
- (s) Review and approve all related party transactions as such term is defined from time to time in Multilateral Instrument 61-101 - *Take-over Bids and Special Transactions*, as may be amended from time to time.
- (t) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
- (u) Whenever the Committee considers it appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Committee. The Corporation shall ensure that funding is available to the Committee in respect of the aforementioned activities.
- (v) Report regularly to the Board in writing on the activities, findings and conclusions of the Committee.
- (w) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.
- (x) Establish and monitor clear policies for the hiring by the Corporation of employees or former employees of the external auditors.

6. Other

(a) Pension Plans

In relation to the Corporation's pension plans, the Committee shall:

- (i) On recommendation of the Chief Financial Officer, approve the investment structure for the plans, any applicable Statement of Investment Policies and Procedures ("SIPP") and other investment policies for the plans;
- (ii) With the assistance of the Chief Financial Officer, periodically review for appropriateness the funding policy, SIPP, other investment policies and investment structure, and monitor overall pension funds operation, in particular plans funded status, compliance of funding practices with funding policy, and compliance of investments with the SIPP;
- (iii) With the assistance of the Chief Financial Officer, periodically review and monitor the total and asset class returns for the defined benefit pension plan and the investment matters relating to the defined contribution plans:

- (iv) Recommend to the Board for its approval the funding policy, the level of annual contributions, the appointment of the external auditor and the trustees/custodians of the assets of the pension plans;
- (v) Approve the actuary and consultant recommended by the pension committee;
- (vi) On recommendation of the pension committee, accept the actuarial assumptions and actuarial valuation reports for the pension plans; and
- (vii) Approve the annual audited financial statements for the pension plans.

(b) Public Disclosure

- (i) Review and approve the Public Disclosure Policy and any changes related thereto and ensure consistency with current developments and best practices.
- (ii) Where practicable, management will review with the Committee or the Chair of the Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting which are expected by management to be material in relation to the market price of any of the Corporation's securities.

(c) Risk Identification and Management

The Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board. The Committee shall review and discuss with management, the internal audit department and the external auditor all major financial risk exposures and the steps management has taken to monitor/control those exposures. The Committee shall be entitled, from time to time, to retain experts and consultants to assist the Committee with the discharge of such mandate. The Committee shall have the discretion in the discharge of these duties to address risks to the Corporation's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation of business reputation.

(d) Contingent Liabilities

The Committee shall establish processes and procedures to identify and monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of these duties, the Committee shall have the discretion to retain experts and consultants and to review, without limitation, workplace safety, environmental issues and any other matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Committee shall make recommendations, from time to time, to the Board on these matters.

(e) Corporate Authorizations Policies

- (i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;
- (ii) Periodically review any administrative resolutions adopted from time to time pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;
- (iii) Review, monitor and approve the Donations Policy, if applicable, and any changes thereto and the annual Donations Budget; and

- (iv) Review, monitor and approve any other financial expenditure policies that would affect the Corporation's and its subsidiaries' financial condition or reputation.

(f) **Performance to Budget, Actuarial Valuation**

- (i) Review actual financial performance compared to budget;
- (ii) Review and approve the actuarial valuation and related assumptions and recommend to the Board the funding contribution to the Corporation's pension funds as required;
- (iii) Review and approve the appointment of the actuary; and
- (iv) Monitor that all contributions, deductions, withholdings, remittances or other payments of any kind under applicable law have been made.

(g) **Responsibilities**

Nothing contained in the above mandate is intended to assign to the Committee the Board's responsibility to ensure the Corporation's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Committee. Even though the Committee has a specific mandate and its members have financial experience and expertise, it is not the duty of the Committee to plan or conduct audits, or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditor and the external auditor.

(h) **Other Responsibilities**

The Committee shall review and reassess the adequacy of this Charter at least annually and otherwise as it deems appropriate and recommend changes to the Board. The performance of the Committee shall be evaluated with reference to this Charter annually.

The Committee shall ensure that this Charter or a summary of it which has been approved by the Committee is disclosed in accordance with all applicable securities laws or regulatory requirements.