



2013

ANNUAL INFORMATION FORM

March 28, 2014

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EXPLANATORY NOTES

The information in this AIF is stated as at December 31, 2013, unless otherwise indicated.

Chorus and the Corporation - References herein to "**Chorus**" and references to the "**Corporation**" include references, as the context may require, to Chorus Aviation Inc. and its subsidiaries collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries, or Chorus itself. In the context of the CPA, references to Chorus are exclusively intended to refer to Jazz.

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

Defined Terms - Capitalized terms are defined in the "**Glossary of Terms**" section at the end of this AIF, if not defined when first used.

Currency - Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars.

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

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described herein, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to Jazz's relationship with Air Canada, risks relating to the airline industry, energy prices, general industry, market, credit, and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, environmental factors, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, the ability to secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, dilution of Chorus Shareholders, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this AIF. The forward-looking statements contained in this discussion represent Chorus' expectations as of March 28, 2014 and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

The forward-looking information is affected by certain risks. For a discussion of those risks, please refer to the Risk Factors section on page 24.

CORPORATE STRUCTURE

Chorus Aviation Inc. was incorporated on September 27, 2010 pursuant to the *Canada Business Corporations Act*. On November 18, 2010, Chorus incorporated Aviation GP to act as general partner for the Partnership. On January 5, 2011, substantially all of the assets of Jazz Air LP were transferred to the Partnership and the airline business previously carried on by Jazz Air LP is now carried on by the Partnership. On February 28, 2011, Chorus incorporated the Initial LeaseCos which were established for the sole purpose of acquiring Q400 aircraft and related equipment with financing from EDC. On December 31, 2012, the Initial LeaseCos were reorganized as follows: Chorus Leasing I Inc. and Chorus Leasing II Inc. amalgamated to form Chorus Leasing Amalco (2012) Inc. ("**Amalco**"), and Chorus Leasing III Inc. then acquired the assets and liabilities of Amalco. Amalco was then wound up into Chorus Aviation Inc. On November 28, 2013, Chorus incorporated Chorus Aviation Holdings Inc. and Chorus Aviation Holdings Inc. incorporated Chorus Airport Services Inc. Chorus Aviation Holdings Inc. was established to act as a holding company and Chorus Airport Services Inc. was established for the purpose of providing airport handling services.

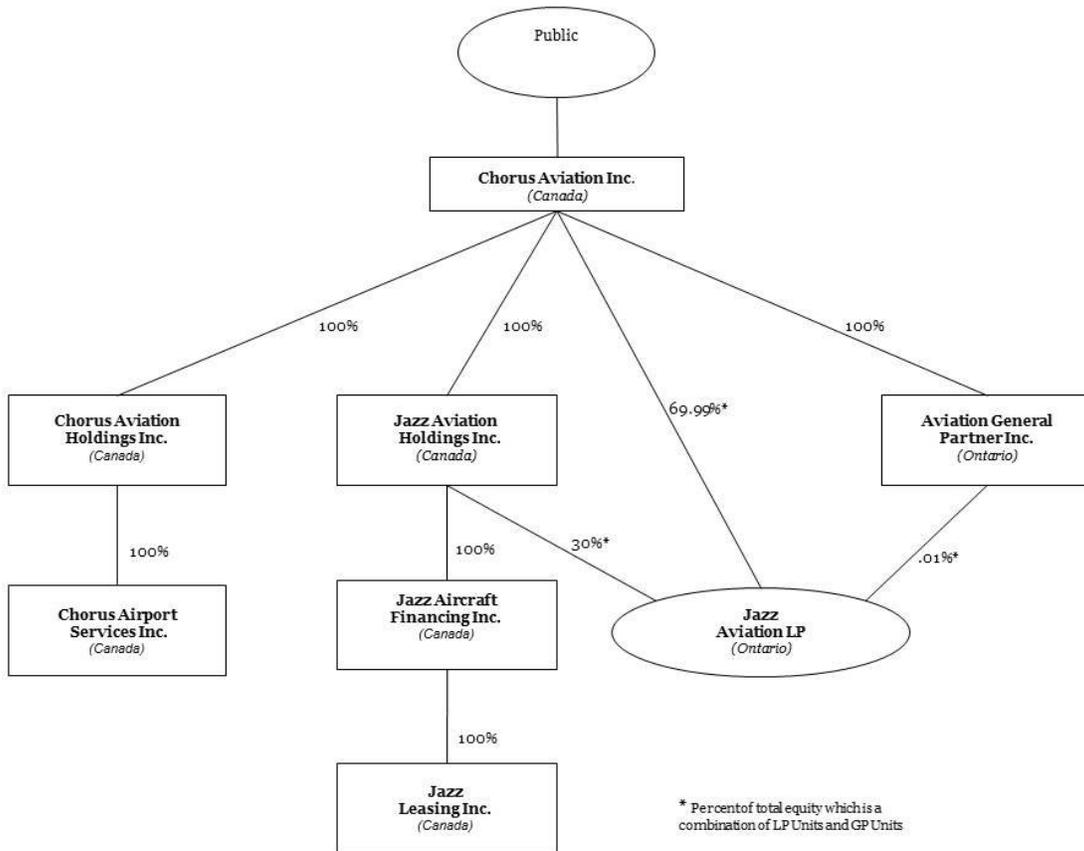
On December 31, 2013, Chorus' subsidiaries were reorganized as follows: Chorus incorporated Jazz Aviation Holdings Inc., Jazz Aviation Holdings Inc. incorporated Jazz Aircraft Financing Inc. and Jazz Aircraft Financing Inc. incorporated Jazz Leasing Inc. Chorus Leasing III Inc. and 7503695 Canada Inc. amalgamated ("**CL3 Amalco**"). CL3 Amalco transferred the majority of its assets to Jazz Leasing Inc. and Jazz Aircraft Financing Inc. assumed the EDC financing obligations from CL3 Amalco.

The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6100, P.O. Box 50, Toronto, Ontario M5X 1B8. The chief executive office of Chorus is located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia, B3B 1W8.

Additional information regarding Chorus' corporate structure is provided in the consolidated financial statements for the year ended December 31, 2013 and the 2013 MD&A dated February 19, 2014, both of which are available on Chorus' website at www.chorusaviation.ca and on SEDAR at www.sedar.com.

Organizational Structure

The following chart illustrates the structure of Chorus as at March 28, 2014 (including the jurisdictions of establishment and incorporation of the various entities).



THE CHORUS BUSINESS

Overview

Chorus is a holding company with various aviation interests. Its principal business is Jazz Aviation LP which operates the largest regional airline, and the second largest airline in Canada after Air Canada, based on fleet size. Through Jazz Aviation LP, Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus and Air Canada are parties to the CPA under which Air Canada currently purchases the greater part of Chorus' fleet capacity at pre-determined rates. Under the CPA, Chorus provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada, and to and from certain destinations in the United States. As at December 31, 2013, Chorus operated scheduled passenger service on behalf of Air Canada with approximately 740 departures per weekday to 54 destinations in Canada and 25 destinations in the United States, using 122 Covered Aircraft. 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" brand. Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft. 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 if it achieves certain performance levels related to controllable on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction. Chorus is economically and commercially dependent on Air Canada and one of its subsidiaries as, in addition to being Chorus' primary source of revenue, these entities currently provide 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.

Commencing in May 2011 through to the end of 2013, Chorus took delivery of 21 new Q400 aircraft, through its leasing subsidiaries with long-term financing provided by EDC. These Q400 aircraft are leased to the Partnership.

In September 2013, Chorus completed the consolidation of its heavy maintenance activities. Chorus consolidated its four heavy maintenance lines (two in London, Ontario and two in Halifax, Nova Scotia) to three lines based in Halifax. To facilitate this consolidation and relocation, Chorus made modifications to its existing Halifax hangar and building at the Halifax Stanfield International Airport and purchased an office building in Dartmouth, Nova Scotia to accommodate its administrative staff. In connection with this consolidation and relocation which resulted in an increase of activity in Nova Scotia, the Province provided Chorus with a \$12.0 million, interest-bearing, repayable loan. The Province's financial assistance also consists of an additional \$2.5 million forgivable loan (which will be forgiven if certain employment targets are achieved) and a \$2.0 million employee grant to recruit, train and develop new employees or to upgrade current employees' skills.

Chorus' customer service and aircraft service agents' collective agreement expired January 13, 2013. Chorus and its customer service and aircraft service agents, represented by Unifor, the trade union formed on the merger of the Canadian Auto Workers Union (CAW) and the Communications, Energy and Paper Workers Union of Canada (CEP), agreed to a binding arbitration process to conclude their outstanding collective agreement issues. On July 18, 2013, Chorus received the decision of the arbitrator in the binding arbitration process. This decision established a new four year collective agreement in accordance with the Canada Labour Code. Chorus and Unifor have agreed to the process for the implementation of the arbitrators award, including the contracting out of various job functions by the end of 2014.

In September 2013, Chorus reached a new collective agreement with its crew schedulers, who are also represented by Unifor. The new agreement expires in June 2016.

On November 25, 2013, Chorus received the final award (the "**Final Award**") of the arbitration panel in the binding arbitration process between Chorus and Air Canada related to the 2009 Benchmark under the CPA (the

"Arbitration"). As a result of the Final Award, the 2009 Benchmark will not result in changes to the 12.5% Controllable Mark-Up in the CPA. (Refer to the "Benchmarking Process" on page 14 for more detail on this Arbitration).

On February 10, 2014, Chorus redeemed \$60.0 million of its \$80.2 million aggregate principal amount of Debentures outstanding at December 31, 2013 (Refer to the "Convertible Debentures" section on page 18).

On April 13, 2012, Chorus announced that it had received notification from Thomas Cook of its intention to discontinue operating dedicated charter aircraft, branded as Thomas Cook Canada, due to market conditions. As a consequence, the remaining three years of the five-year Flight Services Agreement with Chorus were terminated effective April 30, 2012. Chorus had, prior to such termination, operated Boeing 757-200 aircraft on behalf of Thomas Cook to various sun destinations from Canadian gateways. Chorus and Thomas Cook reached a commercial settlement in respect of the termination of the Flight Services Agreement, the economic terms of which reflect the original and intended expiration of the agreement, and address the recovery of certain initial start-up costs and foregone revenue.

Market Position in the Canadian Regional Airline Industry

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

Air Canada and Chorus served 114 Canadian and United States destinations as at December 31, 2013. Chorus served 79 (or approximately 69%) of these destinations and, of these, Chorus was the sole provider of Air Canada services at 42 (or approximately 37%) of these stations. As at December 31, 2013, Chorus was the sole operator of aircraft with a capacity of 37 seats or greater at 17 Canadian and United States airports.

As at December 31, 2013, Chorus' fleet of 127 operating aircraft consisted of 42 regional jets and 85 turboprop aircraft. Chorus' fleet is significantly larger than that of the next largest Canadian regional airline. All other carriers currently in the Canadian regional airline market are smaller operators of turboprop or regional jet aircraft, generally operating aircraft in the 19 to 75 seat range. Many of these regional carriers are primarily stand-alone operators in niche markets. None of these carriers approaches the size and scope of operation of Chorus. Other carriers, including WestJet, WestJet Encore and Porter Airlines, compete with Air Canada on certain routes in Canada operated by Chorus.

Capacity Purchase Agreement Model

Chorus derived 99% of its revenues from Air Canada during 2013 (2012 - 96%, 2011 - 95%). The CPA will expire on December 31, 2020, subject to certain renewal rights for two additional five-year periods. (See "The Chorus Business - Capacity Purchase Agreement with Air Canada - Term and Termination of Agreement".)

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

The benefits of the CPA include:

- Less exposure to revenue volatility associated with ticket prices and passenger traffic. The number of aircraft operated by Chorus and Block Hours flown by such aircraft are the main drivers determining Chorus' revenues from the CPA. As of December 31, 2013, 122 Covered Aircraft were used to provide services under the CPA.
- Less exposure to cost volatility, as fuel costs, navigation fees, landing and terminal fees are passed through to Air Canada under the CPA. Although Chorus bears the risk of changes to its Controllable Costs, it is compensated by Air Canada for this risk by a mark-up on its estimated Controllable Costs.

- Ability to increase Chorus' profitability by reducing its Controllable Costs over time.
- Chorus receives revenue and incurs expenses in US and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for services in the CPA in the underlying currency related to the expenditure.
- Chorus is able to earn performance incentive payments if it achieves or exceeds certain operational targets.
- A guarantee of certain minimum fleet levels and activity levels.
- A term that expires on December 31, 2020.

Other Business Opportunities

Chorus continues to explore various types of new business opportunities, including relationships with other businesses and potential customers. Opportunities may exist to capitalize on Chorus' aviation expertise. (Refer to caution regarding forward-looking statements included in "Explanatory Notes" on page 1 of this AIF.)

Charter

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

As of March 28, 2014, Chorus operates two 50-seat Dash 8-300 and one 50-seat CRJ-200 aircraft in its dedicated charter fleet. Chorus continues to target growth within its charter operation through the pursuit of ongoing and new charter programs.

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

Ground Handling Operations

Chorus offers passenger and ramp ground handling services through Jazz and Chorus Airport Services Inc. Chorus' ground handling services business has grown year over year with contracts at many Canadian stations with several customers. Through its subsidiaries, Chorus also provides short-term and ad hoc services, which include ramp handling, passenger services, deicing and ground service equipment rental to customers. Chorus continues to look for new opportunities to expand the airport and ground handling business further.

Maintenance, Repair and Overhaul Operations

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

Fleet

Chorus' operating fleet as at December 31, 2013 and the planned operating fleet for 2014 are shown below:

	Actual			Planned	
	December 31, 2012	New Deliveries or Returns	December 31, 2013	2014 Fleet Changes	December 31, 2014
CRJ-100/200 (50 seats)	34	(8)	26	—	26
CRJ-705 (75 seats)	16	—	16	—	16
Dash 8 - 300 (50 seats)	28	—	28	—	28
Dash 8 - 100 (37 seats)	36	—	36	(2)	34
Q400 (74 seats)	15	6	21	—	21
Total	129	(2)	127	(2)	125

All aircraft in Chorus' operating fleet as of December 31, 2013 were Covered Aircraft under the CPA, except for two Dash 8-100, two Dash 8-300, and one CRJ-200 aircraft allocated for charter purposes. In January 2014, Chorus reduced its operating charter fleet to three aircraft.

CRJ-200

The 50-seat Bombardier CRJ-200 is a twin engine regional jet aircraft. All 26 CRJ-200 in Chorus' fleet at December 31, 2013 are leased or subleased from Air Canada or its subsidiary, Air Canada Capital Ltd., with the exception of one, which is leased from a third party. These leases and subleases expire between 2014 and 2024.

CRJ-705

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

The CRJ-705 is an economical aircraft due to its operational efficiencies and lower trip costs. The efficiency, range, size and versatility of the CRJ-705 allows Chorus to economically fly longer and high frequency routes, and to offer superior comfort and non-stop services to its customers. Of the 16 CRJ-705 aircraft currently in Chorus' fleet, 15 are subleased from Air Canada Capital Ltd., and one is leased from a third party. These subleases and leases expire between 2022 and 2024.

Dash 8-300

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

Dash 8-100

The Bombardier Dash 8-100 is a twin engine turboprop medium range aircraft, with a seating capacity of 37 passengers, and is well suited to thin short-haul markets. Of the 36 Dash 8-100 aircraft in Chorus' fleet, 29 are owned by Chorus and seven are leased from Air Canada Capital Ltd. These leases expire between 2014 and 2019.

Bombardier Q400 NextGen

The Q400 aircraft is an efficient high-speed turbo-prop aircraft with attractive economics that is able to operate on stage lengths of up to 750 miles. Chorus' Q400 aircraft feature 74 seats in an Economy Class configuration

and the "NextGen" interior with larger overhead bins, sculpted sidewalls and LED lighting. All of the 21 Q400 aircraft in Chorus' fleet are owned.

Scope Clause

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

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

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

Capacity Purchase Agreement with Air Canada

Overview and Scope of Agreement

Chorus and Air Canada are parties to the CPA, under which Air Canada currently purchases the greater part of Chorus' fleet capacity on Covered Aircraft at predetermined rates (the "**Rates**"). Chorus provides a significant part of Air Canada's domestic and transborder network pursuant to the CPA. Chorus is economically and commercially dependent upon Air Canada and one of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services to Chorus. The CPA will expire on December 31, 2020, subject to certain renewal rights for two additional five year periods. (See "The Chorus Business - Capacity Purchase Agreement with Air Canada - Term and Termination Agreement".)

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

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

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

Fees Payable by Air Canada

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

Type of Fee	Calculation	Included in Rate
Block Hour Payments	Block Hour rate for each aircraft type multiplied by actual Block Hours flown by each aircraft type in the month	<ul style="list-style-type: none"> - Salaries, wages, and benefits for flight and cabin crew - Block Hour-driven direct maintenance labour costs - Block Hour-driven direct maintenance, material and supply costs
Flight Hour Payments	Flight Hour Rate for each aircraft type multiplied by actual Flight Hours flown by each aircraft type in the month	<ul style="list-style-type: none"> - Flight Hour-driven direct maintenance, material and supply costs
Cycle Rate Payments	There are a number of cycle rates applicable for each aircraft type, each of which is multiplied by actual number of cycles (being one take off and one landing) completed by each aircraft type in the month, although certain of the cycle rates apply only for departures from certain airports	<ul style="list-style-type: none"> - Total crew cycle costs - Cycle or frequency-driven direct maintenance, materials and supplies - Aircraft parking - Catering delivery charges - Aircraft services labour (internal Chorus provided passenger, ground handling and other airport support services), and purchased terminal handling (ground handling supplied by Air Canada or any other third party) - At certain airports, the salaries, wages and benefits of Chorus' employees stationed at that airport
Passenger Rate Payments	There are a number of passenger rates applicable to each aircraft type, each of which is multiplied by the actual number of passengers carried onboard each aircraft type in the month	<ul style="list-style-type: none"> - Onboard product other than bar and buy-on-board sales - Passenger inconvenience - Baggage delivery - Other factors

Aircraft Ownership Payment (Variable)	The aircraft ownership payment is comprised of two components: (i) the aircraft ownership variable rate for each aircraft type, which is multiplied by the number of aircraft of that type subject to the CPA in that month, and (ii) aircraft ownership variable rate per Flight Hour for each aircraft type which is multiplied by the Flight Hours flown in that month (for all aircraft of the relevant type)	<ul style="list-style-type: none"> - Interests costs, lease costs, and depreciation and amortization costs relating to the Covered Aircraft - Transaction and service fees on aircraft leases - Aircraft hull insurance costs - Third party component inventory ownership charges
Aircraft Ownership Payment (Fixed)	Aircraft Ownership Payment for each aircraft type	<ul style="list-style-type: none"> - Depreciation on rotables and tooling - Insurance management fee - Spare engine lease costs
Fixed Cost Payment	Fixed cost rate for all Covered Aircraft	<ul style="list-style-type: none"> - Salaries, wages, and benefits for management, administrative, and technical services staff and some unionized staff - Rent and facilities costs - Employee uniform costs - Communications - Non-aircraft insurance - Utilities - Office equipment rentals, office supplies - Travel costs - Training and development costs - Information system costs - Ground service equipment costs - Brand image costs - Miscellaneous costs, fees and services

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

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

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

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

Rate Periods

For the periods commencing 2009, 2012, 2015 and 2018, Chorus and Air Canada established or will establish Rates for each of the succeeding three years. Current Rates on Controllable Costs are applicable to the period commencing on January 1, 2012 and ending on December 31, 2014.

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

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

Under the CPA, Chorus is paid fees by Air Canada on a variety of different metrics based on Chorus' estimated Controllable Costs for each calendar year marked-up by a specified percentage, the Controllable Mark-Up.

Performance Incentives

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

Operating Plans and Scheduling

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

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

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

There are currently two schedule periods: winter (from approximately November 1 to March 31) and summer (from approximately April 1 to October 31) (each a "**Schedule Period**").

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

Return of Aircraft

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

possession, use or operation of any Covered Aircraft or any Spare Engine prior to October 1, 2004 shall be borne by Chorus.

Covered Fleet Changes

On June 21, 2012, Chorus and Air Canada agreed to amend the CPA to support continued fleet renewal with the acquisition of six additional Q400 aircraft and the removal of nine CRJ-100 aircraft from the Chorus fleet of Covered Aircraft. Pursuant to this agreement, the number of Covered Aircraft was reduced from 125 to 122. The June 6, 2013 CPA Amending Agreement finalized the details of the changes. Effective February 2013, the Annual Minimum Block Hours of 339,000 Block Hours was reduced to 331,106 Block Hours to reflect the reduced number of Covered Aircraft. The amendments did not change the Controllable Mark-Up or rates, but established certain new metrics.

Minimum Average Daily Utilization Guarantee ("MADUG")

The 331,106 Annual Minimum Block Hours is calculated based on the MADUG for each individual aircraft type within the fleet based on the number of Covered Aircraft for each Schedule Period.

At the end of each Schedule Period, a reconciliation from the previous Schedule Period is prepared by Chorus and is provided to Air Canada. In the event Air Canada goes below the MADUG on any aircraft type, Chorus is entitled to be paid by Air Canada for the shortfall for that period.

If Air Canada's domestic market share for the twelve month period from October 1, 2014 to September 30, 2015 decreases by a fixed percentage compared to its domestic market share for the twelve month period from August 1, 2008 to July 31, 2009, Air Canada will have the right to revise the MADUG. If Air Canada and Chorus have not agreed upon a revised MADUG by November 17, 2015, Air Canada will have the right to unilaterally set a revised MADUG by sending Chorus notice by November 20, 2015. Chorus will then be required to provide Air Canada with notice by December 18, 2015 accepting the revised MADUG or terminating the CPA effective December 31, 2016.

Compensating Mark-Up

As a result of the June 21, 2012 and June 6, 2013 CPA Amending Agreements the Compensating Mark-Up will now be applied based on the range between the reduced Annual Delivered Block Hours of 367,106 and the revised Annual Minimum Block Hours of 331,106 Block Hours. These agreements also resolved one of the issues raised in the 2009 Benchmark Arbitration regarding the manner in which the Compensating Mark-Up formula would be applied.

In the event the Annual Delivered Block Hours fall below 367,106, the Compensating Mark-Up formula contained in the CPA will be applied and the Controllable Mark-Up will be increased to compensate Chorus for reduced operating margin resulting from the reduced Block Hours. The Compensating Mark-Up percentage applies to all fixed and variable rates billed to Air Canada during the affected calendar year. This incremental mark-up amount (above the Controllable Mark-Up) will be calculated and billed to Air Canada in the fourth quarter of each calendar year in which the Compensating Mark-Up is triggered.

Minimum Capacity Guarantee

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

Code-Sharing

The CPA requires Chorus to use Air Canada's two-letter flight designator code (AC), and any other code specified by Air Canada and belonging to a Star Alliance® partner or other partner of Air Canada, to identify Scheduled Flights.

Ground Handling and Cargo Services

Under the CPA, Air Canada is responsible for providing ground handling services at airports where Air Canada performs ground handling services. Chorus is responsible for performing or obtaining such services at all other locations. Chorus performs such services for Air Canada at certain airports for a fee. As of December 31, 2013, out of the 79 airports serviced by Chorus, Air Canada provided ground handling services at 17 airports, Chorus provided ground handling services at six airports, and ground handling services at the remaining airports were provided by third parties. Chorus and Air Canada have entered into the Air Canada Ground Handling Agreement for the provision of such ground handling services to Chorus at airports where Air Canada performs ground handling services.

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

Charter Flights

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

Facilities

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

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

Term and Termination of Agreement

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

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

Benchmarking Process

The CPA provides that Controllable Mark-Up may be reduced as a result of benchmarking Chorus' Controllable Costs to those of a group of specified comparable operators (the "**Comparable Operators**") using publicly available information. Under the CPA, this benchmarking was effected in 2010 (based on information from Chorus' 2009 calendar year - the "**2009 Benchmark**") and is to be done again in 2016 (using information from Chorus' 2015 calendar year - the "**2015 Benchmark**"). If the 2009 Benchmark revealed that the percentage difference between Chorus' Unit Costs and the median controllable unit costs, stage length adjusted, of the Comparable Operators had 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 was to 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 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 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 of the Comparable Operators, stage length adjusted, shall be subject to adjustments required to reflect the differences between Chorus and each Comparable Operator for matters such as fleet type and size, aircraft utilization, currency, geographical deployment and growth relative to Chorus. These adjustments are necessary to facilitate a reasonable and fair comparison of unit costs.

Chorus and Air Canada were unable to reach an agreement in 2010 on the results of the 2009 Benchmark and as a result, on February 3, 2011, Chorus and Air Canada agreed to proceed to binding arbitration (the "**Arbitration**"). The hearing of the Arbitration occurred in June 2012. Subsequent to the hearing, the parties exchanged written submissions and their reply submissions. On October 2 and 3, 2012, the Arbitration panel (the "**Panel**") released its initial award (the "**Initial Award**").

In the Initial Award, two of the three member Panel concluded that the component unit cost driver methodology put forward by Air Canada was the appropriate methodology to use in the 2009 Benchmark to compare Chorus' Unit Costs to the stage length adjusted median controllable unit costs of the Comparable Operators. However, the Panel also agreed with Chorus that a number of the additional normalizations and adjustments proposed by Chorus were also required to be made (the "**Adjustments**") but did not provide guidance on the calculation of the impact of such Adjustments on the Controllable Mark-Up. The Panel also agreed with Chorus that fleet age impacts the rate at which maintenance costs increase. The Panel directed Air Canada and Chorus to negotiate a further adjustment that would account for the impact of fleet age on the rate at which maintenance costs increase (the "**Fleet Age Adjustment**"), failing which the parties were to submit new proposals and analysis to the Panel on that issue.

The parties were unable to reach agreement on the calculation of certain of the Adjustments or on the Fleet Age Adjustment. As a result further hearings were held in April and July 2013, and final written and oral arguments occurred in September 2013.

On November 25, 2013, Chorus received the Panel's final award (the "**Final Award**") confirming acceptance of Chorus' position on each of the remaining Adjustments in dispute, including Chorus' position that differences in fleet type and size between it and the Comparable Operators required adjustments to the Comparable Operators' airframe and component (but not engine) maintenance costs. As a result of the Final Award, the 2009 Benchmark will not result in changes to the 12.5% Controllable Mark-Up.

Other Agreements with Air Canada

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, which support Chorus' CPA operations, include information technology services, French language training and insurance claims services. The most significant services relate to information technology whereby Chorus accesses services under the agreements signed by Air Canada with each of IBM, Bell Canada and BCE Nexxia, as well as Air Canada's internal information technology resources.

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.

Air Canada Ground Handling Agreement

Pursuant to the Air Canada Ground Handling Agreement, Air Canada has agreed to provide certain aircraft related ground handling services to Chorus, including baggage handling and processing, baggage, cargo and mail loading and unloading, and aircraft servicing at 17 airports in Canada.

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

The current term of the Air Canada Ground Handling Agreement expires December 31, 2014, subject to automatic renewal for additional three year periods at the end of this term and each renewal term unless Chorus or Air Canada provides notice of its intention not to renew the agreement at least one year prior to the end of the then current term, and also provided that the parties can agree on rates for the renewal term. No such notice of non-renewal has been given by either party.

Logos and Trademarks

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

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

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

Competition

As Canada's only nationwide regional airline operating scheduled air services, Chorus enjoys a unique position in the Canadian regional airline market.

Chorus' fleet is significantly larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of primarily turboprop aircraft, most of which operate aircraft in the 19 to 75 seat range. Many of these regional carriers operate primarily independent services, flying in niche markets. Other regional airlines in Canada also operate under capacity purchase agreements with Air Canada, including Sky Regional, Air Georgian and Exploits Valley Air Services. Chorus competes with other Canadian regional airlines for additional capacity purchase flying for Air Canada and for charter business from other customers.

WestJet and WestJet Encore compete with Air Canada on certain routes in Canada and in the U.S. operated by Chorus. Porter Airlines, which operates from the Billy Bishop Toronto City Airport, competes with Air Canada in various domestic and transborder market pairs operated by Chorus.

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

Facilities

Chorus currently owns two buildings in Nova Scotia: one located at the Halifax Stanfield International Airport and one in Dartmouth.

In September 2013, Chorus completed the consolidation of its heavy maintenance activities. Chorus consolidated its four heavy maintenance lines (two in London, Ontario and two in Halifax, Nova Scotia) to three lines based in Halifax. To facilitate this consolidation and relocation, Chorus made modifications to its existing Halifax hangar and building at the Halifax Stanfield International Airport and purchased an office building in Dartmouth, Nova Scotia to accommodate its executive offices and administrative staff. Chorus also leases a portion of the Dartmouth building to third party tenants. (See "The Chorus Business - Debt Financing - Nova Scotia Jobs Fund Loan" for details on financing). In August 2013, Chorus completed the sale of its previous London, Ontario facility.

The operational facility located at the Halifax Stanfield International Airport, is comprised of office and hangar space. The land on which Chorus' Halifax airport facility is located is leased from the Halifax International Airport Authority, while the Dartmouth office building and land are owned by Chorus.

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

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

In addition to the foregoing, Chorus currently leases training space, storage space, maintenance shop space, hangar space, airport terminal building spaces, including: office spaces, counters, maintenance offices, baggage make-up and parking spaces throughout Canada from various lessors. (See "The Chorus Business - Capacity Purchase Agreement with Air Canada - Facilities".)

Debt Financing

Aircraft and Engine Financing

As at December 31, 2013, Chorus had 25 separate loan agreements with EDC which provided financing for the majority of the purchase price of each of the 21 Q400 aircraft and four PW150A engines. The total financing payable at December 31, 2013 for these loans was \$390.8 million. Each loan has a maturity of 12 years and bears interest at a fixed rate. At December 31, 2013, the net book value of property and equipment pledged as collateral under EDC financing was \$433.6 million.

Under its financing agreement with EDC (for both aircraft and engines), the Jazz Group 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, 2013, 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 contains several covenants which are specific to the Partnership as the lessee of the Q400 aircraft and engines including:

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

As at December 31, 2013, the Partnership was in compliance with both of these covenants.

As additional security under the EDC financing agreements, the aircraft and engine leases between Jazz and Jazz Leasing Inc. have been assigned to EDC. Also, Jazz Leasing Inc. has provided a full recourse guarantee to EDC and Jazz Aircraft Financing Inc. pledged the issued shares of Jazz Leasing Inc. to EDC. In addition, restricted cash recorded under other long-term assets relates to funds required to be held in a segregated account with a financial institution as security for the EDC financing related to the purchase of six Q400 aircraft in 2013.

Nova Scotia Jobs Fund Loan

Chorus purchased an office building on August 31, 2012 and made modifications to its existing Halifax hangar and building. To assist in funding for this purchase and modifications, the Province of Nova Scotia (the "**Province**") provided Chorus with a \$12.0 million, interest-bearing, repayable loan. The Province's financial assistance also consists of an additional \$2.5 million forgivable loan (which will be forgiven if certain employment targets are achieved) and a \$2.0 million employee grant to recruit, train and develop new employees or to upgrade current employees' skills. At December 31, 2013, the amount drawn on the interest-bearing repayable loan was \$12.0 million. As at December 31, 2013, Chorus had received the \$2.5 million forgivable loan from the Province of Nova Scotia as well as the \$2.0 million of Human Resource Development Funding from the Province of Nova Scotia.

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 each holder's option into Shares at any time prior to 5:00 pm (EST) on the earlier of the Maturity Date and the date fixed for redemption at a conversion price of \$5.25 per Share (the "**Conversion Price**"). The Debentures were not redeemable on or before December 31, 2012, except on a change of control of Chorus or default under the terms of the Debentures. From December 31, 2012 to December 31, 2013, the Debentures were redeemable 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 was not less than 125% of the Conversion Price. Chorus did not exercise that option. On and after December 31, 2013 and prior to the Maturity Date, the Debentures are redeemable 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. Upon issuance, the Debentures were separated into liability and conversion components for accounting purposes.

On February 10, 2014 (the "**Early Redemption Date**"), Chorus redeemed \$60.0 million of its \$80.2 million aggregate principal amount of Debentures outstanding at December 31, 2013. The Debentures were redeemed on a pro rata basis. Chorus paid the holders of the redeemed Debentures the outstanding principal amount of such Debentures (the "**Redemption Price**"), together with all accrued and unpaid interest thereon up to but excluding the Early Redemption Date, for a total of approximately \$1,011 per \$1,000 principal amount of Debentures. The Debentures that were redeemed ceased to bear interest from and after the Early Redemption Date. Chorus used surplus cash to pay the Early Redemption Price together with all accrued and unpaid interest thereon as described above. Following the redemption, \$20.21 million of Debentures remains outstanding.

Lease Financing

In 2007 and 2010, Chorus entered into common terms agreements which govern three of Chorus' aircraft leases and which will also apply to any future aircraft leases with the same lessors. As at December 31, 2013, Chorus was in compliance with the tangible asset disposal covenants contained in these common terms agreements.

People

As at December 31, 2013, Chorus had 4,371 FTE employees compared to 4,558 FTE employees for 2012. This reflects a 4.1% decrease from 2012.

Substantially all of the employees are in Jazz Aviation LP and are unionized. The customer service and aircraft service agents' collective agreement expired January 13, 2013. Chorus and its customer service and aircraft service agents, represented by Unifor, agreed to a binding arbitration process to conclude their outstanding collective agreement issues. On July 18, 2013, Chorus received the decision of the arbitrator in the binding arbitration process. This decision established a new four year collective agreement in accordance with the Canada Labour Code. Chorus and Unifor have agreed to the process for the implementation of the arbitrators award, including the contracting out of various job functions by the end of 2014. In September 2013, Chorus reached a new collective agreement with its crew schedulers, who are also represented by Unifor. The new agreement expires in June 2016.

The pilots and flight attendants are working under collective agreements that expire in July 2015. The collective agreement governing maintenance and engineering employees, also represented by Unifor, expires in October of 2015.

REGULATORY ENVIRONMENT

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

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

Domestic Services

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

On February 6, 2009, the Government of Canada introduced Bill C-10, the *Budget Implementation Act*, which proposed amendments to the CTA relating to foreign ownership restrictions on domestic air carriers. Bill C-10 received Royal Assent on March 12, 2009. The Governor in Council now has the authority on the recommendation of the Minister of Transport to fix by order, a day on which the Governor in Council may by regulation, set new foreign ownership limits up to a maximum of 49% foreign ownership. The regulations may specify that the new limits apply generally to all non-Canadian investors or, alternatively may specify increased foreign ownership limits available to specific classes of non-Canadians to be identified in the regulations. As of March 28, 2014, no such regulations have been proposed by the Governor in Council.

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

On October 16, 2013, Bill C-439, *An Act Respecting the Rights of Air Passengers* was reinstated from the previous session of Parliament. If enacted, Bill C-439 would impose obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. 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. 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-439 or otherwise.

Transborder Services

Transborder services between Canada and the United States are provided pursuant to the 1995 Canada-US Air Services Agreement. This agreement gives Canadian air carriers unlimited route rights to provide "own aircraft"

services between points in Canada and points in the United States, but does not permit the carriage of local traffic between points within one country by carriers of the other country (commonly known as cabotage).

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

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

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

Other International Services

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

Charter Services

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

In April 2000, the Minister of Transport announced a new policy governing international passenger charter air services. This policy removed restrictions such as advance booking, minimum stay requirements and prohibitions on one way travel. To preserve a distinction between charter and scheduled international services, this policy retains the requirements that the entire seating capacity of an aircraft be chartered and that charter carriers be prohibited from selling seats directly to the public.

Competition Matters

In 2009, Parliament enacted Bill C-10, the *Budget Implementation Act* which repealed the airline specific provisions of the *Competition Act* concerning "abuse of dominance", as well as the administrative monetary penalties for such abuses. Bill C-10 also introduced administrative monetary penalties for abuses of dominance

by dominant firms generally, with the result that the Competition Tribunal is now empowered to levy administrative monetary penalties for abuse of dominance by a dominant firm operating in any industry in an amount not exceeding \$10 million and, for each subsequent order, an amount not exceeding \$15 million. While Bill C-10 repealed the airline specific provisions of the *Competition Act*, pricing below avoidable cost may be considered an anti-competitive act for purposes of the generally applicable abuse of dominance provisions.

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

Official Languages Act

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

In 2000, Parliament passed amendments to the *Air Canada Public Participation Act* to impose on Air Canada the obligation to ensure any of its subsidiaries' customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services. Chorus is not a subsidiary of Air Canada, but under the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language. The OLA does not currently apply directly to Chorus, but management cannot predict how future changes to this legislation might affect its business.

Security Initiatives

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

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

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

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

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

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

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

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

On March 23, 2011, the Canadian Parliament amended the *Aeronautics Act*. Canadian airlines are now required to collect and submit certain personal information for flights that fly over but do not land in the United States.

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

Safety Initiatives

On May 31, 2005 amendments to the *Canadian Aviation Regulations* came into effect to enhance aviation safety through the implementation of safety management systems. The goals of safety management systems are to increase the sophistication and proactiveness of safety practices, to instill a consistent and positive safety culture, and to help improve upon the already extremely high safety performance of airline operators. These amendments to the *Canadian Aviation Regulations* require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. Chorus has fully implemented a safety management system. The President and Chief Executive Officer, Joseph D. Randell has been appointed as Accountable Executive and the Vice President of Safety, Quality & Environment has responsibility for the implementation and ongoing management of the safety management system. Chorus is in compliance with or surpasses all regulatory requirements, but management cannot predict if or when future amendments to this safety legislation will be introduced or enacted.

Among Canadian and many other airline operators and other organizations, Chorus' highly integrated safety management system model is considered to be industry leading, and has attracted a degree of international attention through several forums including the International Aviation Safety Seminar, and has received international recognition through the Innovation in Aviation Safety Management award (2012).

Environmental Matters

In 2002, Canada ratified the Kyoto Protocol, thereby committing it to legislating reductions in air emissions which contribute to climate change. On October 21, 2006, the federal government issued a notice of intent to develop and implement regulations and other measures to reduce air emissions. As part of this Regulatory Framework for Air Emissions, the federal government continues to support harmonized international efforts to limit or reduce both domestic and international aviation emissions of greenhouse gases and air pollutants. In December 2009,

representatives from approximately 170 countries met in Copenhagen, Denmark to negotiate a successor treaty to the Kyoto Protocol. The resulting Copenhagen Accord is non-binding, representing the political consensus of the participating states. On January 31, 2010, Canada submitted a non-binding commitment under the Copenhagen Accord to the United Nations Framework on Climate Change to reduce greenhouse gas emissions by 17% from 2005 levels by 2020. On December 12, 2011, Canada withdrew from the Kyoto Protocol.

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

In March 2014, the European Union ("EU") abandoned its plan to impose a cap on CO² emissions from flights arriving at or departing from EU airports. In September 2013 ICAO adopted a timeline to agree to an alternative international system of emission controls, but management cannot predict if or when ICAO would implement any such alternative system or whether such a system would have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus believes that it is in compliance in all material respects with the terms of applicable government regulations. Chorus is committed to conducting its operations in a manner that complies with all legal requirements relating to health and safety and the environment, and regularly evaluates and monitors its related activities.

To date, environmental laws and regulations have not had a material adverse effect on the business or financial condition of Chorus. However, changes in such government laws and regulations are ongoing and may make environmental compliance increasingly expensive. Chorus is not able to predict future costs which may be incurred in order to comply with future environment regulations. Chorus considers the environment a component of business decisions in planning for, and making changes to materials, processes, equipment and facilities. Chorus communicates with customers, governments, local communities, unions, employees and suppliers to identify and resolve environmental issues, and it conducts business in compliance with applicable environmental law. Chorus conducts ongoing audits and takes corrective action to ensure compliance with environmental law and its management system, policies and procedures. Chorus' Corporate Environmental Policy is available at www.chorusaviation.ca.

Privacy

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

RISK FACTORS

The risks described below are not intended to be an exhaustive list of all risks facing Chorus. Other risks of which Chorus is not currently aware or which Chorus currently deems immaterial may arise and have a material adverse effect on Chorus' business, results from operations and financial condition.

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, a deterioration of Air Canada's competitive position could adversely affect the utilization of the Covered Aircraft.

In the 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 constitute a significant portion of Air Canada's operating expenses;
- labour conflicts or disruptions can have a material adverse effect on Air Canada's business, results from operations and financial condition;
- the airline industry is highly competitive and subject to price discounting; and
- the risk factors described under "Risks Relating to the Industry".

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

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

Liquidity

Air Canada has significant ongoing capital and liquidity requirements and has in the past, 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 obligations under the CPA or other contracts with Chorus.

Termination of the CPA

Substantially all of Chorus' current revenues are received pursuant to the CPA which as of March 28, 2014 covers all of Chorus' existing operating fleet (except two Dash 8 aircraft and one CRJ aircraft). The CPA Amending Agreement dated September 22, 2009 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' regulatory authorities required for Chorus to perform the air services required by the CPA;
- 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, where 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 applicable period, 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 applicable period, 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 the Partnership 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 September 22, 2009 CPA Amending Agreement 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 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 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. 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' Covered 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 or regional carriers 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 all or part of the incentive compensation. As well, the MADUG will not apply in the event Chorus fails to reach the minimum utilization guaranteed 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 agreed to a revised Annual Minimum Block Hours of 331,106.

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 information technology, deicing services and glycol usage, fuel purchasing services and passenger, aircraft and traffic handling services. As well, as Chorus does not sell scheduled air service directly to the public, Chorus does not perform ticket sales, reservations or call centre 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 and insurance claims 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, 2012, 2015 and 2018, Chorus and Air Canada established or 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 July 6, 2009 Rate Amending Agreement amended the Rates established for the 2009-2011 Rate Period. The Rates negotiated and reflected in this particular Rate Amending Agreement were established to enable Chorus to achieve a Controllable Target Margin of 14.32%, corresponding to a Controllable Mark-Up of 16.72% on Chorus' Controllable Costs. However, pursuant to the terms of the September 22, 2009 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 were 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 June 6, 2013 Rate Amending Agreement also provides for adjustments to the Controllable Mark-Up in certain circumstances. Commencing January 1, 2013, if the Annual Delivered Block Hours are less than 367,106, the Compensating Mark-Up will be applied and the Controllable Mark-Up will be increased, to compensate Chorus for reduced operating 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 for all Annual Delivered Block Hours in excess of 375,000.

The Controllable Mark-Up may also be reduced as a result of the 2015 Benchmark.

The aggressive cost reductions sought by network airlines from all sources, including their regional capacity providers have resulted in some regional airline restructuring in the U.S. and have resulted in generally lower operating margins for North American regional air carriers providing capacity purchase agreement services. As a result, there is a risk that the required Comparable Operators against which Chorus' costs are to be benchmarked may not exist in 2015.

If the 2015 Benchmark indicates that the percentage difference between Chorus' Controllable Costs and those 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 by the results of the 2015 Benchmark, with effect as of January 1, 2016 until December 31, 2020. Accordingly, the 2015 Benchmark could have a material adverse effect on Chorus' business, results from operations and financial conditions.

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 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 CRJ aircraft if configured in excess of 75 seats, inclusive of all classes, and sets out a minimum ratio of ASMs flown by Air Canada compared to the CPA ASMs flown by Chorus. These restrictions may cause Air Canada to reduce the level of capacity it purchases from Chorus under the CPA, prevent Chorus from expanding its market share, or impede Chorus' fleet development, any of which could significantly reduce Chorus' opportunities for growth, revenue and earnings. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot ensure that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions for Chorus.

Covered Aircraft reductions

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

Exclusivity arrangements

Chorus does not benefit from exclusivity arrangements preventing Air Canada from allocating some or all of its regional capacity requirements internally or to another carrier under a capacity purchase agreement or other forms of contractual arrangements. Air Canada's use of other regional carriers could negatively impact opportunities for increasing Chorus' flying under the CPA. In December 2013, Air Canada announced that it intends to amend its capacity purchase agreement with Air Georgian to operate a number of additional regional routes including trans-border routes using CRJ100 aircraft.

Potential conflicts with Air Canada

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

- the 2015 Benchmark;
- 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;
- rate resets in 2015 and 2018; and
- 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.

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

Limited ability to participate in improved market conditions

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

Risks Relating to Chorus

Potential legislative changes

Chorus is subject to extensive laws relating to airline safety and security, competition, environment and labour. Government entities such as Transport Canada, the Competition Bureau, the Canadian Transportation Agency and other government entities may implement new legislation or render decisions that could have a material adverse effect on the airline industry in general by significantly increasing the cost of operations or reducing the demand for air travel.

On October 16, 2013, Bill C-439, *An Act Respecting the Rights of Air Passengers*, was reinstated from the previous session of Parliament. Previous versions of Bill C-439 died on recommendation of the Standing Committee on Transport, Infrastructure and Communities in 2009 (Bill C-310) and on the order paper when Parliament was dissolved in 2011 and 2013 (Bill C-541 and C-459 respectively). If enacted, Bill C-439 would impose obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. 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. 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-439 or otherwise.

Employees

Chorus' business is labour-intensive and requires a large number of pilots, flight attendants, maintenance engineers 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 profitability under the CPA that will undermine Chorus' financial performance.

Ninety percent of Chorus employees are unionized. Currently both the pilots and flight attendants are working under collective agreements that expire in July 2015. The collective agreement governing Chorus' maintenance and engineering employees, represented by Unifor, expires in October of 2015. Chorus' customer service employees and crew schedulers, also represented by Unifor have Collective Agreements in place until January 2016 and June 2016, respectively. Chorus' flight dispatch employees, represented by the Canadian Air Line Dispatchers Association ("**CALDA**"), signed a six year deal expiring in July 2018.

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' operations and adversely affect Chorus' ability to meet its targets, 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 Chorus employees' unions will be on terms that are consistent with Chorus' expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Chorus.

Leverage and restrictive covenants in current and future indebtedness

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

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

Dilution of Shareholders

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

Uncertainty of dividend payments

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

Level of indebtedness - refinancing risk

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

Diversification and growth

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

Reliance on key personnel

The success of Chorus depends on the abilities, experience, industry knowledge and personal efforts of senior

management and other key employees, and Chorus' ability to retain and attract skilled employees. As Chorus seeks to diversify and/or grow, this may put additional strain and demand on management and on Chorus' employees and produce risks in both productivity and retention levels. In addition, Chorus may not be able to attract and retain additional qualified management as needed in the future. The loss of the services of such key personnel could have a material adverse effect on the business, results from operations, financial condition or future prospects of Chorus.

Risks relating to financial instruments

For a description of the interest rate risk, credit risk, liquidity risk and currency risk associated with Chorus' financial instruments, see the discussion in the 2013 MD&A dated February 19, 2014, Section 12, regarding Financial Instruments and Risk Management, which is available at www.sedar.com.

Off balance sheet arrangements and guarantees

Chorus has agreed to indemnify various third parties in connection with the entering into of leases, agreements and other arrangements. The maximum amount payable under such 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). While Chorus expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities, in the event that such insurance coverage were not available or insufficient, any payment pursuant to Chorus' indemnification obligations could have a material adverse effect on Chorus' business, results from operations and financial condition.

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. 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 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

The airline industry is highly competitive. Air Canada competes with other major carriers as well as low cost carriers on its routes, including routes that Chorus flies under the CPA. Competitors could rapidly enter markets Chorus serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Chorus' regional operations to Air Canada. In June 2013, WestJet launched Encore, an affiliated low cost, short haul regional airline, with two Q400 aircraft in Western Canada. By December 31, 2013 Encore had eight Q400 aircraft in its fleet and has announced firm commitments to purchase 12 additional Q400 aircraft through 2015. In December 2013, Air Canada announced that it intends to amend its capacity purchase agreement with Air Georgian to operate a number of regional routes including trans-border routes using CRJ100 aircraft.

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. New competitors may also 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 experiences greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' revenues do not fluctuate significantly with passenger load factors.

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, and compensation for tarmac delays. 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

The Government of Canada renewed their indemnity for third party war risk liability coverage until December

31, 2015 however there is a risk that after this date the Government of Canada may not continue to provide the indemnity 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. This facility is currently set to expire on September 30, 2014.

London aviation insurance providers have introduced a new standard war and terrorism exclusion clause applicable to aircraft hull and spares war and allied perils insurance cover and have announced their intention to introduce similar exclusions to airline passenger and third party liability policies albeit this has yet to gain traction. These clauses exclude claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or bio chemical materials.

The Government of Canada indemnity program is designed to address these types of issues as they arise, but the Government of Canada has not yet decided to extend the existing indemnity to cover this exclusion.

Unless and until the Government of Canada does so, the loss of coverage exposes Chorus to this new uninsured risk and may result in Chorus being in breach of certain regulatory requirements or contractual arrangements, which may have a material adverse effect on Chorus' business, results from operations and financial condition.

Casualty losses

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

Risks Relating to Current Legal Proceedings

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

Risks Relating to the Convertible Debentures

Matters affecting trading prices for the convertible debentures

No assurance can be given that an active or liquid trading market for the outstanding Debentures will develop or be sustained. If an active or liquid market for the outstanding Debentures fails to develop or be sustained, the prices at which the outstanding Debentures trade may be adversely affected. Whether or not the outstanding Debentures will trade at lower prices depends on many factors, including the liquidity of the outstanding Debentures, prevailing interest rates and the markets for similar securities, the market price of the 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 any of the outstanding Debentures for Shares or to repay outstanding principal amounts thereunder at maturity of the Debentures by issuing additional Shares.

Credit risk and prior ranking indebtedness; absence of covenant protection

The likelihood that holders of the outstanding Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of Chorus and its creditworthiness. In addition, the 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 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 Debentures then outstanding. The 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 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 Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if Chorus were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on Chorus' future prospects and other factors.

MARKET FOR SECURITIES

The Class A Variable Voting Shares, the Class B Voting Shares and the Debentures are traded on the TSX under the trading symbols "CHR.A", "CHR.B", and "CHR.DB" respectively. The following table sets forth the price range and trading volume of the Class A Variable Voting Shares, the Class B Voting Shares and the Debentures as reported by the TSX for the months of January to, and including, December 2013.

2013	<u>Class A Variable Voting Shares</u>				<u>Class B Voting Shares</u>				<u>Debentures</u>			
	High \$	Low \$	Average Daily Trading Volume	Total Monthly Volume	High \$	Low \$	Average Daily Trading Volume	Total Monthly Volume	High \$	Low \$	Average Daily Trading Volume	Total Monthly Volume
January	4.42	3.60	22,214	488,716	4.43	3.81	246,446	5,421,822	104.30	102.50	1,190	26,190
February	4.70	3.75	18,178	345,383	4.71	3.77	487,340	9,259,464	105.25	103.75	533	10,130
March	4.15	3.78	17,528	350,551	4.12	3.78	404,187	8,083,743	105.16	103.25	121	2,420
April	4.36	3.56	10,164	223,605	4.07	3.57	319,156	7,021,432	104.35	103.30	1,092	24,030
May	3.86	2.32	33,222	730,882	3.85	2.32	716,897	15,771,744	103.85	101.00	3,165	69,620
June	2.46	1.81	34,166	683,312	2.48	1.90	955,457	19,109,146	101.80	100.55	1,392	27,830
July	2.22	1.88	18,592	409,018	2.23	1.87	249,594	5,491,069	102.20	100.50	2,695	59,290
August	2.51	2.01	22,192	466,032	2.53	2.00	254,498	5,344,462	100.72	100.00	2,542	53,380
September	2.70	2.36	12,116	242,310	2.74	2.35	216,304	4,326,087	100.75	99.82	815	16,305
October	2.85	2.31	13,671	300,768	2.76	2.31	212,775	4,681,040	100.38	99.75	1,128	24,810
November	3.91	2.49	16,771	352,191	3.93	2.50	467,669	9,821,055	102.00	100.05	2,103	44,160
December	4.20	3.61	18,765	375,307	4.21	3.60	432,333	8,646,668	101.50	100.54	1,953	39,050

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Shares is CST Trust Company, at its principal offices in Halifax, Montreal, Toronto, Calgary and Vancouver. The transfer agent and registrar for the Debentures is BNY Trust Company of Canada, as attorney for the Trustee, CIBC Mellon Trust Company, at its offices in Toronto.

DIVIDEND RECORD

The current dividend policy of Chorus is \$0.1125 per common Share per quarter. Dividends payable by Chorus to its Shareholders are recorded when declared. The dividend policy is subject to the discretion of the board of directors of Chorus and may vary depending on, among other things, Chorus' financial condition including earnings, financial requirements, debt covenants, the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time.

Commencing January 2011, Chorus paid quarterly dividends of \$0.15 per Share. On May 9, 2013, Chorus reduced its quarterly dividend from \$0.15 per share to \$0.075 per share. On December 10, 2013, Chorus increased its quarterly dividend from \$0.075 per share to \$0.1125 per share.

For the year ended December 31, 2013, Chorus paid \$55.7 million in dividends to shareholders (2012 - \$74.4million, 2011 - \$55.8 million).

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Chorus is comprised of an unlimited number of Variable Voting Shares and Voting Shares. As of March 24, 2014, 4,927,861 Variable Voting Shares and 117,614,165 Voting Shares were issued and outstanding. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of Chorus' articles of amalgamation, as amended.

Variable Voting Shares

Voting

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

The Government of Canada's Bill C-10, the *Budget Implementation Act 2009*, provides that the provisions relating to voting securities in the CTA will be amended to provide the Governor in Council with flexibility to, by regulation, increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These regulations will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Transport. As of March 28, 2014, no such new regulations have been proposed by the Governor in Council.

Dividends

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

Subdivision or Consolidation

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

Rights upon Liquidation, Dissolution or Winding Up

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

Conversion

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

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

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

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

Constraints on Ownership of Shares

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

Voting Shares*Voting*

The holders of the Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of Chorus (except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA), and each Voting Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of Chorus.

Dividends

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

Subdivision or Consolidation

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

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Chorus ranking senior to the Voting Shares, upon liquidation, dissolution or winding up of Chorus or other distribution of Chorus' assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable

Voting Shares shall be entitled to receive the remaining property of Chorus and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with other similar restrictions, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of Chorus or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Qualified Canadian.

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

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

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

Constraints on Ownership of Shares

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

Declaration as to Canadian Status

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

Repurchase of Shares

On March 14, 2013, Chorus announced that it had received approval from the TSX to implement a normal course issuer bid to purchase, for cancellation, up to 11,093,612 Shares, representing 10% of the total public float of Shares calculated in accordance with TSX rules (the "**Initial NCIB**"). The Initial NCIB, which expired on March 17, 2014, was conducted through the facilities of the TSX and/or alternative trading systems in accordance with the requirements of the TSX.

Under TSX rules, the Initial NCIB allowed Chorus to purchase daily, a maximum of 86,114 Shares representing 25% of the average daily trading volume of the Shares over the six-month period ended February 28, 2013. In addition, Chorus was authorized to make, once per week, a block purchase (as such term is defined in the TSX Company Manual) of Shares not directly or indirectly owned by insiders of Chorus, in accordance with TSX rules.

Purchases under the Initial NCIB were made by means of open market transactions or such other means as the TSX or securities regulatory authorities permit. The price paid by Chorus in the Initial NCIB for any Share was the market price at the time of acquisition, plus brokerage fees.

At the expiry of the Initial NCIB on March 17, 2014, Chorus had repurchased 1,871,800 Shares at an aggregate cost of \$4.0 million. All of those Shares were cancelled.

On March 27, 2014, Chorus announced that it had received approval from the TSX to implement a second normal course issuer bid ("**NCIB**") to purchase, for cancellation, up to 12,168,157 Shares, representing 10% of the total public float of Shares calculated in accordance with TSX rules. This NCIB commences on March 31, 2014 and will expire on March 30, 2015. It will be conducted through the facilities of the TSX and/or alternative trading systems in accordance with the requirements of the TSX.

This second NCIB allows Chorus to purchase daily, a maximum of 83,346 Shares representing 25% of the average daily trading volume of the Shares over the six-month period ended February 28, 2014. In addition, Chorus may make, once per week, a block purchase (as such term is defined in the TSX Company Manual) of Shares not directly or indirectly owned by insiders of Chorus, in accordance with TSX rules. The Shares purchased pursuant to this NCIB will be cancelled.

Purchases under this second NCIB will be made by means of open market transactions or such other means as the TSX or securities regulatory authorities may permit, including pre-arranged crosses, exempt offers and private agreements under an issuer bid exemption order issued by a securities regulatory authority. In the event that Chorus purchases Shares by pre-arranged crosses, exempt offers or private agreements, the purchase price of the Shares may be at a discount to the market price of the Shares at the time of the acquisition. The price paid by Chorus for any Share will be the market price at the time of acquisition, plus brokerage fees, or any such other price as the TSX may permit.

Convertible Debentures

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

DIRECTORS AND OFFICERS

Directors of Chorus

The name, municipality of residence and principal occupation of each of the directors are, as of the date hereof, as set forth below. Such individuals have served as directors of Chorus since the dates set forth opposite their respective names. Each of the directors of Chorus has been elected or appointed to serve until the end of the next annual meeting of shareholders. The directors stand for election annually. Biographies for each of the directors are available on Chorus' website at www.chorusaviation.ca.

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

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- (1) Chair of the Governance and Nominating Committee and Member of the Audit, Finance and Risk Committee
 - (2) The principal business of Coastal Contacts Inc. is a direct-to-customer online retailer of replacement contact lenses, eye glasses and optical products
 - (3) Chair of the Audit, Finance and Risk Committee and member of the Governance and Nominating Committee
 - (4) Chair of the Human Resources and Compensation Committee and Member of the Audit, Finance and Risk Committee
 - (5) Member of the Audit, Finance and Risk Committee and of the Human Resources and Compensation Committee
 - (6) Member of the Governance and Nominating Committee and of the Human Resources and Compensation Committee
 - (7) Chairman of the Board of Directors
 - (8) Member of the Audit, Finance and Risk Committee and the Human Resources and Compensation Committee

Each of the foregoing directors has held the same principal occupation for the previous five years, except (i) Mr. Collins who was Senior Vice President of Belcorp Industries from April 2007 until June 2012, (ii) Ms. Cramm who was a partner of Deloitte & Touche LLP for 27 years, retiring in August 2009, (iii) Mr. Falconer who was Vice Chairman and Managing Director, CIBC World Markets Inc., from 1993 until he retired on January 31, 2011, and (iv) Mr. Isaacs who was Senior Vice President, Corporate Development and Chief Legal Officer of ACE Aviation Holdings Inc., from November 2004 to June 2012.

Officers of Chorus

The following table sets out, for each of the executive officers of Chorus Aviation Inc. and Jazz Aviation LP's general partner Aviation General Partner Inc., the person's name, municipality of residence as of March 28, 2014, positions with Chorus and/or Jazz, principal occupation and date of first appointment as an executive officer. Biographies for each of the executive officers are available on Chorus' website at www.chorusaviation.ca. For purposes of the table below, references to Chorus means Chorus Aviation Inc.

Name and Municipality of Residence	Position with Chorus	Principal Occupation	Executive Since
Richard H. McCoy Toronto, Ontario	Chairman	Corporate Director	January 1, 2008
Joseph D. Randell Wellington, Nova Scotia	President and Chief Executive Officer, Chorus and Jazz	President and Chief Executive Officer, Chorus and Jazz	January 1, 2001
Colin Copp Delta, British Columbia	Chief Administrative Officer, Jazz	Chief Administrative Officer, Jazz	August 1, 2004
Richard Flynn Dartmouth, Nova Scotia	Chief Financial Officer, Chorus and Jazz	Chief Financial Officer, Chorus and Jazz	May 30, 2005
Jolene Mahody Halifax, Nova Scotia	Chief Operating Officer, Jazz	Chief Operating Officer, Jazz	August 1, 2004
David Deveau Hammonds Plains, Nova Scotia	Vice President, Safety, Quality and Environment, Jazz	Vice President, Safety, Quality and Environment, Jazz	June 10, 2011
Franco Giampa London, Ontario	Vice President, Airports & System Operations Control, Jazz	Vice President, Airports & System Operations Control, Jazz	March 1, 2011
Steven Linthwaite Guelph, Ontario	Vice President, Flight Operations, Jazz	Vice President, Flight Operations, Jazz	September 3, 2007
Gary Osborne, Hammonds Plains, Nova Scotia	Vice President, Finance, Chorus and Jazz	Vice President, Finance, Chorus and Jazz	May 9, 2013
Kal Rebin Bolton, Ontario	Vice President, Maintenance and Engineering, Jazz	Vice President, Maintenance and Engineering, Jazz	October 7, 2013
Barbara Snowdon Bedford, Nova Scotia	General Counsel and Corporate Secretary, Chorus and Jazz	General Counsel and Corporate Secretary, Chorus and Jazz	June 20, 2007
Scott Tapson Bedford, Nova Scotia	Vice President, Business Development, Chorus and Jazz	Vice President, Business Development, Chorus and Jazz	August 1, 2004

Each of the foregoing officers has held an executive officer position with Chorus or Jazz or one of its predecessors for the previous five years, except: Franco Giampa, who, prior to March 1, 2011 was Director, Airports for Jazz from March 2003 to March 1, 2011, David Deveau, who, prior to June 13, 2011 was Director, Safety, Quality and Environment for Jazz from June 23, 2008 to June 13, 2011, Kal Rebin, who, prior to October 7, 2013 was Director, MOC, Engineering and Planning for Jazz from May 1, 2000 to August 18, 2011 and Director, Line Maintenance and Engineering for Jazz from August 18, 2011 to October 7, 2013 and Gary Osborne, who prior to May 9, 2013 was Director, Financial Planning and Systems for Jazz and its predecessor from June 5, 2006 to May 9, 2013.

As at March 24, 2014, the Directors and Officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly 4,000 Variable Voting Shares representing approximately 0.08% of the outstanding Variable Voting Shares and 868,358 Voting Shares representing approximately 0.74% of the outstanding Voting Shares.

Audit, Finance and Risk Committee

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

Charter of the Audit, Finance and Risk Committee

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

Composition of the Audit, Finance and Risk Committee

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

Relevant Education and Experience of the Audit Committee Members

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

- (i) **Karen Cramm, FCA.** A Chartered Accountant, Mrs. Cramm holds master's degrees in business administration (MBA) and in public administration (MPA). Mrs. Cramm was a Partner of Deloitte & Touche ("**Deloitte**") for twenty-seven years retiring from the firm on August 31, 2009. While an active Partner of Deloitte, she practiced in the Financial Services Group with a focus on Reorganization Services and Forensic & Dispute Services and held two specialist designations: one in insolvency and restructuring (CA•CIRP) and the other in investigative and forensic accounting (CA•IFA). She was also licensed as a Trustee in Bankruptcy. Mrs. Cramm has served as President of the Institute of Chartered Accountants of Nova Scotia and was elected as a Fellow of that Institute (FCA) on December 6, 1991 in recognition of distinguished service to the profession. From September 1, 1993 to August 31, 1999, Mrs. Cramm served as the Managing Partner of the Deloitte Halifax Office. She was elected to the Canadian Deloitte Board of Directors for fourteen years and during that time she chaired and served on various committees of the Deloitte Board.
- (ii) **Gary M. Collins** is President of Coastal Contacts Inc., a direct-to-customer online retailer of replacement contact lenses, eye glasses and optical products. Previously, he was Senior Vice President of Belcorp Industries Inc. from April 2007 to June 2012. Prior to that, Mr. Collins was the President and Chief Executive Officer of Harmony Airways from December 2004 until December 2006. From October 1991 to December 2004 he was a member of the British Columbia Legislative Assembly and held the portfolio of Minister of Finance from June 2001 to December 2004. Mr. Collins is a director and serves on the audit committee of Liquor Stores North America Inc. He previously served on the audit committee of Catalyst Paper Corporation.
- (iii) **Benjamin C. Duster, IV** is a consultant and a senior advisor for Watermark Advisors, LLC and serves as an independent director on the boards of public companies undergoing or contemplating transformational change where the development and implementation of new managerial, operational, financial and/or strategic initiatives are critical to value maximization. From October 2001 through May 2005, Mr. Duster was a partner with Masson & Company, LLC. From 1997 to 2001 he was a Managing

Director for Wachovia Securities. Previously, Mr. Duster held various positions at Salomon Brothers from 1981 through 1997. Mr. Duster served as Chairman of the Board for Algoma Steel, Inc. from February 2002 through June 2007. In the past, Mr. Duster served as chair of the compensation committee at Accuride Corporation and as chairman of the audit committee for RCN Corp.

- (iv) **John T. McLennan** is a corporate director. Mr. McLennan is a director of Amdocs Ltd. and Emera Inc. Mr. McLennan is Chairman of Emera Inc. Mr. McLennan was Vice-Chairman and Chief Executive Officer of Allstream from May 2000 until June 2004. Prior to that position, he served as AT&T Canada's Vice Chairman and Chief Executive Officer. He was also the founding President of Jenmark Consulting Inc., President and Chief Executive Officer of Bell Canada, President of Bell Ontario as well as Chairman, President and Chief Executive Officer of BCE Mobile Communications Inc. Mr. McLennan has also served as President and Chief Executive Officer of Cantel Wireless and Executive Vice President of Mitel Communications Inc.
- (v) **Richard D. Falconer**. The majority of Mr. Falconer's career was spent with CIBC World Markets Inc., where he retired after 40 years of service as Vice Chairman and Managing Director. In addition to being responsible for senior investment banking relationships, he sat on a number of committees at the bank. Mr. Falconer's experience has spanned various industries and he has provided written and expert regulatory testimony before many utility boards across Canada. Mr. Falconer is currently a member of the board of directors of Resolute Forest Products and Jaguar Mining Inc.

Independence of External Auditors

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

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

Auditors' Fees

Fees payable for the years ended December 31, 2013 and December 31, 2012 to PricewaterhouseCoopers LLP and its affiliates were \$588,831 and \$742,901, respectively, as detailed below:

	Year ended December 31,	
	2013	2012
	\$	\$
Audit fees	313,016	304,839
Audit-related fees	69,400	107,900
Tax fees	198,675	254,762
All other fees	7,740	75,400
	588,831	742,901
	588,831	742,901

The nature of each category of fees is described below.

Audit fees. Audit fees were paid for professional services rendered for the audit of Chorus and its affiliates annual financial statements, for the reviews of quarterly reporting by Chorus and for services normally provided in connection with statutory and regulatory filings or engagements.

Audit-related fees. Audit-related fees were paid for professional services related to pension plan audits, and accounting consultation.

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

All other fees. Other fees paid were for pension filing software and a review of the security of Chorus' information technology infrastructure.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

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

Corporate Cease Trade Orders or Bankruptcies

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

- (i) G. Ross MacCormack was an officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (ii) Joseph D. Randell was the President and Chief Executive Officer of Jazz Air Inc. when it filed for protection under the CCAA on April 1, 2003;
- (iii) Scott Tapson was an officer of Jazz Air Inc. when it filed for protection under the CCAA on April 1, 2003;
- (iv) Richard Flynn was an officer of Jazz Air Inc. within a year before it filed for protection under the CCAA on April 1, 2003;
- (v) Benjamin C. Duster, IV was a member of the board of Catalyst Paper Corporation when it filed for protection under the CCAA on January 31, 2012; and
- (vi) Richard D. Falconer was a member of the board of Jaguar Mining Inc. when it filed for a voluntary proceeding under the CCAA on December 23, 2013.

Penalties or Sanctions

To the knowledge of Chorus, no director or executive officer of Chorus (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of Chorus, in the last ten years, no director or executive officer of Chorus has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

CONFLICTS OF INTEREST

Except as disclosed below and elsewhere herein no director or senior officer of the Corporation has any existing or potential material conflicts of interest with the Corporation.

INTEREST OF EXPERTS

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of (i) the directors or senior officers of Chorus, (ii) shareholders of Chorus that, to the knowledge of Chorus, beneficially own or control, directly or indirectly, more than 10% of any class of shares of Chorus, or (iii) any associate or affiliate of the persons referred to in (i), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect Chorus or any of their subsidiaries.

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

MATERIAL CONTRACTS

Except for the CPA (as amended by the CPA Amendments), the particulars of each of which are described above in this AIF, all material contracts entered into by Chorus in 2013 were entered into in the ordinary course of business. No such other material contracts were required to be filed by Chorus under applicable securities legislation.

ADDITIONAL INFORMATION

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

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Chorus' securities and securities authorized for issuance under equity compensation plans will be contained in Chorus' information circular for its annual meeting of Shareholders to be held on May 15, 2014. Additional financial information is provided in the Chorus Consolidated Financial Statements for the year ended December 31, 2013 and in Chorus' 2013 MD&A.

Chorus will, upon the delivery of a written request to the Corporate Secretary of Chorus, at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia, B3B 1W8, provide to any person or entity, the documents specified below:

- (a) when Chorus is in the course of a distribution of its securities under a short form prospectus, or has filed a preliminary short form prospectus in respect of a proposed distribution of its securities:

- i) one copy of Chorus' latest AIF, together with one copy of any document or the pertinent pages of any document, incorporated therein by reference;
 - ii) one copy of the consolidated audited financial statements of Chorus for the most recently completed financial year for which financial statements have been filed, together with the Auditors' Report thereon, and one copy of any unaudited interim financial statements of Chorus for any period after its most recently completed financial year;
 - iii) one copy of the information circular of Chorus in respect of its most recent annual meeting of Shareholders that involved the election of directors of Chorus or one copy of any annual filing prepared instead of that information circular, as appropriate; and
 - iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under subparagraphs (i) to (iii); or
- (b) at any other time, Chorus shall provide to any person or company one copy of any of the documents referred to in subparagraphs (a)(i), (ii) and (iii) above, provided that Chorus may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of Chorus' securities.

GLOSSARY OF TERMS

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

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

"**2009 Benchmark**" has the meaning ascribed thereto under "The Chorus Business - Benchmarking Process";

"**ACPA**" means the Air Canada Pilots Association;

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

"**AIF**" means this Annual Information Form;

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

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

"**ALPA**" means the Air Line Pilots Association;

"**Annual Delivered Block Hours**" has the meaning given in the CPA";

"**Annual Minimum Block Hours**" has the meaning given in the CPA;

"**Arbitration**" means the binding arbitration process between Chorus and Air Canada related to the 2009 Benchmark;

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

"**ATAC**" means the Air Transport Association of Canada;

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

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

"**Bombardier**" means Bombardier Inc.;

"**Cargo Services**" has the meaning given in the CPA;

"**CALDA**" means the Canadian Air Line Dispatchers Association;

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

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

"**Chorus Airport Services Inc.**" means Chorus Airport Services Inc., a corporation incorporated under the CBCA on November 28, 2013;

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

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

"**Comparable Operators**" has the meaning ascribed thereto under "The Chorus Business - Capacity Purchase Agreement with Air Canada - Benchmarking Process";

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

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

"**Controllable Target Margin**" has the meaning given in the CPA;

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

"**Conversion Price**" means \$5.25 per Share;

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

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

"**CPA Amending Agreements**" means the agreements to amend the CPA dated September 22, 2009, March 8, 2011, June 21, 2012 and June 6, 2013;

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

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

"**DOT**" means the United States Department of Transportation;

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

"**FAA**" means the United States Federal Administration Authority;

"**Fixed Cost Payment**" shall have the meaning ascribed thereto under "The Chorus Business - Capacity Purchase Agreement with Air Canada - Fees Payable by Air Canada";

"**Flight Hour Rate**" has the meaning given in the CPA;

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

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

"**GHG**" means green house gas;

"**Guaranteed Block Hours**" shall have the meaning ascribed thereto under "The Chorus Business - Capacity Purchase Agreement with Air Canada - Minimum Capacity Guarantee";

"**IATA**" means the International Air Transport Association;

"**ICAO**" means the International Civil Aviation Organization;

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

"**Jazz**" means Jazz Aviation LP, together with its general partner, Aviation GP, and their respective subsidiaries and predecessors; and, in particular, reference to Jazz in respect of a time period prior to October 1, 2004 are references to the business of Jazz as carried on by Jazz Air Inc., which was liquidated on September 30, 2004, and references to Jazz in respect of the time period from October 1, 2004 until February 2, 2006 are references to the business of Jazz as carried on by the Successor Partnership, and references to Jazz in respect of the time period from February 2, 2006 until January 5, 2011 are references to Jazz Air LP, unless the context requires otherwise;

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

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

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

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

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

"**Jazz Group**" is currently comprised of the Partnership, Jazz Aircraft Financing Inc. and Jazz Leasing Inc.;

"**MADUG**" means minimum average daily utilization guarantee;

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

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

"**Maturity Date**" means December 31, 2014;

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

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

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

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

"**Province**" means the Province of Nova Scotia;

"**Qualified Canadian**" means a "Canadian" as defined in the CTA;

"**Scheduled Flights**" has the meaning given in the CPA;

"**Scheduled Flights Revenue**" has the meaning given in the CPA;

"**Shareholder**" means a holder of Shares;

"**Shares**" means Class A Variable Voting Shares and/or Class B Voting Shares of Chorus Aviation Inc.;

"**Small Jets Settlement Agreement**" shall have the meaning ascribed thereto under the "The Chorus Business -Scope Clause";

"**Spare Engine**" means any spare engine used to support a Covered Aircraft;

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

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

"**Toronto Pearson**" means Toronto Lester B. Pearson International Airport;

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

"TSX" means the Toronto Stock Exchange;

"Unit Costs" mean "Jazz's Unit Costs" as defined in the CPA;

"Variable Voting Shares" mean Class A Variable Voting Shares in the capital of Chorus Aviation Inc.; and

"Voting Shares" mean Class B Voting Shares in the capital of Chorus Aviation Inc.

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

1. Purpose

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

2. Composition and Qualification

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

3. Meetings and Procedure

- (a) The Committee shall meet at least quarterly, or more frequently as circumstances dictate. Such meetings may be held by telephone or by any other mean which enables all participants to communicate with each other simultaneously.
- (b) The Committee may fix its own procedure at meetings and for the calling of meetings except as may be otherwise provided by the Board.

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

4. Objectives

- (a) The objectives of the Committee are as follows:
 - (i) To assist the Board in the discharge of its responsibility to monitor the Corporation's financial reporting and audit process.
 - (ii) To maintain and enhance the quality, credibility and objectivity of the Corporation's financial reporting and to satisfy itself and oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
 - (iii) To assist the Board in its oversight of the independence, qualifications and appointment of the external auditor.
 - (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
 - (v) To provide independent communication between the Board and the internal auditor and the external auditor.
 - (vi) To facilitate in-depth and candid discussions between the Committee and management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

5. Duties

To achieve its objectives, the Committee shall:

- (a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include, prior to their release, a review of the audited and unaudited annual and quarterly financial statements and related notes and Management's Discussion and Analyses ("MD&As") to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, information circulars, earnings press releases and other similar documents. The Committee shall also review the annual information form and other similar documents. These reviews will include:
- (i) discussions with management and, where applicable, the external auditor and a consideration of the report by the external auditor to the Committee of matters related to the conduct of an audit;
 - (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case maybe, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;
 - (iii) a review of significant adjustments arising from an audit;
 - (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements and the adequacy of the management's responses in correcting audit related deficiencies;
 - (v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;
 - (vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;
 - (vii) a review of the nature and size of unadjusted errors of a non-trivial amount;
 - (viii) a review with management of the results of external audits;
 - (ix) a review to ascertain that various covenants are complied with;
 - (x) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes; and
 - (xi) taking such other reasonable steps as it may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies.
- (b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such audited or unaudited annual or quarterly financial statements, MD&A, and the financial disclosure in any such annual information forms, earnings press releases, prospectuses, information circulars and other similar documents.
- (c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Corporation's quarterly financial statements and related MD&A.
- (d) Review with management, the external auditor and legal counsel, the Corporation's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements.

- (e) Meet with the external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department.
- (f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre-approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Committee. The Corporation shall ensure that funding is available to the Committee for payment of compensation to the external auditor.
- (g) Review and pre-approve, or delegate to a member of the Committee the responsibility to review and approve and subsequently report to the Committee, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the external auditor prior to the commencement of such work. In this regard the Committee will prepare a report for presentation to the shareholders of the Corporation, as required by applicable law, regarding the Committee's policies and procedures for the approval of such non-audit services in the period, and implement from time to time a process in connection with non-audit services performed by the external auditor.
- (h) Review annually the objectivity and independence of the external auditors. Request and review a report from the external auditor of all relationships or services involving the external auditor, the Corporation and their respective related entities, including all work performed and fees paid for such work of a non-audit nature, that may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that the external auditor is independent and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once annually the Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Committee will also review steps taken by the auditing firm to address any findings in any of the foregoing reviews.
- (i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to ensure that such matters are adequately guarded against.
- (j) At least once each year:
 - (i) Meet privately with management to assess the performance of the external auditor.
 - (ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.
- (k) Ensure that external auditors are accountable to the Committee and the Board and shall report directly to the Committee and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Corporation to be proposed in the Corporation's proxy circular for shareholder approval and shall have authority to terminate the external auditors. If a change in external auditors is proposed, the Committee

shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire on the qualifications of the proposed auditors before making its recommendation to the Board. The Committee shall recommend to the Board the amount of the compensation to be paid to the external auditors.

- (l) Regarding the services provided by the internal audit department, the Committee will:
 - (i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work. The head of the internal audit function shall have unrestricted access to the Committee;
 - (ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit department;
 - (iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff;
 - (iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;
 - (v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and
 - (vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.
- (m) Obtain from both the internal audit department and the external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.
- (n) As the Committee deems necessary, oversee, review and discuss with management, the external auditors and the internal auditors:
 - (i) the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon management and general audit approach and scope of proposed audits of the financial statements of the Corporation and its subsidiaries, the overall audit plans, the responsibilities of management and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits.
 - (ii) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices including such changes recommended by management or the external auditors or which may result from proposed changes to applicable generally accepted accounting principles;
 - (iii) the adequacy and effectiveness of the Corporation's internal accounting and financial controls and the recommendations of management and the external auditors for the improvement of accounting practices and internal controls, any material weaknesses in the internal control environment;
 - (iv) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements;
 - (v) any reserves, accruals, provisions, estimates or management programs and policies;
 - (vi) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Corporation and their impact on the reported financial results of the Corporation;
 - (vii) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles; and
 - (viii) management's determination of goodwill impairment, if any, as required by applicable

accounting standards.

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

6. Other

(a) Pension Plans

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

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

- assets of the pension plans;
- (v) Approve the actuary and consultant recommended by the pension committee;
- (vi) On recommendation of the pension committee, accept the actuarial assumptions and actuarial valuation reports for the pension plans; and
- (vii) Approve the annual audited financial statements for the pension plans.

(b) Public Disclosure

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

(c) Risk Identification and Management

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

(d) Contingent Liabilities

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

(e) Corporate Authorizations Policies

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

(f) Performance to Budget, Actuarial Valuation

- (i) Review actual financial performance compared to budget;
- (ii) Review and approve the actuarial valuation and related assumptions and recommend to the Board the funding contribution to the Corporation's pension funds as required;

- (iii) Review and approve the appointment of the actuary; and
- (iv) Monitor that all contributions, deductions, withholdings, remittances or other payments of any kind under applicable law have been made.

(g) Responsibilities

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

(h) Other Responsibilities

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

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