2011
Management's Discussion and Analysis

February 20, 2012

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1. INTRODUCTION

Chorus Aviation Inc. ("Chorus" or the "Company") was incorporated on September 27, 2010 under the laws of Canada, its country of domicile. The Company entered into an arrangement agreement dated October 4, 2010 with, among other parties, Jazz Air Income Fund (the "Fund"), pursuant to which the parties proposed to implement an arrangement (the "Arrangement") under the Canada Business Corporations Act ("CBCA"). The Arrangement, which was effective December 31, 2010, involved the exchange, on a one-for-one basis, of Units of the Fund for Shares of Chorus. As a result of the Arrangement, Unitholders of the Fund became Shareholders of Chorus. The Fund was subsequently wound up into Chorus. The Arrangement has been accounted for as a continuity of interest of the Fund because Chorus continues to substantially operate the business of the Fund and there were no ownership changes. On November 18, 2010 Chorus incorporated Aviation General Partner Inc. to act as general partner for a newly formed partnership, Jazz Aviation LP ("Jazz" or the "Partnership"). On January 5, 2011, substantially all of the assets of Jazz Air LP were transferred to the Partnership. The airline business previously carried on by Jazz Air LP is now carried on by the Partnership. 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., (collectively, the "LeaseCos"). The LeaseCos were established for the sole purpose of acquiring 15 Q400 NextGen turboprop aircraft ("Q400 aircraft").

References to Chorus or the Company in this MD&A refer to, as the context may require, Chorus and its predecessor, the Fund, and their current and former subsidiaries (the Partnership, the Trust, Jazz Air LP, Jazz Air Holding GP Inc., Aviation General Partner Inc., 7503695 Canada Inc. and the LeaseCos) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries or Chorus itself.

Chorus prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the CICA Handbook. In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011, and to provide comparative figures for 2010. Accordingly, Chorus commenced reporting on this basis in its unaudited interim consolidated financial statements for the first quarter of 2011. In this MD&A, the term "Canadian GAAP" ("CGAAP") refers to generally accepted accounting principles in Canada before the adoption of IFRS, and the term "GAAP" or "IFRS" refers to generally accepted accounting principles in Canada after the adoption of IFRS.

As a result of the adoption of IFRS, certain trends in operating results presented under Canadian GAAP may no longer be applicable under IFRS. In particular, the accounting for pension and other employee benefits, depreciation and amortization, aircraft maintenance expense, business combinations and deferred income taxes are significantly impacted by the changeover to IFRS – refer to Section 15 "Accounting Policies, Including Transition to IFRS" of this MD&A for additional information.

The following MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2011 and December 31, 2010. Those consolidated financial statements have been prepared in accordance with IFRS. This MD&A is prepared as of February 20, 2012.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 18 – Risk Factors.

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

Caution regarding forward-looking information

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

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to the Partnership’s relationship with Air Canada or Thomas Cook, risks relating to the airline industry, energy prices, general industry, market, credit, and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, dilution of Chorus Shareholders, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this MD&A. The forward-looking statements contained in this discussion represent Chorus’ expectations as of February 20, 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.

2. 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 forms an integral part of Air Canada’s domestic and transborder market presence. Chorus and Air Canada are parties to the Capacity Purchase Agreement (“CPA”), under which Air Canada currently purchases 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. Chorus operates 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, as at December 31, 2011. 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.

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 (refer to Section 18 - Risk Factors).

Chorus also operates Boeing 757-200 aircraft on behalf of Thomas Cook to various sun destinations from Canadian gateways during the winter season (November through April), pursuant to a 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).

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.

In 2010, Chorus signed a purchase agreement with Bombardier Inc. for a firm order for 15 Q400 aircraft and options for 15 additional aircraft. On March 8, 2011, Chorus and Air Canada agreed to an amendment to the CPA (the "Second Amending Agreement") to facilitate the 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 scheduling of the Q400 aircraft into commercial service, based upon the anticipated delivery date of such aircraft.

During 2011, Chorus signed nine separate loan agreements with Export Development Canada ("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. Chorus will be required to make equal installments of principal and interest over the term to maturity (refer to Section 10 – Liquidity and Capital Resources).

On October 18, 2011, Chorus and Bombardier Inc. signed a change order in respect of delivery dates regarding the original purchase agreement for Q400 aircraft. Chorus took delivery of the ninth and tenth Q400 aircraft prior to December 31, 2011. The original agreement contemplated delivery of the ninth and tenth Q400 aircraft in January 2012 and February 2012, respectively. To finance the tenth aircraft, Chorus issued, to a third party, a 48 day, non-interest bearing promissory note, which bridged the period between the purchase date on December 16, 2011 and the draw, under the EDC long-term financing on February 2, 2012. 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 and drew EDC financing for the tenth Q400 aircraft, which had been delivered in December 2011. The term loan is repayable by Chorus to EDC in semi-annual instalments of $US1.0 million, matures in February 2024, and is secured by one Q400 aircraft and two PWA 150A engines.

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 CRJ100 removed from service. The ninth and tenth aircraft will continue to be used by Chorus as operational spares until their respective scheduled service dates of February 1, 2012 and March 1, 2012.

3. FOURTH QUARTER 2011 SUMMARY

- Took delivery of five Q400 aircraft
- Billable Block Hours of 97,108
- Departures of 67,665
- Operating income of $25.3 million
- Net income of $22.7 million
- Adjusted net income[(1)] of $19.6 million
- EBITDA[(1)] of $38.0 million
- Free Cash Flow[(1)] of $29.4 million

Key financial information

(expressed in thousands of Canadian dollars, except per Share (Unit) amounts)	Three months ended December 31, 2011 $	2010 $	Year ended December 31, 2011 $	2010 $	2009[(3)] $
Revenue	407,742	392,675	1,664,467	1,486,166	1,473,900
Operating income	25,320	18,071	101,947	86,785	88,774
Net income (loss)	22,674	(11,882)	68,135	55,888	92,638
Total assets	773,429	523,793	773,429	523,793	1,266,471
Total long-term liabilities	319,155	152,006	319,155	152,006	159,270
EBITDA [(1)]	37,960	28,343	146,086	128,674	159,086
Dividends / distributions declared	18,602	18,489	74,408	73,776	102,787
Free Cash Flow [(1)]	29,375	20,498	106,842	98,056	139,266
Cash provided by operating activities	41,339	23,281	152,969	112,133	130,089
Per Share (Unit) [(2)]					
Operating income	0.20	0.15	0.83	0.71	0.73
Net income (loss)	0.18	(0.10)	0.55	0.46	0.76
Dividends / distributions declared	0.15	0.15	0.60	0.60	0.84
Free Cash Flow / distributable cash	0.24	0.17	0.87	0.80	1.14

(1) These are non-GAAP measures. Refer to Section 7 – Performance Indicators.
(2) Calculated on a basic weighted average number of Shares (Units) for Chorus.
(3) The information for 2009 is reported on a CGAAP basis (prior to adoption of IFRS). Accordingly, the financial information presented may not be comparable to subsequent periods.

Key statistical information

Statistical information for the three months and twelve months ended December 31, 2011 and 2010 is as follows:

	Three months ended December 31,			Year ended December 31,		
	2011	2010	Variance %	2011	2010	Variance %
Departures	67,665	68,538	(1.3)	277,629	274,457	1.2
Block Hours	95,868	96,291	(0.4)	394,999	375,851	5.1
Billable Block Hours	97,108	98,817	(1.7)	401,477	381,537	5.2
Available Seat Miles (ASMs) (000's)	1,459,392	1,497,201	(2.5)	6,285,922	5,501,190	14.3
Operating Expenses ($000's)	382,422	374,604	2.1	1,562,520	1,399,381	11.7
Cost per Available Seat Mile (CASM) (¢)	26.20	25.02	4.7	24.86	25.44	(2.3)
CASM Excluding Aircraft Fuel (¢)	19.75	19.38	1.9	18.32	20.00	(8.4)
Number of Operating Aircraft (end of period)(1)	139	134	3.7	139	134	3.7
Full-time Equivalents (FTEs) (end of period)	4,777	4,694	1.8	4,777	4,694	1.8

(1) Refer to Section 4 - Fleet

4. FLEET

As at December 31, 2011, Chorus' operating fleet was made up of 139 operating aircraft, of which 59 were regional jets, 74 were turboprop aircraft, and six were Boeing 757-200 aircraft.

The following table lists Chorus' operating fleet as at December 31, 2011:

	Number of Operating Aircraft December 31, 2011	Average Age of Operating Aircraft	Owned	Finance Lease	Operating Lease	Number of Operating Aircraft December 31, 2010
Canadair Regional Jet CRJ100	17	16.3	-	-	17	22
Canadair Regional Jet CRJ200	26	9.5	-	-	26	26
Canadair Regional Jet CRJ705	16	6.4	-	-	16	16
De Havilland DHC-8-300	28	21.4	19	7	2	28
De Havilland DHC-8-100	36	23.7	29	-	7	36
Bombardier Q400	10	0.3	10	-	-	-
Boeing 757-200	6	13.9	-	-	6	6
Total Operating Aircraft	139	15.6	58	7	74	134

Chorus operates two Dash-8-100, two Dash-8-300, and one CRJ-200 aircraft for charter purposes and six 757-200 aircraft for Thomas Cook. These aircraft are included in the table above.

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 (temporarily 126 covered aircraft (see discussion under Part 2, - Overview)), 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. Five CRJ-100 aircraft were returned to the lessor during 2011.

The second season of the Thomas Cook operation commenced service during November 2011. All six Boeing 757-200 aircraft were in full operation at year-end for the 2011-2012 winter season. The winter season will begin to wind down in late March 2012 with one Boeing 757-200 aircraft returning to the lessor and the remaining Boeing 757-200 aircraft returning to the lessor by the end of April 2012.

5. FOURTH QUARTER ANALYSIS

The following table compares the results of operations of Chorus for the three months ended December 31, 2011 to the three months ended December 31, 2010.

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2011 $	Three months ended December 31, 2010 $	Change $	Change %
Operating revenue	407,742	392,675	15,067	3.8
Operating expenses				
Salaries, wages and benefits	102,108	92,699	9,409	10.2
Aircraft fuel	94,243	84,514	9,729	11.5
Depreciation and amortization	12,640	10,272	2,368	23.1
Food, beverage and supplies	3,993	4,196	(203)	(4.8)
Aircraft maintenance materials, supplies and service	35,112	37,480	(2,368)	(6.3)
Airport and navigation fees	49,238	51,033	(1,795)	(3.5)
Aircraft rent	27,199	28,721	(1,522)	(5.3)
Terminal handling services	28,318	31,539	(3,221)	(10.2)
Other	29,571	34,150	(4,579)	(13.4)
Total operating expenses	382,422	374,604	7,818	2.1
Operating income	25,320	18,071	7,249	40.1
Non-operating income (expenses)				
Net interest expense	(3,266)	(1,722)	(1,544)	89.7
Gain on disposal of property and equipment	143	159	(16)	(10.1)
Foreign exchange gain	5,779	281	5,498	1,956.6
Loss on derivative liabilities	-	(8,892)	8,892	100.0
	2,656	(10,174)	12,830	126.1
Net income before deferred income taxes	27,976	7,897	20,079	254.3
Deferred income tax expense	(5,302)	(19,779)	14,477	73.2
Net income (loss) for the periods	22,674	(11,882)	34,556	290.8

Operating Revenue

Operating revenue increased from $392.7 million to $407.7 million, representing an increase of $15.0 million or 3.8%. The increase in revenue was primarily attributable to a $4.1 million or 2.7% increase in pass-through costs from $154.3 million to $158.4 million, which included $9.6 million related to fuel; offset by a decrease in airport and navigational fees and deicing. Passenger revenue, excluding pass-through costs, increased by $11.1 million or 4.7% primarily as a result of a higher US dollar exchange rate, a $2.5 million increase in incentives earned under the CPA with Air Canada, and rate increases made pursuant to the CPA (which includes two additional Covered Aircraft); offset by a decrease in Billable Block Hours. Other revenue decreased by $0.2 million.

Operating Expenses

Operating expenses increased from $374.6 million to $382.4 million, an increase of $7.8 million or 2.1%. Controllable Costs increased by $3.7 million, or 1.7%, primarily as a result of costs associated with capacity growth, including $0.8 million associated with the introduction of the Q400 aircraft, consisting of crew salaries and benefits, and training costs.

- Salaries, wages and benefits increased by $9.4 million due to the increased number of FTEs required to facilitate capacity growth, wage and scale increases under new collective agreements, increased pension expense resulting from a revised actuarial valuation and increased incentive compensation expense.

- Aircraft fuel costs increased by $9.7 million, as a result of an increase in CPA fuel of $15.9 million, primarily attributable to the rise in the price of fuel of $16.2 million; offset by a decrease in fuel usage of $0.3 million and the absence of Thomas Cook fuel in this quarter of $6.2 million. As of November 1, 2011, Chorus no longer processes fuel for Thomas Cook. In the fourth quarter of 2010, $6.2 million was recorded as pass-through revenue and cost related to Thomas Cook flying.

- Depreciation and amortization expense increased by $2.4 million due to the purchase of Q400 aircraft and increased major maintenance overhauls; offset by certain assets reaching full amortization and decreased capital expenditures on aircraft rotable parts and other equipment.

- Aircraft maintenance expense decreased by $2.4 million as a result of a decrease in other maintenance costs of $1.3 million and a decrease in CPA Block Hours of $1.8 million; offset by the effect of the increase in the US dollar exchange rate on certain material purchases of $0.7 million.

- Airport and navigational fees decreased by $1.8 million as a result of a general rate decrease related to changes in aircraft deployment; offset by the introduction of Q400 aircraft.

- Aircraft rent decreased by $1.5 million primarily as a result of new lease arrangements with respect to certain aircraft and the return of CRJ aircraft; offset by a higher US dollar exchange rate.

- Terminal handling costs decreased by $3.2 million due to changes in aircraft deployment, a decrease in the number of departures and a decrease in deicing costs.

- Other expenses decreased by $4.6 million primarily due to decreased general overhead expenses and professional fees; offset by the introduction of Q400 aircraft.

Non-Operating Income (Expenses)

Non-operating income amounted to $2.7 million, an increase of $12.8 million. This change was primarily attributable to a foreign exchange gain of $5.8 million (of which $3.1 million was related to an unrealized foreign exchange gain on long-term debt and finance leases) arising as a result of the change in value of the Canadian dollar relative to the US dollar, and the absence in this quarter of any loss on derivative liabilities; offset by increased interest expense (refer to Section 15 – Accounting Policies, Including Transition to IFRS).

6. YEAR-TO-DATE ANALYSIS

The following table compares the results of operations of Chorus for the year ended December 31, 2011 to the year ended December 31, 2010.

(expressed in thousands of Canadian dollars)	Year ended December 31, 2011 $	Year ended December 31, 2010 $	Change $	Change %
Operating revenue	1,664,467	1,486,166	178,301	12.0
Operating expenses				
Salaries, wages and benefits	399,606	356,996	42,610	11.9
Aircraft fuel	410,735	299,341	111,394	37.2
Depreciation and amortization	44,139	41,889	2,250	5.4
Food, beverage and supplies	15,587	13,890	1,697	12.2
Aircraft maintenance materials, supplies and service	152,301	154,152	(1,851)	(1.2)
Airport and navigation fees	198,130	193,233	4,897	2.5
Aircraft rent	106,471	115,602	(9,131)	(7.9)
Terminal handling services	116,032	107,524	8,508	7.9
Other	119,519	116,754	2,765	2.4
Total operating expenses	1,562,520	1,399,381	163,139	11.7
Operating income	101,947	86,785	15,162	17.5
Non-operating income (expenses)				
Net interest expense	(10,076)	(8,524)	(1,552)	(18.2)
Gain on disposal of property and equipment	682	747	(65)	(8.7)
Foreign exchange loss	(4,176)	(417)	(3,759)	(901.4)
Loss on derivative liabilities	-	(9,008)	9,008	100.0
Unrealized loss on Asset Backed Commercial Paper	547	-	547	100.0
	(13,023)	(17,202)	4,179	24.3
Net income before deferred income taxes	88,924	69,583	19,341	27.8
Deferred income tax expense	(20,789)	(13,695)	(7,094)	51.8
Net income for the years	68,135	55,888	12,247	21.9

Operating Revenue

Operating revenue increased from $1,486.2 million to $1,664.5 million, representing an increase of $178.3 million or 12.0%. The increase in revenue was primarily attributable to a $128.8 million, or 23.8%, increase in pass-through costs from $541.8 million to $670.6 million, which included $110.9 million related to fuel. Passenger revenue, excluding pass-through costs, increased by $48.7 million, or 5.2%, primarily as a result of an increase in CPA Billable Block Hours and departures, a $0.2 million increase in incentives earned under the CPA with Air Canada, new revenue earned under the Thomas Cook arrangement and rate increases made pursuant to the CPA (which includes two additional Covered Aircraft); offset by a lower US dollar exchange rate, which also had the translational effect of decreasing the mark-up revenue by $1.2 million. Other revenue increased by $0.8 million.

Operating Expenses

Operating expenses increased from $1,399.4 million to $1,562.5 million, an increase of $163.1 million or 11.7%. Controllable Costs increased by $34.3 million or 4.0% and is primarily attributable to costs associated with capacity growth, including $2.9 million associated with the introduction of the Q400 aircraft, consisting of crew salaries and benefits, and training costs.

- Salaries, wages and benefits increased by $42.6 million due to wage and scale increases under new collective agreements, increased pension expense resulting from a revised actuarial valuation, the increased number of FTEs required to facilitate capacity growth and increased incentive compensation expense.

- Aircraft fuel costs increased by $111.4 million as a result of an increase in CPA fuel of $92.0 million, primarily attributable to the rise in the price of fuel of $85.1 million and increased Block Hours of $6.9 million. As of November 1, 2011, Chorus no longer processes fuel for Thomas Cook. Fuel costs for Thomas Cook in 2011, included $25.5 million related to the January to April flying and in 2010 included $6.2 million related to the November to December flying, resulting in an overall net change of $19.3 million, year-over-year.

- Depreciation and amortization expense increased by $2.3 million due to the purchase of Q400 aircraft and increased major maintenance overhauls; offset by certain assets reaching full amortization, and decreased capital expenditures on aircraft rotable parts and other equipment.

- Aircraft maintenance expense decreased by $1.9 million as a result of the effect of the decrease in the US dollar exchange rate on certain material purchases for $4.0 million, and a reduction in other maintenance costs under the CPA of $5.1 million; offset by expenses resulting from increased Block Hours for $7.2 million.

- Airport and navigational fees increased by $4.9 million as a result of the Thomas Cook departures, and increased CPA related costs due to increased Block Hours and departures and a rate increase related to the Q400 aircraft, which were offset by changes in aircraft deployment and a general rate decrease resulting from a change in the airport user fee structure.

- Aircraft rent decreased by $9.1 million primarily as a result of a lower US dollar exchange rate, new lease arrangements with respect to certain aircraft and the return of CRJ aircraft; offset by the addition of six Boeing aircraft for the operation of flights on behalf of Thomas Cook.

- Terminal handling costs increased by $8.5 million due to the Thomas Cook departures and increased CPA related costs due to an increase in the number of departures, changes in aircraft deployment, and a change in terminal handling fee structure; offset by a decrease in deicing costs.

- Other expenses increased by $2.8 million primarily due to increased crew related costs (such as crew positioning and per diems), costs associated with the introduction of Q400 aircraft, and general overhead expenses.

Non-Operating Expenses

Non-operating expenses amounted to $13.0 million, a decrease of $4.2 million. This change was primarily attributable to the absence in the current year of any loss on derivative liabilities and a gain on Asset Backed Commercial Paper (refer to Section 15 – Accounting Policies, Including Transition to IFRS); offset by a foreign exchange loss of $4.2 million (of which $3.5 million was related to unrealized foreign exchange loss on long-term debt and finance leases) arising as a result of the change in value of the Canadian dollar relative to the US dollar and increased interest expense.

7. PERFORMANCE INDICATORS

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

EBITDA

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

Free Cash Flow

Prior to Chorus' conversion from an income fund structure, distributable cash was a key performance indicator used by management to evaluate the ongoing performance of the Fund. Distributable cash is not a measure which is commonly utilized in respect of a public corporation. Management believes, however, that it is a term with which its Shareholders are familiar, and has calculated Free Cash Flow as a proxy for previously reported distributable income.

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

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2011 $	Three months ended December 31, 2010[(6)] $	Year ended December 31, 2011 $	Year ended December 31, 2010[(6)] $
Operating income	25,320	18,071	101,947	86,785
Depreciation and amortization	8,948	7,385	30,920	29,871
Major maintenance overhauls	3,692	2,887	13,219	12,018
Total depreciation and amortization	12,640	10,272	44,139	41,889
EBITDA	37,960	28,343	146,086	128,674
EBITDA margin (%)[(1)]	9.3	7.3	8.8	8.7
EBITDA	37,960	28,343	146,086	128,674
Non-operating expenses[(2)]	(465)	(1,760)[(3)]	(9,506)	(8,999)[(3)]
Capital expenditures, excluding Q400 aircraft purchases	(5,253)	(3,665)	(13,505)	(11,899)
Capitalized major maintenance overhauls[(4)]	(2,867)	(2,420)	(16,233)	(9,720)
Maintenance Capital Expenditures[(5)]	(8,120)	(6,085)	(29,738)	(21,619)
Free Cash Flow	29,375	20,498	106,842	98,056
Dividends declared	18,602	18,489	74,408	73,776
Payout ratio – dividends declared / Free Cash Flow (%)	63.3	90.2	69.6	75.2

(1) EBITDA margin is calculated as EBITDA divided by operating revenues.
(2) Excludes $3.1 million gain and $3.5 million loss, respectively, for the three months and year ended December 31, 2011, related to unrealized foreign exchange on long-term debt and finance leases (2010 - $0.5 million gain and $0.8 million gain on unrealized foreign exchange).
(3) $8.9 million loss on derivative liabilities ($9.0 million loss for the year ended December 31, 2010) was removed from the IFRS adjustments as it is a non-cash item, which is transitory under an income fund structure and eliminated upon conversion to a corporation on December 31, 2010.
(4) Completed six (including carry over from previous period) and 29 major maintenance overhaul events for the three months and year ended December 31, 2011, compared to four and 18, respectively, for the same periods in 2010.
(5) Excludes all capital expenditures related to the purchase of the Q400 aircraft, as these are not treated as Maintenance Capital Expenditures (refer to Section 10 – Liquidity and Capital Resources, Maintenance Capital Expenditures).
(6) For a reconciliation of 2010 calculation under CGAAP versus IFRS, refer to Section 15 – Accounting Policies, Including Transition to IFRS.

Due to the nature of the underlying associated revenue stream provided by the CPA (refer to Section 12 – Financial Instruments and Risk Management), the unrealized foreign exchange gains or losses on long-term debt and finance leases will not affect future cash flows. As such, Chorus has excluded the unrealized portion of foreign exchange gains or losses on long-term debt and finance leases from the Free Cash Flow calculation.

The following table provides a reconciliation of cash flows from operating activities to Free Cash Flow:

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2011 $	Three months ended December 31, 2010 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Cash flows from operating activities	41,339	23,281	152,969	112,133
Maintenance Capital Expenditures, net of gain on disposal	(7,977)	(5,926)	(29,056)	(20,872)
Change in non-cash operating working capital	(3,040)	3,363	(13,702)	10,346
Amortization of prepaid aircraft rent and related fees	(524)	(478)	(1,975)	(1,895)
Stock-based compensation	(498)	-	(2,206)	(764)
Accretion of debt component of convertible debentures	(400)	(405)	(1,567)	(1,589)
Other	475	663	2,379	697
Free Cash Flow	29,375	20,498	106,842	98,056

Adjusted Net Income

Adjusted net income is calculated by adjusting net income by the amount of any unrealized foreign exchange gains and losses on long-term debt and finance leases. This adjustment more clearly reflects earnings from an operating perspective.

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2011 $	Three months ended December 31, 2010 $	Three months ended December 31, Variance %	Year ended December 31, 2011 $	Year ended December 31, 2010 $	Year ended December 31, Variance %
Net income (loss) for the periods	22,674	(11,882)	290.8	68,135	55,888	21.9
Unrealized foreign exchange (gain) loss	(3,121)	(478)	552.9	3,517	(805)	536.9
Adjusted net income (loss)	19,553	(12,360)	258.2	71,652	55,083	30.1
Adjusted net income (loss) per share – basic	0.16	(0.10)	260.0	0.58	0.45	28.9
Adjusted net income (loss) per share – diluted	0.15	(0.10)	260.0	0.57	0.45	26.7

8. QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results and major operating statistics of Chorus for the previous eight quarters. All information is reported on an IFRS basis.

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Operating revenue ($000)	407,742	411,660	402,046	443,019	392,675	379,109	359,010	355,372
Operating expenses ($000)	382,422	380,566	378,086	421,446	374,604	352,133	333,114	339,530
Operating income ($000)	25,320	31,094	23,960	21,573	18,071	26,976	25,896	15,842
Total non-operating expense (income) ($000)	(2,656)	12,564	925	2,190	10,174	(3,191)	10,612	(393)
Deferred income tax expense (recovery) ($000)	5,302	4,620	6,140	4,727	19,779	4	(5,924)	(164)
Net income (loss) ($000)	22,674	13,910	16,895	14,656	(11,882)	30,163	21,208	16,399
Adjusted net income (loss)(1)	19,553	21,535	16,240	14,324	(12,360)	29,635	21,942	15,866
Billable Block Hours	97,108	102,431	97,632	104,306	98,817	99,390	93,585	89,745
Available Seat Miles (000's)	1,459,392	1,487,874	1,460,612	1,878,044	1,497,201	1,425,130	1,345,703	1,233,156
Cost per Available Seat Mile (CASM) (¢)	26.20	25.58	25.89	22.44	25.02	24.71	24.75	27.53
CASM, excluding fuel (¢)	19.75	18.68	18.83	16.54	19.38	19.26	19.45	22.20
EBITDA(1) ($000)	37,960	42,954	33,885	31,287	28,343	37,361	36,048	26,922
Free Cash Flow(2) ($000)	29,375	29,101	23,257	25,109	20,498	29,782	29,475	18,301
Free Cash Flow(2) per Share (Unit) ($)	0.24	0.24	0.19	0.21	0.17	0.25	0.24	0.15
Dividends / distributions declared per Share (Unit) ($)	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Net income (loss) per Share (Unit), basic ($)	0.18	0.11	0.14	0.12	(0.10)	0.25	0.17	0.13
Net income (loss) per Share (Unit), diluted ($)	0.18	0.11	0.13	0.12	(0.10)	0.20	0.17	0.11
Adjusted net income (loss) per Share (Unit), basic(1)	0.16	0.17	0.13	0.12	(0.10)	0.24	0.18	0.13

(1) This is a non-GAAP measurement.
(2) Previously reported as distributable income. This is a non-GAAP measurement.

9. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2012 to 2016:

(expressed in thousands of Canadian dollars)	2012 $	2013 $	2014 $	2015 $	2016 $
Defined benefit pension plans, current service	19,800	20,300	21,000	21,400	21,800
Defined benefit pension plans, past service	14,300	9,400	9,100	9,100	9,100
Defined contribution pension plans	10,500	11,000	11,600	11,800	12,000
Projected pension funding obligations	44,600	40,700	41,700	42,300	42,900

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

The funding requirements for the Chorus pilots' registered pension plan are estimated based on the projected January 1, 2012 actuarial valuation for that plan and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the supplemental executive retirement plan are based on a funding policy adopted by Chorus and the January 1, 2012 projected actuarial valuation for that plan.

Chorus calculated these funding requirements based on projected actuarial valuations for 2012 rather than the January 1, 2011 actuarial valuation filed in respect of the plan (based upon which Chorus calculated its funding requirements in prior periods). Projected valuations provide a more accurate estimate of this liability, as these reflect, among other things, the 100 basis point decrease in Government of Canada Bond rates (which are applied to calculate past service obligations) over the beginning and end of 2011 and the poor investment returns earned by plan assets in 2011.

The projected January 1, 2012 actuarial valuation for the Chorus pilot's registered plan applies a smoothed value of the plan assets which amortizes investment gains and losses over a five year period with a cap on the smoothed value of assets at 110% of market value of assets.

Changes in the economic conditions, mainly the investment returns generated by the plan assets and changes in interest rates, will impact the financial position of these plans and, hence, future required contributions. These projections are updated annually (refer to Section 1 – Introduction, "Caution regarding forward-looking information").

10. LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At December 31, 2011, Chorus had $108.1 million in cash and cash equivalents on hand, representing an increase of $42.2 million from December 31, 2010, such increase resulting primarily from a change in dividend payment frequency (monthly to quarterly), timing of commodity tax payments, interest payments on the debentures and the increase in operating income. Chorus expects to generate sufficient cash flow to fund dividends (which are declared at the discretion of the Board), planned Maintenance Capital Expenditures and interest costs under its convertible debentures (refer to Section 1 – Introduction, "Caution regarding forward-looking information"). Management has evaluated aspects of Chorus' business and financial condition and, as at the date of this report, no material adverse changes with respect to its liquidity have occurred (refer to Section 18 – Risk Factors, and Section 1 – Introduction, “Caution regarding forward-looking information”).

Statement of Cash Flows

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

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2011 $	Three months ended December 31, 2010 $	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Cash provided by (used in)				
Operating activities				
Net income (loss) for the periods	22,674	(11,882)	68,135	55,888
Charges (credits) to operations not involving cash	15,625	38,526	71,132	66,591
Net changes in non-cash working capital balances related to operations	3,040	(3,363)	13,702	(10,346)
	41,339	23,281	152,969	112,133
Financing activities				
Dividends / distributions	(18,602)	(24,632)	(55,806)	(79,919)
Repayment of obligations under finance leases	(731)	(673)	(2,756)	(2,639)
Long-term borrowings	77,760	-	171,153	-
Repayment of long-term borrowings	(1,271)	-	(1,271)	(115,000)
Other	-	4	-	(136)
	57,156	(25,301)	111,320	(197,694)
Investing activities				
Additions to property and equipment	(95,815)	(6,085)	(222,448)	(21,619)
Purchase deposits on aircraft, net of applied deposits	11,420	(3,401)	14,432	(26,067)
Assets held for sale	1,867	-	(12,956)	-
Proceeds on disposal of property and equipment	143	159	682	747
Increase in restricted cash	(4,998)	(8,812)	(1,827)	(8,812)
Long-term investment	-	-	-	(16,351)
	(87,383)	(18,139)	(222,117)	(72,102)
Net change in cash and cash equivalents during the periods	11,112	(20,159)	42,172	(157,663)
Cash and cash equivalents – Beginning of periods	96,956	86,055	65,896	223,559
Cash and cash equivalents – End of periods	108,068	65,896	108,068	65,896

Operating activities

Chorus continued to generate positive cash flows from operations of $41.3 million and $153.0 million for the three months and year ended December 31, 2011, compared to $23.3 million and $112.1 million for the same periods in 2010. The increase for the three months and year ended December 31, 2011, was attributable to a higher net income and an increase in accounts payable; offset by an increase in accounts receivable.

Financing activities

Cash used in financing activities for the three months and year ended December 31, 2011 included dividends to Shareholders of $18.6 million and $55.8 million, respectively, a repayment of obligations under finance leases of $0.7 million and $2.8 million, respectively, a repayment of long-term borrowings of $1.3 million, and proceeds received from long-term borrowings of $77.8 million and $171.2 million, respectively (refer to discussion below).

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

Investing activities

Investing activities for the three months and year ended December 31, 2011 included capital expenditures of $95.8 million and $222.4 million, respectively (which includes Q400 aircraft purchases, except the tenth Q400 aircraft which was a non-cash transaction financed by a promissory note, and as such, excluded from the statement of cash flows as at December 31, 2011), purchase deposits (net of applied deposits) on aircraft relating to the order of Q400 aircraft of $11.4 million and $14.4 million, respectively, assets held for sale of $13.0 million for year ended December 31, 2011, and a $5.0 million and $1.8 million increase, respectively, in restricted cash relating to letters of credit. Capital expenditures consisted of major maintenance overhauls, the purchase of aircraft spare parts, other purchases necessary to support ongoing operations and the acquisition of Q400 aircraft. Assets held for sale relate to Q400 spare parts acquired that are being held for sale as part of an anticipated third party provisioning contract (refer to Section 1 – Introduction, "Caution regarding forward-looking information").

Investing activities for the three months and year ended December 31, 2010 included capital expenditures of $6.1 million and $21.6 million, respectively, $3.4 million and $26.1 million, respectively, in purchase deposits on aircraft relating to the order of Q400 NextGen turboprop aircraft, $8.8 million in restricted cash related to letters of credit, and a $16.4 million investment in LARAH for the year ended December 31, 2010. Capital expenditures consisted of investments made to replenish aircraft rotable parts and other purchases necessary to support the ongoing operations.

Contractual obligations and other commitments

The table below summarizes Chorus' principal and interest cash debt repayments and future minimum lease payments under operating leases for flight equipment and base facilities for the years 2012 through to 2016 and thereafter.

(expressed in thousands of Canadian dollars)	Payments Due by Period						
	Total $	2012 $	2013 $	2014 $	2015 $	2016 $	After 5 years $
Convertible debentures (1)	103,070	7,620	7,620	87,830	-	-	-
Long-term debt	215,292	18,112	18,112	18,112	18,112	18,112	124,732
Finance leases	13,936	3,625	3,625	3,625	3,061	-	-
Operating leases Air Canada and its subsidiary (2)	786,235	89,329	80,080	79,665	77,056	70,142	389,963
Operating leases Other third parties	68,314	13,011	10,916	9,744	8,599	4,132	21,912
	1,186,847	131,697	120,353	198,976	106,828	92,386	536,607

(1) Refer to "Convertible debentures" below for further discussion.
(2) Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Chorus. These leases are included in the above table under the heading "Air Canada and its subsidiary". For further discussion, refer to Section 13 – Economic Dependence.
(3) A significant portion of lease payments are payable in US dollars.

On April 30, 2010, Chorus signed a purchase agreement with Bombardier Inc. for a firm order for 15 Q400 aircraft and options for 15 additional aircraft. As at December 31, 2011, Chorus had taken delivery of ten Q400 aircraft.

The purchase agreement with Bombardier required on-going monthly predelivery payments. As at December 31, 2011, Chorus made all of the required predelivery payments.

In 2007 and 2010, Chorus entered into common terms agreements ("CTAs") with aircraft lessors which govern three of Chorus' aircraft leases and which will also apply to any future aircraft leases with the same lessors. As at December 31, 2011, Chorus was in compliance with the tangible asset disposal covenants contained in these CTAs.

Long-term debt

During 2011, Chorus signed nine separate loan agreements with Export Development Canada ("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 is being 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.

Long-term debt consists of the following:

(expressed in thousands of Canadian dollars)	December 31, 2011 $
$173,158 owing under nine separate term loans, repayable in semi-annual instalments, ranging from $979 to $1,032, including fixed interest at a weighted average rate of 3.674%, maturing between May 2023 and December 2023, each secured by one Dash 8 402 (“Q400”) aircraft and two PWA 150A engines	173,158[1]
Less: Current portion	11,853
	161,305

(1) The EDC financing is payable in US dollars.

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 Unit (the “Conversion Price”). The Debentures are not redeemable on or before December 31, 2012, except on a change of control of Chorus or default under the terms of the Debentures. 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.

On December 14, 2010, $6.0 million of note principal with an amortized debt cost of $5.5 million and derivative liability value of $0.9 million was converted into 1,150,476 Units.

Upon issuance, the Debentures were separated into liability and conversion components for accounting purposes. During 2010, prior to the Arrangement, the conversion components of the debentures were considered to be puttable instruments and were recognized as an embedded derivative liability in the statement of financial position. On initial recognition, the embedded derivative was recognized at fair value with the difference between the proceeds received, net of transaction costs, and the embedded derivative assigned to the debt component. The embedded derivative was marked to market during 2010. As a result of the Arrangement on December 31, 2010, the conversion feature of the debenture took on the features of equity, and was transferred out of long-term liabilities to equity at the fair value, net of tax, at that point in time.

The following table allocates the Debentures between debt and equity:

(in thousands of Canadian dollars)	Cost of borrowing %	Debt $	Derivative liability $	Equity $	Total $
As at January 1, 2010	9.5	77,607	5,000	-	82,607
Transaction costs		(140)	-	-	(140)
Accretion expense		1,589	-	-	1,589
Loss on derivative liability		-	9,008	-	9,008
Debenture conversions		(5,515)	(878)	-	(6,393)
Derivative transfer to equity		-	(13,130)	13,130	-
Tax impact on derivative transfer to equity		-	-	(3,633)	(3,633)
As at December 31, 2010		73,541	-	9,497	83,038
Accretion expense		1,567	-	-	1,567
As at December 31, 2011		75,108	-	9,497	84,605

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

For the year ended December 31, 2011, the total interest expense was $9.2 million (2010 - $9.7 million) which included interest accretion of $1.6 million (2010 - $1.6 million).

Off balance sheet arrangements and guarantees

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

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

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

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

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

Maintenance Capital Expenditures

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

For the year ended December 31, 2011, Maintenance Capital Expenditures were $29.7 million (2010 - $21.6 million), compared to anticipated spend of $30.0 million, which includes $16.2 million for capitalization of major maintenance overhauls, and $13.5 million for ongoing fleet modification programs, ongoing landing gear and spare parts replacements for the DHC-8-100, DHC-8-300 and Q400 fleet, facility improvements, and technological upgrades to foster process improvements. Management anticipates Maintenance Capital Expenditures for the year ended December 31, 2012 to be $30.0 million (refer to Section 1 – Introduction, "Caution regarding forward-looking information").

Shares

At February 15, 2012, the issued and outstanding common Shares of Chorus, along with common Shares potentially issuable, pursuant to convertible debentures, were as follows:

Number of Shares

	February 15, 2012	December 31, 2010
Issued and outstanding common Shares		
Class A variable voting Shares	13,198,139	43,698,611
Class B voting Shares	110,817,332	80,316,860
Total issued and outstanding common Shares	124,015,471	124,015,471
Common Shares potentially issuable		
Convertible debentures(1)	15,278,095	15,278,095
Total outstanding and potentially issuable common Shares	139,293,566	139,293,566

(1) Assuming all outstanding convertible debentures are exercised.

11. RELATED PARTY TRANSACTIONS

As at December 31, 2011, Chorus had no transactions with related parties as defined in the CICA Handbook (IFRS), except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Chorus' financial instruments consist of cash and cash equivalents, accounts receivable, long-term investment, ABCP, accounts payable and accrued liabilities, promissory note payable, obligations under finance leases, long-term debt and convertible debentures.

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

Interest rate risk

Investments included in Chorus' cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Chorus' objective is to maintain these balances in highly liquid investments. As at December 31, 2011, Chorus' investments consisted of bankers acceptances and bankers deposit notes issued by three Schedule I banks.

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

The nine term loans with EDC bear fixed interest rates. Therefore, the debt is not subject to interest rate volatility.

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

Credit risk

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

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

With the exception of trade receivables, there are no financial assets past due. As at December 31, 2011, the total amount of trade receivables is $73.1 million (2010 - $75.8 million), net of allowances for bad debts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The amount of this allowance is unchanged from prior year and considered immaterial. At December 31, 2011, trade receivables of $67.8 million (2010 - $71.8 million) were not past due or impaired; $5.3 million (2010 - $4.0 million) were past due, but not impaired, and $0.02 million (2010 - $0.02 million) were impaired. Chorus continues to work with the entities from which it holds these past due receivables to recover the full amount outstanding. Approximately $63.2 million (2010 - $64.6 million) of the total receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada. Chorus does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Cash flow forecasting is performed in respect of each operating entity of Chorus and then aggregated. Chorus monitors rolling forecasts of Chorus' liquidity requirements. Such forecasts take into consideration Chorus' operational cash flow requirements, debt financing plans and compliance with internal balance sheet ratio targets.

Chorus' objective is to maintain sufficient liquidity to meet liabilities when due. Chorus monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. Letters of credit totaling approximately $10.6 million (December 31, 2010 - $8.8 million) have been issued as security for groundhandling, charters and airport fee contracts, lease payments on rental space and aircraft, and certain employee benefits.

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

Currency risk

Chorus receives certain revenue and incurs certain expenses in US currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for services in the underlying currency related to the expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under finance leases, and long-term debt, which are long-term and subject to larger unrealized gains or losses. Chorus mitigates this currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US denominated assets was $40.5 million and US denominated liabilities was $270.4 million at December 31, 2011. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $2.3 million.

Fair value of financial instruments

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

- Asset backed commercial paper

  The ABCP classified as level three is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis. During the year ended December 31, 2011, a valuation gain of $0.5 million (2010 - $nil) was recorded.

- Long-term investment

  The fair value of the investment in LARAH is estimated by applying probabilities to various discounted cash flow scenarios developed by the Company. Cash flow projections are developed for five years based on historical financial information and projections by management of LARAH, and include reasonably possible alternative assumptions. Key assumptions in the cash flows models include revenue growth based on growth trends achieved during 2011 and operating margins based on historical trends, adjusted for risks and uncertainties in the operating plans for LARAH. Terminal growth rates of 3% are assumed in the scenarios, based on long-term average growth rates for the commuter airline industry and the local markets. The cash flows are discounted using discount rates from 8.9% to 11.3%. The result of the fair value calculation approximates the original cost of the investment; therefore, no fair value adjustment has been recorded. The range of reasonably possible alternative fair values as at December 31, 2011 is $11.5 million to $21.6 million.

- Long-term debt

  At December 31, 2011, the fair value of the fixed rate term loans was $179.7 million. These fair values have been calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- Finance leases

  The repayment terms that Chorus is committed to make have been discounted at the relevant market interest rates applicable at year end. Interest rates used to calculate fair value are based on the change in the risk-free rate at December 31, 2011, compared to the risk-free rates at the inception of the leases.

- Convertible debentures

  Chorus' convertible debentures are listed on the Toronto Stock Exchange and their fair value was determined using bid prices on the last trading day of the year.

13. ECONOMIC DEPENDENCE

The CPA

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

Amendments to the CPA

On September 22, 2009 Chorus and Air Canada executed the CPA Amending Agreement to document certain amendments to the CPA, including those amendments described below.

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

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

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

Following the expiration of the 2009-2011 Rate Period, the CPA Amending Agreement established the following three remaining rate periods during the initial term of the CPA: (i) January 1, 2012 to December 31, 2014; (ii) January 1, 2015 to December 31, 2017 and; (iii) January 1, 2018 to December 31, 2020. Prior to the commencement of each rate period

Chorus and Air Canada shall determine the rates to be charged by Chorus during each period (applying a rate reset process set out in the CPA). The CPA provides that Air Canada and Chorus will review and agree in writing on the rates for the next rate period. The components of each rate to be considered in this process are set out in the schedules to the CPA and are based on costs forecasted by Chorus. If Chorus and Air Canada cannot agree on new rates, the matter is subject to the arbitration provisions in the CPA.

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

The Controllable Mark-Up may 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 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 seeks 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 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.

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. (Refer to Section 4 – Fleet for further discussion.)

The initial 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 Aviation LP, 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.

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.

Master services agreement

Under a master services agreement dated September 24, 2004, between Chorus and Air Canada, Air Canada provides certain services to Chorus for a fee. These services include information technology services, french language training, insurance claims services, and environmental affairs services.

The master services agreement will continue in effect until the termination or expiration of the CPA, but individual services can be amended or terminated earlier in accordance with the terms of the master services agreement.

Other

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

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

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

Chorus has a significant amount of transactions with Air Canada and its subsidiary. Air Canada and its subsidiary represented 94.6% of Chorus' operating revenues for the year ended December 31, 2011 (97.8% for the year ended December 31, 2010). Approximately 10.6% and 12.7% of Chorus' operating expenses for the years ended December 31, 2011 and 2010, respectively, were incurred with Air Canada and its subsidiary.

14. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Section 1 – Introduction, "Caution regarding forward-looking information"). The significant accounting policies of Chorus are described in note 3 of the December 31, 2011 consolidated financial statements of Chorus.

Employee future benefits

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

- The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Obligations are attributed to the period beginning on the date the employee joins the plan and ending on the earlier of the date of termination, death or retirement. Actuarial gains and losses on the pension benefits are recognized in full in the period in which they occur in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the expected return on plan assets and the interest arising on the pension liability are included in salaries, wages and benefits in the statement of income.

- Other employee benefits consist of two categories of benefits:

  - Medical and dental benefits provided to employees while on long-term disability, and Worker's Compensation and Workers Safety Insurance Board benefits in respect of Ontario employees, are collectively referred to as other long-term benefits. The actuarial gains and losses for this component of other employee benefits are charged to operating expense in the year they occur.

  - Sick leave benefits are paid to certain employees upon or just prior to retirement. The actuarial gains and losses on this component of other employee benefits are charged to other comprehensive income in the year they occur.

- The cost of the other employee benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation, as applicable to each of the categories of benefits.

- The expected return on plan assets is based on the long-term expected rate of return on plan assets and the fair value of the plan assets. It is reasonably possible that management's estimate of the long-term rate of return may change as management continues to assess future investments and strategies and as a result of changes in financial markets.

- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan are recognized immediately in income unless the changes to the plan are conditional on the employee remaining in service for a specified period of time (the vesting period). In this case, the past service costs are recognized over the vesting period.

- The registered pension plan is subject to certain minimum funding requirements. The liability in respect of the minimum funding requirement is determined using the projected minimum funding requirements based on actuarial forecasts. The liability in respect of the minimum funding requirement and any subsequent re-measurement of that liability is recognized in other comprehensive income without subsequent reclassification to income.

- The measurement date of each of the plans' assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement. The obligations relating to other employee benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).

- Chorus also maintains several defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable.

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

- The discount rate used to determine the pension and benefit obligation was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.
- Chorus' expected long-term rate of return on assets assumption is based on economic conditions as of the measurement date and the specific portfolio mix of plan assets. Management, in conjunction with its actuaries, reviews anticipated future long-term performance of individual asset categories and considers the asset allocation strategy adopted by Chorus. These factors are used to determine the average rate of expected return on the funds invested to provide for the pension plan benefits. While the review considers recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. This assumption may change as management continues to assess future investments and strategies and as a result of changes in financial markets.
- The health care inflation used to determine cost of other employee future benefits costs is based on recent industry experience and long-term expectations. The weighted average health care inflation assumption used for the health care plans is 6.9% per annum for 2011 and 4.5% per annum for 2030 and later years.
- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, which is recognized each period through other comprehensive income.

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

	Fiscal year ended December 31, 2011	2010
Weighted average assumptions used to determine accrued benefit obligation		
• Discount rate	4.3% - 5.4%	4.9% - 5.7%
• Rate of compensation increase	5.0%	5.0%
• Health care inflation - Select	6.1%	6.9%
• Health care inflation - Ultimate	4.5%	4.5%
• Year ultimate trend reached	2030	2030
Weighted average assumptions used to determine pension and benefit costs		
• Discount rate	4.9% - 5.7%	5.8% - 6.8%
• Expected long-term rate of return on assets	6.2%	6.3%
• Rate of compensation increase	5.0%	5.0%
• Health care inflation - Select	6.9%	7.0%
• Health care inflation - Ultimate	4.5%	4.5%
• Year ultimate trend reached	2030	2030

Fair value of long-term investment in LARAH

- Management uses judgement to value the fair value of the long-term investment in LARAH.

15. ACCOUNTING POLICIES, INCLUDING TRANSITION TO IFRS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2011 consolidated financial statements of Chorus.

Accounting standards issued but not yet applied

Chorus does not expect to early adopt the following revised standards and amendments. Accordingly, Chorus expects to adopt these standards on the effective dates listed below.

IFRS 9, Financial Instruments

The IASB issued IFRS 9, "Financial Instruments" ("IFRS 9"), effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. Chorus continues to assess the impact of IFRS 9 on its consolidated statement of operations and financial position.

IFRS 10, Consolidated Financial Statements

The IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that addresses consolidation, and supersedes Standing Interpretations Committee ("SIC") SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended to reflect the issuance of IFRS 10 and retains guidance only for separate financial statements. Chorus continues to assess the impact of IFRS 10 on its consolidated statement of income and financial position.

IFRS 11, Joint Ventures

The IASB issued IFRS 11, "Joint Ventures" ("IFRS 11"), effective for annual periods beginning on or after January 1, 2013. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements which are controlled jointly. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28") was amended to reflect the guidance provided in IFRS 10 and IFRS 11. Currently this standard has no impact on the consolidated financial statements of Chorus.

IFRS 12, Disclosure of Interests in Other Entities

The IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") effective for annual periods beginning on or after January 1, 2013. IFRS 12 requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance. Chorus continues to assess the impact of IFRS 12 on its consolidated statement of income and financial position.

IFRS 13, Fair Value measurement

The IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13") effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value, provides guidance in a single framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. Chorus continues to assess the impact of IFRS 13.

Amendments to standards

IAS 19, *Employee Benefits*, has been amended effective for annual periods beginning on or after January 1, 2013. The revised standard requires immediate recognition of actuarial gains and losses in other comprehensive income, eliminating the previous options that were available. A number of other amendments have been made to recognition, measurement and classification. Chorus' current accounting policy for recognition of actuarial gains and losses through Other Comprehensive Income is consistent with the revisions contained in the standard. Chorus continues to assess the impact of all other changes to IAS 19 on its consolidated statement of income and financial position.

IFRS 7, *Financial Instruments: Disclosures*, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. Chorus continues to assess the impact of all other changes to IFRS 7 on its consolidated statement of income and financial position.

IAS 12, *Income Taxes*, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. Chorus continues to assess the impact of all other changes to IAS 12 on its consolidated statement of income and financial position.

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. Chorus continues to assess the impact of all other changes to IAS 1 on its consolidated statement of income and financial position.

Transition to International Financial Reporting Standards

Effective January 1, 2011 and as further described in Chorus' audited consolidated financial statements for the years ended December 31, 2011 and 2010, Chorus began reporting its financial results in accordance with IFRS.

The following table summarizes certain of Chorus' key measures for the year ended December 31, 2010 under IFRS, versus those previously reported under Canadian GAAP.

	Full Year 2010		
(expressed in thousands of Canadian dollars)	CGAAP $	Adj $	IFRS $
Operating revenue	1,486,166	-	1,486,166
Operating expenses, before amortization of CPA Asset	1,395,313	4,068	1,399,381
Operating income, before amortization of CPA Asset	90,853	(4,068)	86,785
Amortization of CPA Asset	32,192	(32,192)	-
Operating income	58,661	28,124	86,785
Non-operating expenses	(8,113)	(9,089)	(17,202)
Deferred income tax recovery (expense)	75,270	(88,965)	(13,695)
Net income	125,818	(69,930)	55,888
Performance Indicators			
EBITDA	120,724	7,950	128,674
Free Cash Flow	99,826	(1,770)	98,056
CASM	25.36	0.08	25.44
CASM, excluding fuel	19.92	0.08	20.00

IFRS impacts on key measures:

- No change to operating revenue.
- Operating expenses before amortization of the CPA Asset increased by $4.1 million as a result of capitalization of major maintenance overhaul expenditures, which increased depreciation and amortization by $12.0 million and decreased salaries, wages and benefits and maintenance expense by $9.7 million; recognition of actuarial losses on other long-term benefits of $2.1 million, and reduction of other charges of $0.3 million.
- Decrease of $32.2 million for amortization of CPA Asset expense under IFRS. During 2007, under CGAAP, Chorus accounted for its acquisition of Jazz Air LP using the trading value of the Fund Units at that time as a proxy for the fair value for the transaction. The difference between this amount and the net book value of Jazz Air LP's assets was allocated to the fair value of identifiable assets, including the CPA intangible asset, and the balance allocated to goodwill. IFRS allows for recording this business combination as a common control transaction using the LP's book value at that time. This policy choice results in no accounting recognition of the CPA intangible asset (of $676.0 million at January 1, 2010 under CGAAP) and therefore, no related on-going annual amortization of the CPA (which was $32.2 million annually under CGAAP). This accounting policy choice gives a clearer picture of the underlying operating entities of Chorus, namely Jazz Aviation LP, and promotes less volatility in reported earnings going forward. In prior MD&A, Chorus computed and disclosed adjusted net income, which essentially eliminated the impact of the CPA amortization on earnings and was therefore focused on the operating results of the business. This accounting treatment under IFRS provides the same result.

- Non-operating expenses increased by $9.1 million as result of derivative fair value fluctuations under IFRS. These derivatives were held as equity under Canadian GAAP and were not revalued.
- EBITDA increased by $8.0 million, primarily as a result of capitalization of major maintenance overhaul expenditures, which resulted in an increase to depreciation and amortization expense.
- No significant impact to Free Cash Flow.

The following tables reconcile EBITDA and Free Cash Flow reported under IFRS, to those measures previously reported under Canadian GAAP.

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2011 IFRS $	Three months ended December 31, 2010 IFRS $	Adj $	CGAAP $
Operating income	25,320	18,071	(5,851)	12,220
Add:				
Depreciation and amortization	8,948	7,385	-	7,385
Major maintenance overhauls	3,692	2,887	(2,887)	-
CPA amortization	-	-	8,048	8,048
Total depreciation and amortization	12,640	10,272	5,161	15,433
EBITDA	37,960	28,343	(690)	27,653
EBITDA margin (%) (1)	9.3	7.3	-	7.0
EBITDA	37,960	28,343	(690)	27,653
Deduct:				
Non-operating expenses(2)	(465)	(10,652)	8,892	(1,760)
Derivative liabilities(3)	-	8,892	(8,892)	-
Total Non-operating expenses	(465)	(1,760)	-	(1,760)
Deduct:				
Capital expenditures	(5,253)	(3,665)	-	(3,665)
Capitalized major maintenance overhauls(4)	(2,867)	(2,420)	2,420	-
Total Maintenance Capital Expenditures	(8,120)	(6,085)	2,420	(3,665)
Free Cash flow	29,375	20,498	1,730	22,228
Dividends declared	18,602	18,489	-	18,489
Payout ratio (%)	63.3	90.2	-	83.2

(1) EBITDA margin is calculated as EBITDA divided by operating revenues.
(2) Excludes $3.1 million for the three months ended December 31, 2011, related to unrealized foreign exchange gain on long-term debt and finance leases (2010 - $0.5 million unrealized foreign exchange gain).
(3) Loss on derivative liabilities was removed from the IFRS adjustments as it is a non-cash item, which is transitory under an income fund structure and eliminated upon conversion to a corporation on December 31, 2010.
(4) Excludes all capital expenditures related to the purchase of the Q400 aircraft, as these are not accounted for as Maintenance Capital Expenditures.

(expressed in thousands of Canadian dollars)	Year ended December 31, 2011 IFRS $	Year ended December 31, 2010 IFRS $	Adj $	CGAAP $
Operating income	101,947	86,785	(28,124)	58,661
Add:				
Depreciation and amortization	30,920	29,871	-	29,871
Major maintenance overhauls	13,219	12,018	(12,018)	-
CPA amortization	-	-	32,192	32,192
Total depreciation and amortization	44,139	41,889	20,174	62,063
EBITDA	146,086	128,674	(7,950)	120,724
EBITDA margin (%) (1)	8.8	8.7	-	8.1
EBITDA	146,086	128,674	(7,950)	120,724
Deduct:				
Non-operating expenses(2)	(9,506)	(18,007)	9,008	(8,999)
Derivative liabilities(3)	-	9,008	(9,008)	-
Total Non-operating expenses	(9,506)	(8,999)	-	(8,999)
Deduct:				
Capital expenditures	(13,505)	(11,899)	-	(11,899)
Capitalized major maintenance overhauls(4)	(16,233)	(9,720)	9,720	-
Total Maintenance Capital Expenditures	(29,738)	(21,619)	9,720	(11,899)
Free Cash flow	106,842	98,056	1,770	99,826
Dividends declared	74,408	73,776	-	73,776
Payout ratio (%)	69.6	75.2	-	73.9

(1) EBITDA margin is calculated as EBITDA divided by operating revenues.
(2) Excludes $3.5 million for the year ended December 31, 2011, related to unrealized foreign exchange loss on long-term debt and finance leases (2010 - $0.8 million unrealized foreign exchange gain).
(3) Gain on derivative liabilities was removed from the IFRS adjustments as it is a non-cash item, which is transitory under an income fund structure and eliminated upon conversion to a corporation on December 31, 2010.
(4) Excludes all capital expenditures related to the purchase of the Q400 aircraft, as these are not accounted for as Maintenance Capital Expenditures.

The following table provides a Canadian GAAP consolidated statement of financial position as at January 1, 2010, the IFRS transitional adjustments and an IFRS consolidated statement of financial position.

	January 1, 2010		
(expressed in thousands of Canadian dollars)	Canadian GAAP $	Adj $	IFRS $
Assets			
Current assets			
Cash and cash equivalents	223,559	-	223,559
Restricted cash	-	-	-
Accounts receivable - trade and other	59,044	-	59,044
Spare parts, materials and supplies	40,755	-	40,755
Prepaid expenses	19,909	-	19,909
Total current assets	343,267	-	343,267
Property and equipment	202,994	13,829	216,823
Intangible assets	682,479	(675,786)	6,693
Long-term investments	-	-	-
Deferred income tax	-	45,115	45,115
Other assets	37,731	(8,507)	29,224
	1,266,471	(625,349)	641,122
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	179,216	-	179,216
Dividends payable	6,143	-	6,143
Current portion of obligations under finance leases	2,681	-	2,681
Long-term debt	114,706	-	114,706
Total current liabilities	302,746	-	302,746
Obligations under finance leases	15,097	-	15,097
Convertible debentures	78,180	(573)	77,607
Deferred income tax	13,294	(13,294)	-
Other long-term liabilities	52,699	32,747	85,446
	462,016	18,880	480,896
Equity	804,455	(644,229)	160,226
	1,266,471	(625,349)	641,122

IFRS Impacts on the statement of financial position:

- No change on current assets or current liabilities
- Property and equipment increased $13.8 million as a result of capitalizing major maintenance overhaul costs on owned and finance leased aircraft.

- A decrease of $675.8 million to intangible assets due to:

  - Chorus' decision to account for the acquisition of Jazz Air LP as a common control transaction under IFRS. There is no accounting recognition of the CPA intangible asset which had been recorded previously under CGAAP. See above for further discussion included in "IFRS impacts on key measures".

  - Under Canadian GAAP, Chorus applied fresh start reporting on September 30, 2004. There is no equivalent standard under IFRS; as a result, goodwill of $6.7 million that was written off on the adoption of fresh start accounting is restored to the balance sheet under IFRS. The tradename and operating license intangible assets of $6.3 million that were established as a result of fresh start accounting are not recognized on transition to IFRS. The increase of $0.4 million to intangible assets / goodwill is recognized through retained earnings.

- An increase to deferred income tax asset due to:

  - Changes to the accounting values on transition from Canadian GAAP to IFRS of $3.0 million.

  - Chorus' tax rate under an income fund structure in IFRS assumes the highest marginal personal tax rate in the province of operation, Nova Scotia, to calculate the deferred tax balance, resulting in an increase to the tax asset of $23.6 million on transition. On conversion to a corporation in the fourth quarter of 2010 Chorus calculated deferred tax using substantively enacted corporate tax rates as prescribed in the Income Tax Act (Canada).

  - Under IFRS, deferred tax assets or liabilities are not recognized if they arise from the initial recognition of goodwill or if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The initial recognition exemption resulted in an increase to the tax asset of $31.9 million on transition from Canadian GAAP to IFRS.

- Other assets decreased as the defined pension benefit plan changed from an asset position under Canadian GAAP to a liability position under IFRS due to recognition of an additional minimum funding liability required under IFRIC 14.

- Other long-term liabilities increased as a result of the following items:

  - An increase in defined pension benefit plan and other future employee benefit liabilities as a result of the recognition of $10.2 million unamortized actuarial losses on transition to IFRS. As well, there was a $22.2 million increase in the minimum funding requirements for the defined pension benefit plan.

  - As a result of the attributes of the Fund Units under an income fund structure during 2010, $7.4 million of the equity component of the convertible debentures and LTIP under Canadian GAAP were reclassified to long-term liabilities under IFRS, and are revalued at each reporting period. On transition to a corporation on December 31, 2010, the liabilities became fixed and were reclassified to equity.

As a result of the adjustments listed above, Chorus' opening equity decreased by $644.2 million.

The table below provides the 2010 quarterly and full year consolidated statement of income under IFRS:

(expressed in thousands of Canadian dollars)	Q1 2010 $	Q2 2010 $	Q3 2010 $	Q4 2010 $	Full Year 2010 $
Operating revenue					
Passenger	353,808	357,615	377,541	390,620	1,479,584
Other	1,564	1,395	1,568	2,055	6,582
	355,372	359,010	379,109	392,675	1,486,166
Operating expenses					
Salaries, wages and benefits	89,081	84,193	91,023	92,699	356,996
Aircraft fuel	65,822	71,373	77,632	84,514	299,341
Depreciation and amortization	11,080	10,152	10,385	10,272	41,889
Food, beverage and supplies	3,026	3,190	3,478	4,196	13,890
Aircraft maintenance materials, supplies and services	39,120	37,362	40,190	37,480	154,152
Airport and navigation fees	44,984	47,588	49,628	51,033	193,233
Aircraft rent	29,330	29,129	28,422	28,721	115,602
Terminal handling services	30,147	22,472	23,366	31,539	107,524
Other	26,940	27,655	28,009	34,150	116,754
	339,530	333,114	352,133	374,604	1,399,381
Operating income	15,842	25,896	26,976	18,071	86,785
Non-operating income (expenses)					
Interest revenue	127	67	160	269	623
Interest expense	(3,026)	(2,184)	(1,946)	(1,991)	(9,147)
Gain on disposal of property and equipment	335	149	104	159	747
Foreign exchange gain (loss)	(350)	(1,311)	963	281	(417)
Gain (loss) on derivative liabilities	3,307	(7,333)	3,910	(8,892)	(9,008)
	393	(10,612)	3,191	(10,174)	(17,202)
Income before deferred income taxes	16,235	15,284	30,167	7,897	69,583
Deferred income tax recovery (expense)	164	5,924	(4)	(19,779)	(13,695)
Net income (loss) for the periods	16,399	21,208	30,163	(11,882)	55,888

The table below provides the 2010 quarterly and full year consolidated statement of cash flow under IFRS:

(expressed in thousands of Canadian dollars)	Q1 2010 $	Q2 2010 $	Q3 2010 $	Q4 2010 $	Full Year 2010 $
Cash provided by (used in)					
Operating activities					
Net income (loss) for the periods	16,399	21,208	30,163	(11,882)	55,888
Charges (credits) to operations not involving cash					
Depreciation and amortization	11,080	10,152	10,385	10,272	41,889
Amortization of prepaid aircraft rent and related fees	469	465	483	478	1,895
Gain on disposal of property and equipment	(335)	(149)	(104)	(159)	(747)
Foreign exchange loss (gain)	(533)	734	(528)	(478)	(805)
Deferred income tax expense (recovery)	(164)	(5,924)	4	19,779	13,695
Accretion of debt component of convertible debentures	387	396	401	405	1,589
Other	338	689	(1,061)	(663)	(697)
Loss (gain) on derivative liabilities	(3,307)	7,333	(3,910)	8,892	9,008
Stock-based compensation plan	764	-	-	-	764
	25,098	34,904	35,833	26,644	122,479
Net changes in non-cash working capital balances related to operations	(4,233)	(4,773)	2,023	(3,363)	(10,346)
	20,865	30,131	37,856	23,281	112,133
Financing activities					
Repayment of obligations under finance leases	(647)	(650)	(669)	(673)	(2,639)
Repayment of long-term debt	(115,000)	-	-	-	(115,000)
Convertible debentures, net of deferred financing costs	(140)	-	-	-	(140)
Dividends / distributions	(18,429)	(18,429)	(18,429)	(24,632)	(79,919)
Issuance of Shares	-	-	-	4	4
	(134,216)	(19,079)	(19,098)	(25,301)	(197,694)
Investing activities					
Additions to property and equipment	(5,174)	(4,028)	(6,332)	(6,085)	(21,619)
Purchase deposits on aircraft	-	(19,644)	(3,022)	(3,401)	(26,067)
Long-term investment	-	(16,351)	-	-	(16,351)
Proceeds on disposal of property and equipment	335	149	104	159	747
Increase in restricted cash	-	-	-	(8,812)	(8,812)
	(4,839)	(39,874)	(9,250)	(18,139)	(72,102)
Net change in cash and cash equivalents during the periods	(118,190)	(28,822)	9,508	(20,159)	(157,663)
Cash and cash equivalents – Beginning of periods	223,559	105,369	76,547	86,055	223,559
Cash and cash equivalents – End of periods	105,369	76,547	86,055	65,896	65,896

16 CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

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

An evaluation of the design and effectiveness of the operation of Chorus' disclosure controls and procedures has been conducted by management, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2011, Chorus' disclosure controls and procedures, as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

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

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above. Based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting was effective as of December 31, 2011.

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

There has been no change in Chorus' internal control over financial reporting that occurred during the year ended 2011 that has materially affected, or is reasonably likely to materially affect, Chorus' or the Partnership's internal control over financial reporting.

The Audit, Finance and Risk Committee of the board of directors of Chorus reviewed this MD&A, and the consolidated financial statements of Chorus for December 31, 2011, and Chorus' board of directors approved these documents prior to their release.

17. OUTLOOK

The discussion that follows represents forward-looking information (refer to Section 1 – Introduction, "Caution regarding forward-looking information").

The actual 2011 Billable Block Hours were higher than projected due to increased Block Hours flown on scheduled CPA flights and fewer CPA flight cancellations in the fourth quarter of 2011.

Based upon the 2011/2012 winter schedule and planning assumptions received from Air Canada and the planned flying for Thomas Cook for the 2011/2012 winter season, Chorus anticipates billing between 385,000 and 400,000 Block Hours for the year ending December 31, 2012.

18. RISK FACTORS

Risks Relating to the Relationship with Air Canada

Dependence on Air Canada

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

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

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

Air Canada is the sole marketing agent for Chorus' Covered Aircraft capacity and is solely responsible for establishing schedule, routes, frequency and ticket prices for Chorus. To the extent Air Canada does not effectively and competitively market the routes serviced through Chorus, the utilization of the Covered Aircraft could be reduced with the result that Chorus' operating margin in dollar terms would be reduced, all of which could have a material adverse effect on Chorus' business, results from operations and financial conditions (refer to Section 12 – Financial Instruments and Risk Management for discussion of customer credit risk with Air Canada).

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 with Air Canada which currently covers all of Chorus' existing operating fleet (except four Dash 8 aircraft, one CRJ-200 aircraft and six Boeing 757-200 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 Section 13 – Economic Dependence, 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 Target Mark-Up of 16.72% on Chorus' Controllable Costs. However, pursuant to the terms of the CPA Amending Agreement, Air Canada and Chorus agreed that the Controllable Mark-Up of 16.72% shall only apply as of and from January 1, 2009 through to July 31, 2009. Effective commencing August 1, 2009, an agreed set of revised rates will be effective, enabling Chorus to achieve a Controllable Target Margin of 11.11%, corresponding to a Controllable Mark-Up of 12.50% on Chorus' Controllable Costs. If Controllable Costs exceed Chorus' estimates, Chorus may realize decreased profits or losses under the CPA, and may be unable to generate sufficient cash flow to pay its debts on time. 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, refer to Section 13 – Economic Dependence).

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

Air Canada's collective bargaining agreement with ACPA and the Small Jets Settlement Agreement entered into by Air Canada, Chorus, ACPA and the Air Line Pilots Association ("ALPA") limit the number of regional jet aircraft which can be operated by Chorus under the CPA. The Small Jets Settlement Agreement also prevents Chorus from operating the CRJ705 aircraft if configured in excess of 75 seats, inclusive of all classes, and sets out a minimum ratio of ASMs flown by Air Canada compared to the CPA ASMs flown by Chorus. These restrictions may cause Air Canada to reduce the level of capacity it purchases from Chorus under the CPA, prevent Chorus from expanding its market share, or impede Chorus' fleet development which could significantly reduce Chorus' opportunities for growth, revenue and earnings. Any such event could have a material adverse affect 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 ability to use 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;
- 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 experience higher earnings growth from 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, which 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.

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.

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

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

Condition to labour productivity enhancements

Certain productivity enhancements relative to the work and scheduling provisions of the ALPA collective agreement, which enable Chorus to schedule pilots for more hours in a given month at their normal hourly rate of pay, require a minimum threshold of 125 aircraft be maintained in the fleet. Failure by Chorus to maintain a minimum fleet of 125 aircraft would result in a loss of the productivity enhancements, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Leverage and restrictive covenants in current and future indebtedness

The ability of Chorus to pay dividends, or make other payments or advances, is subject to, among other things, its liquidity position, applicable laws and contractual restrictions contained in the instruments governing any indebtedness. The degree to which Chorus is leveraged has important consequences to Shareholders, including: (i) that Chorus' ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) that a significant portion of cash flow from operations may be dedicated to the payment of 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 increased volatility and several financial institutions faced significant liquidity and other issues. Access to new public financing (if required by Chorus) has been negatively impacted by these events, which may impact the ability of Chorus to obtain financing in the future on acceptable terms. Any failure of Chorus in the future to obtain required financing on acceptable terms could have a material adverse effect on Chorus' business, results of operations and financial condition.

Dilution of Shareholders

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

Uncertainty of dividend payments

Payment of dividends is dependent upon all 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, Chorus generating 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 Section 12 - Financial Instruments and Risk Management.

Risks Relating to Thomas Cook

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

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

In addition, many of the types of risks referring to Air Canada that are described in this section, such as those relating to liquidity, contractual terminations, utilization levels, force majeure, cost estimates made by Chorus when entering into rate arrangements and potential conflicts, also apply 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 businesses travelers seek substitutes to air travel. Any of the foregoing events could have a material adverse effect on Chorus' business, results from operations and financial condition.

Impact of increased competition in the regional airline industry and the tour operator industry on Chorus' 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, or previously by ACGHS, could significantly harm their reputation for safety, which would have a material adverse effect on Chorus' business, results from operations and financial condition.

Risks Relating to Current Legal Proceedings

In February 2011, Chorus and Air Canada agreed to proceed to binding arbitration in respect of the 2009 Benchmark under the CPA (the "Arbitration") (refer to Section 13 – Economic Dependence 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 $850,000 in damages. Concurrently with the Ontario Court proceedings, Chorus commenced judicial review proceedings against the TPA before the Federal Court of Canada ("Federal Court") relating to Chorus' access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, in the Federal Court proceedings, Porter filed a defence and counterclaim against Chorus and Air Canada making allegations and seeking damages similar to those in the Ontario Court counterclaim. On October 16, 2009, Chorus discontinued its action in the Ontario Court against the Porter Defendants and the TPA. On the same date, the counterclaim filed by Porter in the Ontario Court against Chorus and Air Canada was stayed pending the outcome of the proceeding in Federal Court. On March 29, 2010, Chorus discontinued its action in the Federal Court against the TPA, in which the Porter Defendants intervened and were made parties. On May 14, 2010 Porter discontinued its counterclaim in the Federal Court. The counterclaim against Chorus and Air Canada brought by Porter in the Ontario Court 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.

19. ADDITIONAL INFORMATION

Additional information relating to Chorus, including Chorus' Annual Information Form is available on SEDAR at www.sedar.com or on Chorus' website at www.chorusaviation.ca, under Investors.

20. GLOSSARY OF TERMS

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

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

"**Arrangement**" means the arrangement under the CBCA implemented pursuant to an arrangement agreement dated October 4, 2010 among Chorus, the Fund and others;

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

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

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

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

"**Canadian GAAP**" or "**CGAAP**" means generally accepted accounting principles in Canada before the adoption of IFRS;

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

"**Chorus**" references herein to Chorus or the Company in this MD&A refer to, as the context may require, Chorus Aviation Inc. and its predecessor, the Fund and their current and former subsidiaries (the Partnership, the Trust, Jazz Air LP, Jazz Air Holding GP Inc., Aviation General Partner Inc., 7503695 Canada Inc. and the LeaseCos) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries or Chorus itself;

"**CICA Handbook**" means the handbook of the Canadian Institute of Chartered Accountants;

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

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

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

"**Covered Aircraft**" means Chorus' aircraft subject to the CPA;

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

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

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

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

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

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

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

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

"**Fund**" means Jazz Air Income Fund;

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

"**Guaranteed Minimum Number of Covered Aircraft**" has the meaning given in the CPA;

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

"**IFRIC 14**" means International Financial Reporting Interpretations Committee 14;

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

"**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 1, 2006 are references to the business of Jazz as carried on by Jazz Air Limited Partnership, and references to Jazz in respect of the time period from February 2, 2006 to January 5, 2011 are references to the business of Jazz as carried on by Jazz Air LP, unless the context requires otherwise;

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

"**LARAH**" means Latin American Regional Aviation Holding Corporation;

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

"**LTIP**" means long-term incentive plan;

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

"**Management**" means management personnel of Chorus;

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

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

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

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

"**Pass-through revenue**" means operating revenue derived from costs that are reimbursed under Partnership Agreements;

"**Q400 aircraft**" means Q400 NextGen turboprop aircraft;

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

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

“**Shareholders**” mean holders of Shares;

“**Shares**” mean common shares of Chorus Aviation Inc.;

“**The Partnership**” means Jazz Aviation LP, a limited partnership established under the laws of the Province of Ontario;

“**Thomas Cook**” means Thomas Cook Canada Inc.;

“**Trust**” means Jazz Air Trust;

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

“**Unitholders**” mean holders of the Units;

“**Units**” or “**Fund Units**” mean units of the Fund;

“**Variable Voting Shares**” mean Class A common Variable Voting Shares of Chorus; and

“**Voting Shares**” mean Class B Common Voting Shares of Chorus.