2013
Management's Discussion and Analysis of Results of Operations and Financial Condition

February 19, 2014

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1. OVERVIEW

The financial and operating highlights for Chorus are as follows:

Key financial information

	Three months ended December 31,			Year ended December 31,		
	2013	2012	Change	2013	2012	Change
Operating revenue ($000)	413,227	411,693	1,534	1,672,060	1,710,686	(38,626)
Operating expenses ($000)	380,752	386,566	(5,814)	1,547,798	1,583,300	(35,502)
Operating income ($000)	32,475	25,127	7,348	124,262	127,386	(3,124)
Net income for the period ($000)	8,755	14,456	(5,701)	61,866	100,223	(38,357)
EBITDA(1) ($000)	48,932	39,888	9,044	186,864	184,131	2,733
Standardized Free Cash Flow(1) ($000)	14,685	(20,002)	34,687	(53,476)	(101,119)	47,643
Adjusted net income(1) ($000)	20,811	17,714	3,097	84,693	94,609	(9,916)
Net income per Share, basic ($)	0.07	0.12	(0.05)	0.50	0.81	(0.31)
Adjusted net income per Share, basic(1) ($)	0.17	0.14	0.03	0.69	0.76	(0.07)

(1) This is a non-GAAP measurement. Refer to Section 19 – Non-GAAP Financial Measures

For the three months ended December 31, 2013, Chorus' operating income increased by $7.3 million compared to the same period last year. The change was related to rate increases pursuant to the CPA, which capture the lease rates for the new Q400 aircraft, which are higher than the replaced CRJ aircraft, decreased maintenance expense due to decreased activity and the absence of a $0.2 million loss generated by the Thomas Cook Flight Services Agreement during the same period in 2012. These increases were offset by voluntary employee severance costs of approximately $1.2 million for the three months ended December 31, 2013.

For the year ended December 31, 2013, Chorus' operating income decreased by $3.1 million compared to the same period last year. The change was primarily related to the termination of the Thomas Cook Flight Services Agreement and voluntary employee severance costs. For the year ended December 31, 2012, the Thomas Cook Flight Services Agreement generated an operating income of $11.7 million which included $9.0 million related to the early termination in April 2012. Voluntary employee severance costs were approximately $9.9 million for the year ended December 31, 2013. The severance costs are expected to reduce Chorus' ongoing operational costs in the form of reduced costs associated with salaries, benefits, training, facilities and other costs for approximately the same amount during 2013 and 2014. Please refer to Section 2 – Introduction, “Caution regarding forward-looking information” and Section 20 - Risk Factors for risks related to this forward-looking information. These items were offset by rate increases pursuant to the CPA, which captures the lease rates for the new Q400 aircraft, which are higher than the replaced CRJ aircraft, and decreased maintenance expense resulting from higher capitalized major maintenance overhauls.

Key statistical information

	Three months ended December 31,				
	2013	2012	Change	2012	Change
		Excludes Thomas Cook		Includes Thomas Cook	
Departures	63,483	66,927	(3,444)	66,927	(3,444)
Block Hours	90,304	95,624	(5,320)	95,624	(5,320)
Billable Block Hours	92,610	97,249	(4,639)	97,249	(4,639)
ASM (000's)	1,339,219	1,411,938	(72,719)	1,411,938	(72,719)
CASM (¢)	28.43	27.38	1.05	27.38	1.05
CASM, excluding aircraft fuel (¢)	21.65	20.60	1.05	20.60	1.05
CASM, excluding aircraft fuel and severance (¢)	21.55	20.60	0.95	20.60	0.95
Average stage length (miles)	395	412	(17)	n/a	n/a
On-time performance (%)	79.8	79.3	0.5	n/a	n/a
Flight Completion(%)	98.2	97.9	0.3	n/a	n/a
FTE employees (end of period)	4,371	4,558	(187)	4,558	(187)
Number of Operating Aircraft (end of period)	127	129	(2)	129	(2)

	Year ended December 31,				
	2013	2012	Change	2012	Change
		Excludes Thomas Cook		Includes Thomas Cook	
Departures	265,269	277,485	(12,216)	278,902	(13,633)
Block Hours	375,924	391,400	(15,476)	397,733	(21,809)
Billable Block Hours	382,542	396,036	(13,494)	404,101	(21,559)
ASM (000's)	5,696,902	5,813,832	(116,930)	6,382,042	(685,140)
CASM (¢)	27.17	26.64	0.53	24.81	2.36
CASM, excluding aircraft fuel (¢)	20.52	19.83	0.69	18.60	1.92
CASM, excluding aircraft fuel and severance (¢)	20.34	19.83	0.51	18.60	1.74
Average stage length (miles)	405	412	(7)	n/a	n/a
On-time performance (%)	82.9	81.4	1.5	n/a	n/a
Flight Completion (%)	98.2	98.2	—	n/a	n/a
FTE employees (end of year)	4,371	4,558	(187)	4,558	(187)
Number of Operating Aircraft (end of year)	127	129	(2)	129	(2)

Contributing to Chorus' positive quarterly financial results was its strong operational performance, especially as compared to the performance results of other carriers. For the month of December 2013, Jazz ranked first among Canadian carriers for on-time performance, as reported by FlightStats Inc., a leading global flight and airport information service. This marked Jazz's 13th consecutive month in the leading position among Canadian carriers as reported by FlightStats Inc.

2. INTRODUCTION

In this MD&A, references to Chorus or the Company refer to, as the context may require, Chorus Aviation Inc., its current and former subsidiaries (including, but not limited to, the Partnership, Aviation GP, 7503695, the Initial LeaseCos, Amalco, Chorus Aviation Holdings Inc., Chorus Airport Services Inc., Jazz Aviation Holdings Inc., Jazz Aircraft Financing Inc., Jazz Leasing Inc. and CL3 Amalco) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries, or Chorus itself.

This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2013 and December 31, 2012. All financial information has been prepared in accordance with GAAP, as set out in the CPA Canada Handbook, except for any financial information specifically denoted otherwise. Except as otherwise noted or where the context may otherwise require, this MD&A is prepared as of February 19, 2014.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 20 – Risk Factors.

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

Caution regarding forward-looking information

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

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described 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 Chorus' 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, secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, dilution of Chorus Shareholders, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this MD&A. The forward-looking statements contained in this discussion represent Chorus' expectations as of February 19, 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.

Examples of forward-looking information in this MD&A include:

- The expectation that severance costs will reduce Chorus' ongoing operational costs in the form of reduced salaries, benefits, training, facilities and other costs on page 2.
- The projections for Chorus' pension funding obligations from 2014 to 2018 on page 16.
- The summary of Chorus' principal and interest cash debt repayments and future minimum lease payments under the operating leases for flight equipment and base facilities on page 20.
- The discussion in Section 17 - Outlook on page 33.

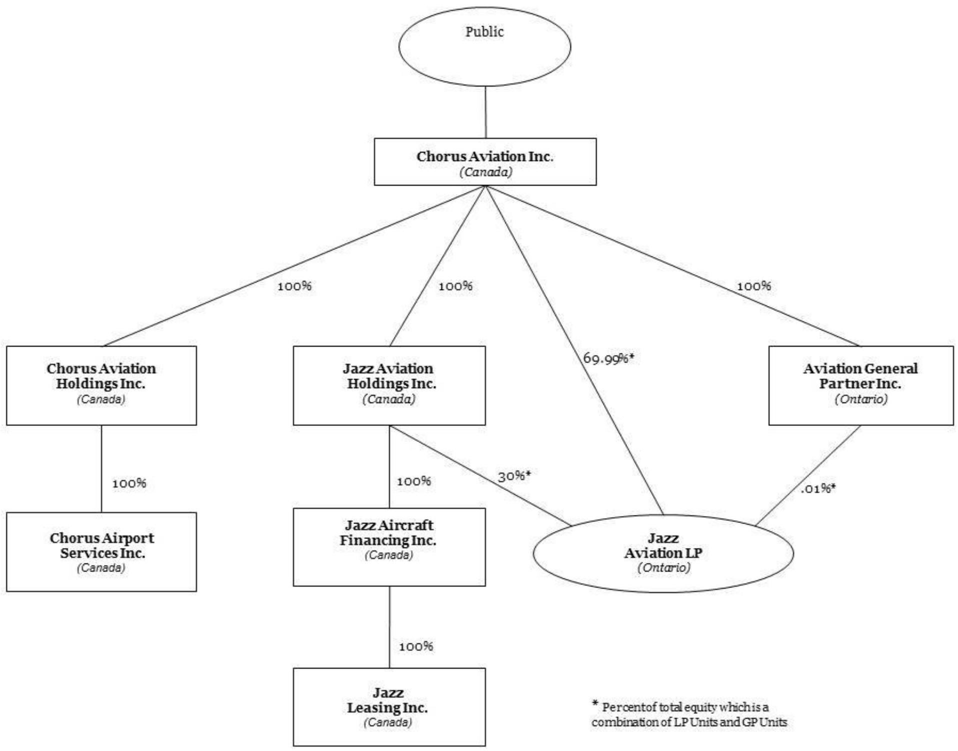
The forward-looking information is affected by certain risks. For a discussion of those risks, please refer to Section 20 - Risk Factors.

3. THE CHORUS BUSINESS

Chorus was incorporated on September 27, 2010 under the laws of Canada. 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 to be financed by 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. 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 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 following chart illustrates the structure of Chorus (including the jurisdictions of establishment and incorporation of the various entities) after completion of the re-organization.



Chorus was established to acquire and hold, directly or indirectly, investments in Jazz Aviation GP, and other investments that it may acquire from time to time. Chorus operates the largest regional airline, and the second largest airline in Canada after Air Canada, based on fleet size. Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus and Air Canada are parties to the CPA under which Air Canada currently purchases the greater part of Chorus' fleet capacity at pre-determined rates. Under the CPA, Chorus provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada, and to and from certain destinations in the United States. As at December 31, 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 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 (refer to Section 13 - Economic Dependence). Chorus is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to Section 20 - Risk Factors).

Under the CPA, Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' revenues do not fluctuate significantly with passenger load factors.

In 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 Robert 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.

In September 2013, Chorus reached a new collective agreement with its crew schedulers, who are represented by Unifor. The agreement has a four year term and expires in 2017.

The customer service and aircraft service agents' collective agreement expired January 13, 2013. Chorus and its customer service and aircraft service agents, also 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.

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 (the "Arbitration"). As a result of the Final Award, the 2009 Benchmark will not result in changes to the 12.5% Controllable Mark-Up. (Refer to Section 13 - Economic Dependence 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 Section 10 - Liquidity and Capital Resources).

4. SELECTED ANNUAL INFORMATION

The following table provides selected annual information for Chorus for the years 2011 through to 2013.

	Year ended December 31,		
(expressed in thousands of Canadian dollars, except per Share amounts)	2013 $	2012 $	2011 $
Revenue	1,672,060	1,710,686	1,664,467
Operating income	124,262	127,386	101,947
Net income	61,866	100,223	68,135
Total assets	976,925	812,307	773,429
Total long-term liabilities	454,842	355,564	319,155
Dividends declared	50,880	74,408	74,408
Cash provided by operating activities	160,617	142,807	152,969
Cash and cash equivalents	159,901	118,306	108,068
Per Share			
Operating income	1.01	1.03	0.83
Net income, basic	0.50	0.81	0.55
Net income, diluted	0.50	0.77	0.54
Dividends declared	0.41	0.60	0.60

2013 Compared to 2012

Revenue decreased as a result of no activity for Thomas Cook in 2013 (the Flight Services Agreement was terminated in April 2012) and decreased CPA Billable Block Hours. These decreases were partially offset by passenger revenue increases due to rate increases pursuant to the CPA, which captures the lease rates for the new Q400 aircraft, and higher incentives earned for operational performance under the CPA.

Net income decreased due to the unrealized foreign exchange loss on long-term debt and finance leases and increased interest expense related to the Q400 aircraft and engine financing.

Total assets increased as a result of increased cash, the purchase of consignment inventory and the acquisition of six additional Q400 aircraft and two additional engines.

Total long-term liabilities increased as a result of increased long-term debt related to the purchase of such Q400 aircraft and engines. This increase was partially offset by the reclassification of the Debentures as current due to their maturity in 2014.

Also, at December 31, 2013, the defined benefit pension plan was in an asset position, versus a liability position at December 31, 2012. This was mainly as a result of an increase in discount rate and asset gains.

Cash and cash equivalents increased as a result of lower cash dividend payments and the timing of certain payments.

The 2013 results compared to the 2012 results are discussed in more detail throughout this document.

2012 Compared to 2011

Revenue increased as a result of the one time termination settlement amount with Thomas Cook, passenger revenue increases due to rate increases pursuant to the CPA, which captures the lease rates for the new Q400 aircraft, which are higher than the replaced CRJ aircraft, and higher incentives earned for operational performance under the CPA.

Net income increased due to an unrealized foreign exchange gain on long-term debt and finance leases and lower income tax.

Total assets increased as a result of the purchase of Q400 aircraft and engines. This increase was offset by a write-down in the long-term investment in LARAH (refer to Section 10 - Liquidity and Capital Resources).

Total long-term liabilities increased as a result of increased long-term debt related to the purchase of Q400 aircraft and engines.

Cash and cash equivalents increased as a result of a higher operating income and the timing of certain payments.

5. FOURTH QUARTER ANALYSIS

The following table compares the results of operations of Chorus for the three months ended December 31, 2013 to the three months ended December 31, 2012.

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2013 $	2012 $	Change $
Operating revenue	413,227	411,693	1,534
Operating expenses			
Salaries, wages and benefits	100,407	100,299	108
Aircraft fuel	90,854	95,696	(4,842)
Depreciation and amortization	16,457	14,761	1,696
Food, beverage and supplies	4,588	4,137	451
Aircraft maintenance materials, supplies and services	39,411	43,055	(3,644)
Airport and navigation fees	47,255	48,562	(1,307)
Aircraft rent	22,632	22,774	(142)
Terminal handling services	30,720	28,438	2,282
Other	28,428	28,844	(416)
Total operating expenses	380,752	386,566	(5,814)
Operating income	32,475	25,127	7,348
Non-operating income (expenses)			
Net interest expense	(5,184)	(4,263)	(921)
Gain on disposal of property and equipment	97	73	24
Foreign exchange loss	(11,221)	(3,759)	(7,462)
Other	1,662	450	1,212
	(14,646)	(7,499)	(7,147)
Net income before income taxes	17,829	17,628	201
Income tax expense			
Current income tax	(1,154)	(513)	(641)
Deferred income tax	(7,920)	(2,659)	(5,261)
	(9,074)	(3,172)	(5,902)
Net income for the periods	8,755	14,456	(5,701)

Operating Revenue

Operating revenue increased from $411.7 million to $413.2 million, representing an increase of $1.5 million or 0.4%. Passenger revenue, excluding pass-through costs, increased by $5.6 million or 2.2%, primarily as a result of rate increases made pursuant to the CPA, a higher US dollar exchange rate, and a $0.2 million increase in incentives earned under the CPA with Air Canada; offset by decreased CPA Billable Block Hours. Pass-through costs decreased by $4.4 million or 2.8%, from $157.4 million to $153.0 million, which included a decrease of $5.1 million related to fuel costs. Other revenue increased by $0.3 million.

Operating Expenses

Operating expenses decreased from $386.6 million to $380.8 million, a decrease of $5.8 million or 1.5%. Controllable Costs decreased by $1.5 million, or 0.6% and pass-through costs decreased by $4.4 million, or 2.8%. Voluntary employee severance costs of approximately $1.2 million were incurred for the three months ended December 31, 2013. Additional information regarding operating expenses is set out below.

- Salaries, wages and benefits increased by $0.1 million primarily as a result of voluntary employee severance costs, wage and scale increases under new collective agreements, less salaries and wages related to major maintenance overhauls being capitalized, increased pension expense resulting from a revised actuarial valuation and increased incentive compensation expense; offset by a reduction in the number of FTEs and decreased Block Hours.
- Aircraft fuel costs decreased by $4.8 million primarily attributable to decreased activity; offset by higher fuel prices (neither 2013 nor 2012 include fuel costs for Thomas Cook).
- Depreciation and amortization expense increased by $1.7 million primarily related to the purchase of Q400 aircraft, increased capital expenditures on aircraft rotable parts and other equipment and increased major maintenance overhauls; offset by certain assets having reached full amortization and a change in estimate related to the residual values of the Dash 8-100 and 300 aircraft (refer to Section 14 - Critical Accounting Estimates).
- Aircraft maintenance expense decreased by $3.6 million as a result of decreased Block Hours of $2.4 million, decreased other maintenance costs of $2.9 million; offset by an increase in the US dollar exchange rate on certain material purchases of $1.7 million.
- Airport and navigational fees decreased by $1.3 million primarily as a result of the removal of CRJ100 aircraft of $3.9 million; offset by increased rates related to the Q400 aircraft of $1.9 million and changes in aircraft deployment of $0.7 million.
- Aircraft rent decreased by $0.1 million primarily as a result of the return of CRJ100 aircraft; offset by a higher US dollar exchange rate.
- Terminal handling costs increased by $2.3 million due to increased deicing costs of $3.0 million; offset by changes in aircraft deployment.
- Other expenses decreased by $0.4 million primarily due to decreased general overhead expenses

Non-Operating Income (Expenses)

Non-operating expenses increased by $7.1 million which was primarily attributable to an increase of $7.5 million in foreign exchange (of which $8.8 million related to an increase in unrealized foreign exchange loss on long-term debt and finance leases) and increased interest expense related to Q400 aircraft financing of $0.9 million; offset by an increase of $1.2 million in other income related to non-repayable government assistance.

Please refer to Section 12 - Financial Instruments and Risk Management, "Currency Risk" for discussion on how Chorus manages its currency risk.

6. YEAR-TO-DATE ANALYSIS

The following table compares the results of operations of Chorus for the year ended December 31, 2013 to the year ended December 31, 2012.

(expressed in thousands of Canadian dollars)	Year ended December 31, 2013 $	2012 $	Change $
Operating revenue	1,672,060	1,710,686	(38,626)
Operating expenses			
Salaries, wages and benefits	411,831	412,663	(832)
Aircraft fuel	378,996	396,413	(17,417)
Depreciation and amortization	62,602	56,745	5,857
Food, beverage and supplies	18,130	18,437	(307)
Aircraft maintenance materials, supplies and services	153,592	162,361	(8,769)
Airport and navigation fees	197,505	204,209	(6,704)
Aircraft rent	89,905	100,083	(10,178)
Terminal handling services	113,785	112,881	904
Other	121,452	119,508	1,944
Total operating expenses	1,547,798	1,583,300	(35,502)
Operating income	124,262	127,386	(3,124)
Non-operating income (expenses)			
Net interest expense	(20,849)	(16,559)	(4,290)
Gain on disposal of property and equipment	1,521	1,232	289
Foreign exchange (loss) gain	(21,465)	5,909	(27,374)
Other	2,412	450	1,962
	(38,381)	(8,968)	(29,413)
Net income before income taxes	85,881	118,418	(32,537)
Income tax expense			
Current income tax expense	(3,264)	(513)	(2,751)
Deferred income tax expense	(20,751)	(17,682)	(3,069)
	(24,015)	(18,195)	(5,820)
Net income for the years	61,866	100,223	(38,357)

Operating Revenue

Operating revenue decreased from $1,710.7 million to $1,672.1 million, representing a decrease of $38.6 million or 2.3%. Passenger revenue, excluding pass-through costs, decreased by $5.6 million or 0.5%, primarily as a result of no activity in 2013 for Thomas Cook and decreased CPA Billable Block Hours, offset by rate increases made pursuant to the CPA, a $1.3 million increase in incentives earned under the CPA with Air Canada and a higher US dollar exchange rate. Pass-through costs decreased by $34.8 million or 5.3%, from $659.3 million to $624.5 million, which included a decrease of $17.2 million related to fuel costs. Other revenue increased by $1.7 million.

Operating Expenses

Operating expenses decreased from $1,583.3 million to $1,547.8 million, a decrease of $35.5 million or 2.2%. Pass-through costs decreased $34.8 million, offset by increased Controllable Costs of $0.7 million, or 0.1%. Voluntary employee severance costs were approximately $9.9 million for the year ended December 31, 2013. Additional information regarding operating expenses is set out below.

- Salaries, wages and benefits decreased by $0.8 million primarily as a result of a reduction in the number of FTEs, decreased Block Hours, and more salaries and wages related to major maintenance overhauls being capitalized; offset by voluntary employee severance costs related to flight crew and maintenance employees, wage and scale increases under new collective agreements, increased pension expense resulting from a revised actuarial valuation and increased incentive compensation expense.
- Aircraft fuel costs decreased by $17.4 million primarily attributable to lower fuel prices and decreased activity (neither 2013 nor 2012 include fuel costs for Thomas Cook).
- Depreciation and amortization expense increased by $5.9 million primarily related to the purchase of Q400 aircraft, increased capital expenditures on aircraft rotable parts and other equipment and increased major maintenance overhauls; offset by certain assets having reached full amortization and a change in estimate related to the residual values of the Dash 8-100 and 300 aircraft (refer to Section 14 - Critical Accounting Estimates).
- Aircraft maintenance expense decreased by $8.8 million as a result of a $6.7 million reduction due to no activity in this year for Thomas Cook, decreased Block Hours of $6.1 million and decreased other maintenance costs of $1.3 million, offset by an increase in engine maintenance activity for the CRJ705 and Dash 8-300 aircraft of $1.2 million, and an increase in the US dollar exchange rate on certain material purchases of $4.1 million.
- Airport and navigational fees decreased by $6.7 million primarily as a result of no activity in this year for Thomas Cook resulting in a reduction of $5.1 million and the removal of CRJ100 aircraft of $14.8 million; offset by increased rates related to the Q400 aircraft of $11.0 million and changes in aircraft deployment of $2.2 million.
- Aircraft rent decreased by $10.2 million primarily as a result of no expense in this year for Thomas Cook and the return of CRJ100 aircraft, offset by a higher US dollar exchange rate.
- Terminal handling costs increased by $0.9 million due to increased deicing costs; offset by changes in aircraft deployment and no activity in this year for Thomas Cook.
- Other expenses increased by $1.9 million primarily due to increased professional and consulting fees, increased travel and training costs associated with the Q400 aircraft and increased general overhead expenses.

Non-Operating Income (Expenses)

Non-operating expenses increased by $29.4 million which was primarily attributable to an increase of $27.4 million in foreign exchange (of which $28.4 million related to an increase in unrealized foreign exchange loss on long-term debt and finance leases) and increased interest expense related to Q400 aircraft financing of $4.3 million, offset by $2.0 million in other income related to a non-repayable government assistance and a gain related to the sale of Chorus' office and hangar facility in London, Ontario of $1.3 million.

Please refer to Section 12 - Financial Instruments and Risk Management, "Currency Risk" for discussion on how Chorus manages its currency risk.

7. FLEET

As at December 31, 2013, Chorus' operating fleet was made up of 127 operating aircraft, of which 42 were regional jets and 85 were turboprop aircraft.

The following table summarizes Chorus' operating fleet as at December 31, 2013:

	Number of Operating Aircraft December 31, 2013	Average Age of Operating Aircraft	Owned	Finance Lease	Operating Lease	Number of Operating Aircraft December 31, 2012
Canadair Regional Jet CRJ100	—	—	—	—	—	8
Canadair Regional Jet CRJ200	26	11.5	—	—	26	26
Canadair Regional Jet CRJ705	16	8.4	—	—	16	16
De Havilland Dash 8-300	28	23.4	19	7	2	28
De Havilland Dash 8-100	36	25.7	29	—	7	36
Bombardier Q400	21	1.8	21	—	—	15
Total Operating Aircraft	127	16.2	69	7	51	129

Chorus operates two Dash 8-100, two Dash 8-300 and one CRJ200 aircraft for charter purposes.

8. QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results and major operating statistics of Chorus for the previous eight quarters.

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Operating revenue ($000)	413,227	432,256	410,297	416,280	411,693	435,646	426,274	437,073
Operating expenses ($000)	380,752	393,001	378,594	395,451	386,566	399,284	390,012	407,438
Operating income ($000)	32,475	39,255	31,703	20,829	25,127	36,362	36,262	29,635
Total non-operating income (expenses) ($000)	(14,646)	4,398	(19,150)	(8,983)	(7,499)	7,249	(8,735)	17
Income tax expense ($000)	(9,074)	(7,621)	(4,654)	(2,666)	(3,172)	(6,673)	(4,881)	(3,469)
Net income ($000)	8,755	36,032	7,899	9,180	14,456	36,938	22,646	26,183
Adjusted net income(1) ($000)	20,811	27,708	21,428	14,746	17,714	26,903	27,182	22,810
Billable Block Hours	92,610	98,668	94,062	97,202	97,249	104,393	98,342	104,117
ASMs (000's)	1,339,219	1,525,876	1,440,231	1,391,576	1,411,938	1,571,335	1,532,914	1,865,855
Average Stage Length (miles)	395	406	406	412	412	412	409	415
CASM (¢)	28.43	25.76	26.29	28.42	27.38	25.41	25.44	21.84
CASM, excluding fuel (¢)	21.65	19.07	20.08	21.47	20.60	18.78	19.05	16.55
EBITDA(1) ($000)	48,932	55,762	47,950	34,220	39,888	51,526	50,141	42,576
Standardized Free Cash Flow (1) ($000)	14,685	30,797	9,573	(108,531)	(20,002)	47,148	(75,887)	(52,378)
Standardized Free Cash Flow before growth capital expenditures and dividends(1) ($000)	27,863	40,301	31,093	24,710	3,100	65,491	16,501	27,370
Dividends declared per Share ($)	0.1125	0.075	0.075	0.15	0.15	0.15	0.15	0.15
Net income per Share, basic ($)	0.07	0.29	0.06	0.07	0.12	0.30	0.18	0.21
Net income per Share, diluted ($)	0.07	0.27	0.06	0.07	0.12	0.28	0.18	0.20
Adjusted net income per Share, basic(1) ($)	0.17	0.23	0.17	0.12	0.14	0.22	0.22	0.18

(1) This is a non-GAAP measurement. Refer to Section 19 – Non-GAAP Financial Measures.

9. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2014 to 2018:

(expressed in thousands of Canadian dollars)	2014 $	2015 $	2016 $	2017 $	2018 $
Defined benefit pension plans, current service	16,800	17,100	17,500	17,800	18,100
Defined benefit pension plan, past service	11,800	9,900	—	—	—
Defined contribution pension plans	9,700	9,800	11,000	11,100	11,400
Projected pension funding obligations	38,300	36,800	28,500	28,900	29,500

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

The funding requirements for the Chorus pilots' registered pension plan are based on an estimated January 1, 2014 financial position of the plan for funding purposes and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the supplemental executive retirement plan are based on a funding policy adopted by Chorus and the January 1, 2014 estimated financial position for funding purposes of that plan.

The solvency deficiency for the pilot registered defined benefit plan as at January 1, 2013 was $90.1 million and is estimated to be $13.0 million as at January 1, 2014. The reduction in the estimated solvency deficiency is due to investment returns of 14.7%, past service contributions of $17.4 million and the impact of the increase in the discount rate from 3.0% to 3.8% during the year.

The January 1, 2014 estimated financial position of the plan for funding purposes for the Chorus pilots' registered plan applies an average of the solvency ratio over a three year period.

The foregoing contains forward-looking information and actual pension funding obligations may vary. These projections are based on certain assumptions including actuarial determinations, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees, and are subject to certain risks including changes in economic conditions, investment returns generated by the plan assets and interest rates, each of which may impact the financial position of the pension plans sponsored by Chorus and future required contributions. Please refer to Section 2 – Introduction, "Caution regarding forward-looking information", Section 14 - Critical Accounting Estimates, "Other Future Employee Benefits" and Section 20 - Risk Factors for further risks related to this forward-looking information. The current estimated pension funding obligations differ from previous estimates as a result of, among other things, the factors listed above.

10. LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At December 31, 2013, Chorus had $159.9 million in cash and cash equivalents and $3.3 million of restricted cash (letters of credit), for a total of $163.2 million. Chorus' current liquidity needs are primarily related to generating sufficient cash flow to fund dividends (which are declared at the discretion of the Board of Directors) and meet obligations associated with the following: planned capital expenditures, ongoing operations, covenants in aircraft and engine financing agreements, and repayments of long-term debt and interest costs related to its convertible debentures (refer to Section 2 – Introduction, "Caution regarding forward-looking information").

Chorus' main objectives when managing capital are to provide a strong capital base to maintain Shareholder, creditor and market confidence and to sustain future development of the business. Chorus manages its capital structure and makes adjustments to it in light of changes in economic conditions and Chorus' risk profile. The airline business is capital intensive and highly sensitive to uncertain external circumstances (refer to Section 20 - Risk Factors - Risks Relating to the Industry).

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

Adjusted net debt

The following table reflects Chorus' adjusted net debt balances as at December 31, 2013 and as at December 31, 2012:

(expressed in thousands of Canadian dollars)	December 31, 2013 $	December 31, 2012 $	Change $
Total long-term debt and finance leases	374,518	263,179	111,339
Current portion of long-term debt and finance leases	34,710	23,156	11,554
Convertible debentures(1)	78,535	76,769	1,766
Total long-term debt and finance leases (including current portion) and convertible debentures	487,763	363,104	124,659
Less: Cash and cash equivalents	(159,901)	(118,306)	(41,595)
Net debt	327,862	244,798	83,064
Capitalized operating leases	71,348	163,044	(91,696)
Adjusted net debt	399,210	407,842	(8,632)

(1) On February 10, 2014, Chorus redeemed $60.2 million of its aggregate principal amount of Debentures outstanding.

Adjusted net debt is a non-GAAP financial measure used by Chorus and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of the capital management by Chorus and provides management with a measure of its net indebtedness. Chorus includes capitalized operating leases which is a measure commonly used in the airline industry to ascribe a value to obligations under operating leases. Common industry practice is to multiply annualized aircraft rent by 7.5. This definition of capitalized operating leases is used by Chorus and may not be comparable to similar measures presented by other public companies. Aircraft rent was $89.9 million for the year ended December 31, 2013 and $100.1 million for the year ended December 31, 2012. The majority of Chorus' aircraft under operating leases are subleased from Air Canada, or its subsidiary, who hold the head lease or own the aircraft. Aircraft rent related to these aircraft of $80.4 million for the year ended December 31, 2013 and $78.3 million for the year ended December 31, 2012 have been removed from the calculation due to Air Canada's offsetting liability under the CPA for rental payments and return condition obligations. If these Air Canada operating leases were included in the above definition, adjusted net debt would be $1,002.2 million and $995.4 million, respectively.

As at December 31, 2013, adjusted net debt decreased from $407.8 million to $399.2 million, representing a decrease of $8.6 million or 2.1% from December 31, 2012. This decrease was primarily as a result of debt repayments of $24.5 million and a decrease in capitalized operating lease payments due to the termination of the Thomas Cook Flight Services Agreement and the return of CRJ100 aircraft, offset by an increase in long-term debt related to additional long-term borrowings and a higher US dollar exchange rate. Additional long-term borrowings related to the purchase of six Q400 aircraft and two PW150A aircraft engines during the year ended December 31, 2013 and a higher US dollar exchange rate resulted in an increase in long-term debt of approximately $17.3 million.

Working capital

The following table provides information on Chorus' working capital balances as at December 31, 2013 and as at December 31, 2012:

(expressed in thousands of Canadian dollars)	December 31, 2013 $	December 31, 2012 $	Change $
Cash and cash equivalents	159,901	118,306	41,595
Accounts receivable	76,891	78,949	(2,058)
Other current assets	68,017	64,091	3,926
Accounts payable and accrued liabilities	(207,334)	(205,588)	(1,746)
Dividends payable	(13,786)	(18,602)	4,816
Current portion of long-term debt and finance leases	(34,710)	(23,156)	(11,554)
Convertible debentures	(78,535)	—	(78,535)
Income tax payable	(1,737)	(513)	(1,224)
Net working capital	(31,293)	13,487	(44,780)

As at December 31, 2013, working capital decreased from $13.5 million to $(31.3) million, representing a decrease of $44.8 million from December 31, 2012. This change was primarily as a result of the Debentures becoming current in 2013, an increase in the current portion of long-term debt related to the purchase of six new Q400 aircraft and two new PW150A engines; offset by increased cash (see discussion below).

Summary of Cash Flows

The following table provides information on Chorus' cash flows for the three months and year ended December 31, 2013 and the three months and year ended December 31, 2012.

	Three months ended December 31,			Year ended December 31,		
	2013	2012	Change	2013	2012	Change
(expressed in thousands of Canadian dollars)	$	$	$	$	$	$
Cash provided by operating activities	**30,891**	**8,632**	**22,259**	**160,617**	**142,807**	**17,810**
Long-term borrowings	4,089	3,807	282	127,275	124,573	2,702
Repayment of long-term debt and obligations under finance leases	(8,387)	(6,523)	(1,864)	(27,503)	(17,557)	(9,946)
Repurchase of shares under normal course issuer bid	—	—	—	(4,006)	—	(4,006)
Restricted cash related to Q400 aircraft financing	—	—	—	(5,930)	—	(5,930)
Dividends	(9,191)	(18,602)	9,411	(55,696)	(74,408)	18,712
Cash (used in) provided by financing activities	**(13,489)**	**(21,318)**	**7,829**	**34,140**	**32,608**	**1,532**
Additions to property and equipment	(7,112)	(10,105)	2,993	(159,918)	(170,120)	10,202
Proceeds on disposal of property and equipment	97	73	24	4,059	602	3,457
Decrease in restricted cash related to letters of credit	—	—	—	2,697	4,622	(1,925)
Other	—	—	—	—	(281)	281
Cash used in investing activities	**(7,015)**	**(10,032)**	**3,017**	**(153,162)**	**(165,177)**	**12,015**
Net change in cash and cash equivalents during the periods	**10,387**	**(22,718)**	**33,105**	**41,595**	**10,238**	**31,357**
Cash and cash equivalents – Beginning of periods	**149,514**	**141,024**	**8,490**	**118,306**	**108,068**	**10,238**
Cash and cash equivalents – End of periods	**159,901**	**118,306**	**41,595**	**159,901**	**118,306**	**41,595**

Cash provided by operating activities

Cash provided by operating activities for the three months ended December 31, 2013 was $30.9 million, an improvement of $22.3 million as compared to the same period of 2012. This increase was driven by a higher operating income in in 2013, combined with improvements in working capital.

Cash provided by operating activities for the year ended December 31, 2013 of $160.6 million was an improvement of $17.8 million over 2012. This increase was also driven by improvements in working capital.

Cash used in financing activities

For the three months ended December 31, 2013, as compared to the same period in 2012, cash used in financing activities was down by $7.8 million mostly impacted by a change in the dividend policy. Chorus reduced its quarterly dividend in May 2013 to $0.075 per share, from the previous level of $0.15 per share. The reduction in quarterly dividends was maintained until Chorus announced in December 2013 that it would increase its quarterly dividend to $0.1125 effective with the first quarterly payment in 2014. This represented a $9.4 million reduction in cash used quarter over quarter.

For the year ended December 31, 2013 as compared to 2012, cash flows used in financing activities increased by $1.5 million. In 2013, proceeds from net borrowings (long-term borrowings less repayment of long-term borrowings and obligations under finance leases) amounted to $99.8 million ($127.3 million less $27.5 million) versus $107.0 million ($124.6 million less $17.6 million) in 2012 for an increase in cash used in financing activities of $7.2 million. Chorus was also required to place $5.9 million in a segregated account with a financial institution as security for the EDC financing related to the purchase of six Q400 aircraft in 2013 and used $4.0 million to repurchase and cancel 1,871,800 shares under Chorus normal course issuer bid (see discussion below). These uses of cash were offset by the $18.7 million year-over-year reduction in dividends paid.

Cash from (used in) investing activities

Capital expenditures on property and equipment of $159.9 million for the year ended December 31, 2013 was a decrease of $10.2 million over 2012 of which $3.0 million related to the fourth quarter. There were a total of six Q400s included in capital expenditures in each of 2013 and 2012, however, due to changes in foreign exchange rates and deposits made in 2012 on future aircraft purchases being applied to delivered aircraft in 2013, growth capital expenditures were lower by $17.4 million. This was offset by an increase in maintenance capital expenditures of $7.2 million incurred for the modifications for the head office building purchased on August 31, 2012 and modifications to the hangar facility due to the consolidation of heavy maintenance during 2013 and major maintenance overhauls.

Contractual obligations and other commitments

The table below summarizes Chorus' principal and interest cash debt repayments and future minimum lease payments under operating leases for flight equipment and base facilities for the years 2014 through to 2018 and thereafter.

(expressed in thousands of Canadian dollars)	Payments Due by Period						
	Total $	2014 $	2015 $	2016 $	2017 $	2018 $	After 5 years $
Convertible debentures (1)	82,779	82,779	—	—	—	—	—
Long-term debt	484,009	44,796	44,796	45,796	45,764	45,730	257,127
Finance leases (2)	6,992	3,791	3,201	—	—	—	—
Operating leases (2)							
Air Canada and its subsidiary (3)	646,577	84,352	81,037	73,356	66,751	63,736	277,345
Other	51,382	13,024	10,272	5,320	3,874	3,555	15,337
	1,271,739	228,742	139,306	124,472	116,389	113,021	549,809

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

In 2007 and 2010, Chorus entered into common terms agreements ("CTAs") with aircraft lessors which govern three of Chorus' aircraft leases and which will also apply to any future aircraft leases with the same lessors. As at December 31, 2012, Chorus was in compliance with the tangible asset disposal covenants contained in these CTAs.

The foregoing contains forward-looking information and actual contractual obligations and other commitments may vary. These projections are based on certain assumptions including foreign exchange rates and current contractual terms. Please refer to Section 2 - Introduction "Caution regarding forward-looking information" and Section 20 - Risk Factors for risks related to this forward-looking information. The current projections differ from previous projections as a result of the early partial redemption of Debentures, capital expenditures in the year ended 2013 and new borrowing or leasing, among other things.

Long-term debt

Long-term debt consists of the following:

(expressed in thousands of Canadian dollars)	**December 31, 2013** **$**	**December 31, 2012** **$**
Term loans - purchased aircraft (1)	382,759	267,339
Term loans - purchased engines (2)	8,040	3,807
Term loan - Halifax facility (3)	12,000	6,300
	402,799	277,446
Less: Current portion	31,354	20,281
	371,445	257,165

(1) 21 individual term loans, repayable in semi-annual instalments, ranging from $0.9 million to $1.1 million, bearing fixed interest at a weighted average rate of 3.386%, maturing between May 2023 and March 2025, each secured primarily by one Q400 aircraft and two PW150A engines. At December 31, 2013, the total Q400 aircraft financing payable in US dollars was US$359.9 million (December 31, 2012 - US$268.7 million) and the net book value of property and equipment pledged as collateral under Q400 aircraft financing was $425.1 million (December 31, 2012 - $309.0 million).

(2) Four individual term loans, repayable in quarterly instalments of $0.1 million, including fixed interest at a weighted average rate of 4.867%, maturing between December 2024 and October 2025, each secured by one PW150A engine. At December 31, 2013 the total Q400 engine financing payable in US dollars was US$7.6 million (December 31, 2012 - US$3.9 million) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $8.6 million (December 31, 2012 - $4.7 million).

(3) Nova Scotia Jobs Fund loan, with a maximum contribution of $12.0 million, bearing interest at a fixed rate of 3.33% annually. Principal repayments of $1.0 million are payable annually commencing on August 31, 2016. Maturing on August 31, 2027, the loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases. As of December 31, 2013, the amount drawn on the loan was $12.0 million (December 31, 2012 - $6.3 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 Jazz 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, Jazz 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.

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 to be redeemed (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 $1,000.00 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.

Off balance sheet arrangements and guarantees

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

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

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

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

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

Maintenance Capital Expenditures

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

For the three months and year ended December 31, 2013, Maintenance Capital Expenditures were \$3.1 million and \$38.2 million, respectively, (2012 - \$5.6 million and \$30.9 million, respectively), which included: \$1.6 million and \$17.5 million, respectively, for capitalization of major maintenance overhauls; \$0.3 million and \$2.8 million, respectively, related to modifications for the head office building purchased on August 31, 2012 and modifications to the hangar facility due to the consolidation of heavy maintenance during 2013; and \$1.2 million and \$17.9 million, respectively, for ongoing spare parts replacements for the Dash 8-100, Dash 8-300 and Q400 fleet. The 2013 actual maintenance capital expenditures were lower than anticipated due to fewer major maintenance overhauls than planned and lower than planned spend on the purchase of aircraft spare parts. Management anticipates its Maintenance Capital Expenditures for the year ending December 31, 2014 to be between \$27.0 million and \$31.0 million (refer to Section 2 – Introduction, "Caution regarding forward-looking information"). The decrease in 2014 reflects that Chorus completed modifications to both its head office building and hanger facility in Halifax during 2013.

Shares

At February 14, 2014, the issued and outstanding Shares of Chorus, along with Shares potentially issuable, pursuant to the Debentures, were as follows:

	February 14, 2014	December 31, 2012
Issued and outstanding Shares		
Class A Variable Voting Shares	4,887,227	15,472,846
Class B Voting Shares	117,654,799	108,542,625
Total issued and outstanding Shares	122,542,026	124,015,471
Shares potentially issuable		
Convertible debentures(1)	3,849,524	15,278,095
Total outstanding and potentially issuable Shares	126,391,550	139,293,566

(1) Assuming all outstanding convertible debentures are exercised.

For the three months and year ended December 31, 2013, Chorus declared dividends of $13.8 million and $50.9 million, respectively (2012 - $18.6 million and $74.4 million, respectively).

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 repurchase program, which will expire March 17, 2014, is being conducted through the facilities of the TSX and/or alternative trading systems in accordance with the requirements of the TSX.

Under TSX rules, Chorus is allowed 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 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 the normal course issuer bid will be cancelled.

Purchases under the normal course issuer bid 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 to be paid by Chorus for any Share will be the market price at the time of acquisition, plus brokerage fees, or such other price as the TSX may permit.

As of December 31, 2013, Chorus had repurchased 1,871,800 Shares under its normal course issuer bid at an aggregate cost of $4.0 million and all of these Shares were cancelled by December 31, 2013.

11. RELATED PARTY TRANSACTIONS

As at December 31, 2013, Chorus had no transactions with related parties as defined in the CPA Canada Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Interest rate risk

Investments included in Chorus' cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Chorus' objective is to maintain these balances in highly liquid investments. As at December 31, 2013, Chorus' investments consisted of bankers acceptances and bankers deposit notes issued by a Schedule I Bank.

The 25 term loans with EDC and the Nova Scotia Jobs Fund loan bear fixed interest rates. This debt is therefore not subject to interest rate volatility.

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

Credit risk

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

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

With the exception of trade receivables, Chorus has no financial assets past due. As at December 31, 2013, the total amount of trade receivables was $59.7 million (2012 - $61.9 million), net of allowances for bad debts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The amount of this allowance was $nil (2012 - $nil). At December 31, 2013, trade receivables of $59.3 million (2012 - $59.8 million) were not past due or impaired; $0.4 million (2012 - $2.1 million) were past due, but not impaired, and $nil (2012 - $nil) were impaired. Chorus continues to work with the entities from which it holds past due receivables to recover the full amount outstanding. Approximately $58.7 million (2012 - $58.5 million) of the total receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada. Chorus does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Chorus' objective is to maintain sufficient liquidity to meet liabilities when due. Chorus monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. Cash flow forecasting is performed in respect of each operating entity of Chorus and then aggregated. Chorus monitors rolling forecasts of Chorus' liquidity requirements. Such forecasts take into consideration Chorus' operational cash flow requirements, debt financing plans and compliance with internal balance sheet ratio targets.

Currency risk

Chorus receives revenue and incurs expenses in US and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for services in the underlying currency related to the expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under finance leases, and long-term debt, which are long-term and subject to larger unrealized gains or losses. Chorus mitigates this currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US denominated assets was $78.5 million and US denominated liabilities was $414.0 million at December 31, 2013. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $3.4 million.

Fair value of financial instruments

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

- ABCP

  The ABCP classified as level three is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis. During the year ended December 31, 2013, a valuation gain of $0.4 million (2012 - $0.5 million) was recorded.

- Long-term debt

  At December 31, 2013, the fixed rate term loans had a fair value of $392.2 million. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- Finance leases

  The repayment terms that Chorus is committed to make have been discounted at the relevant market interest rates applicable at year end. Interest rates used to calculate fair value are based on the change in the risk-free rate at December 31, 2013, compared to the risk-free rates at the inception of the leases.

- Convertible debentures

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

13. ECONOMIC DEPENDENCE

The CPA

Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services to Chorus. Chorus and Air Canada are parties to the CPA, under which Air Canada currently purchases the greater part of Chorus' fleet capacity on Covered Aircraft at predetermined rates (the "Rates").

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

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 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 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, the parties scheduled a further hearing with the Panel to occur in the last week of November 2012 to resolve the outstanding issues in dispute. That hearing was subsequently adjourned to the first week of April 2013 in order to provide the parties with additional time to put forward evidence on the issues which remained in dispute. The April 2013 hearing occurred, but the parties were unable to complete the evidence within the time available. As a result, further hearings were held in 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.

Minimum Average Daily Utilization Guarantee ("MADUG")

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

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 scheduled period. There are currently two schedule periods: Winter (from approximately November 1 to March 31) and Summer (from approximately April 1 to October 31) (each a "Schedule Period").

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

Compensating Mark-Up

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.

Margin adjustment

The controllable target margin is 11.11%. With respect to each calendar year during the remaining term of the CPA, if the annual margin for flights provided under the CPA is greater than 11.11%, Chorus will pay Air Canada an amount equal to 50% of the dollar value of the margin exceeding 11.11%. Margin represents the total operating revenue from scheduled flights under the CPA less expenses incurred related to such flights, including employee profit sharing expenses; however, it excludes incentive and pass-through revenue.

Master services agreement

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

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

Other

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

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

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

Chorus has a significant amount of transactions with Air Canada and its subsidiary. Air Canada and its subsidiary represented 98.7% of Chorus' operating revenues for the year ended December 31, 2013 (96.2% for the year ended December 31, 2012). Approximately 9.9% and 10.0% of Chorus' operating expenses for the years ended December 31, 2013 and 2012, respectively, were incurred with Air Canada and one of its subsidiaries.

14. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Section 2 - Introduction, "Caution regarding forward-looking information"). The significant accounting policies of Chorus are described in note 3 of the December 31, 2013 consolidated financial statements of Chorus.

Other Future Employee Benefits

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

- The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees. Obligations are attributed to the period beginning on the date the employee joins the plan and ending on the earlier of the date of termination, death or retirement. Actuarial gains and losses on the pension benefits are recognized in full in the period in which they occur in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the interest income on plan assets and the interest arising on the pension liability are included in salaries, wages and benefits in the statement of income.
- Other employee benefits consist of two categories of benefits:
    - Medical and dental benefits provided to employees while on long-term disability, and Worker's Compensation and Workers Safety Insurance Board benefits in respect of Ontario employees, are collectively referred to as other long-term benefits. The actuarial gains and losses for this component of other employee benefits are charged to operating expense in the year they occur.

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

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

- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan and other employee benefit plans are recognized immediately in income.

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

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

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

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

- The discount rate used to determine the pension and benefit obligation was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.

- Chorus' expected long-term rate of return on assets assumption is based on economic conditions as of the measurement date and the specific portfolio mix of plan assets. Management, in conjunction with its actuaries, reviews anticipated future long-term performance of individual asset categories and considers the asset allocation strategy adopted by Chorus. These factors are used to determine the average rate of expected return on the funds invested to provide for the pension plan benefits. While the review considers recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. This assumption may change as management continues to assess future investments and strategies and as a result of changes in financial markets.

- The health care inflation used to determine cost of Other Future Employee Benefits costs is based on recent industry experience and long-term expectations. The weighted average health care inflation assumption used for the health care plans is 6.4% per annum for 2013 and 4.5% per annum for 2030 and later years.

- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, which is recognized each period through other comprehensive income.

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

	Fiscal year ended December 31, 2013	2012
Weighted average assumptions used to determine accrued benefit obligation		
- Discount rate	4.4% - 5.0%	3.7% - 4.4%
- Rate of compensation increase	2.3% - 4.5%	2.5% - 4.5%
- Health care inflation - Select	6.3%	6.4%
- Health care inflation - Ultimate	4.5%	4.5%
- Year ultimate trend reached	2030	2030
Weighted average assumptions used to determine pension and benefit costs		
- Discount rate	3.7% - 4.4%	4.3% - 5.4%
- Rate of compensation increase	3.4%	4.8%
- Health care inflation - Select	6.4%	6.1%
- Health care inflation - Ultimate	4.5%	4.5%
- Year ultimate trend reached	2030	2030

Depreciation of long-lived assets

Management makes estimates and judgements about the expected useful life and the expected residual value of long-lived assets. Depreciation methods for long-lived assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit. Useful life and residual values are based on estimates of future fair values and can vary significantly from actual. Management revises depreciation estimates and patterns regularly and makes any changes on a prospective basis. A 25% reduction to the residual values of aircraft would result in an increase of $7.7 million to annual depreciation expense.

During the year ended December 31, 2013 Chorus reviewed the residual value of its owned aircraft and the estimated useful economic lives of these aircraft. As a result, the expected residual values of the Dash 8-100 and Dash 8-300 aircraft have been revised upwards. The effect of these changes is a reduction in depreciation expense and related CPA revenue (excluding mark-up), for the three months and year ended ended December 31, 2013 of approximately $1.0 million and $5.2 million, respectively.

15. ACCOUNTING POLICIES

The significant accounting policies of Chorus are described in note 3 of the December 31, 2013 consolidated financial statements of Chorus.

New accounting standards adopted

IFRS 10, Consolidated Financial Statements

The IASB issued IFRS 10, “Consolidated Financial Statements” (“IFRS 10”), effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces portions of IAS 27, “Consolidated and Separate Financial Statements” (“IAS 27”) that addresses consolidation, and supersedes Standing Interpretations Committee (“SIC”) SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended to reflect the issuance of IFRS 10 and retains guidance only for separate financial statements. Chorus assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries.

IFRS 11, Joint Arrangements

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

IFRS 12, Disclosures of Interest in Other Entities

The IASB issued IFRS 12, "Disclosures of interests in other entities" effective for annual periods beginning on or after January 1, 2013. The standard includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The adoption of this standard did not result in any additional disclosures for Chorus.

IFRS 13, Fair Value Measurement

The IASB issued IFRS 13, “Fair Value Measurement” (“IFRS 13”) effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value, provides guidance in a single framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by Chorus to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

Amendments to standards

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. These changes did not result in any adjustments to OCI or comprehensive income.

IAS 19, *Employee Benefits*, has been amended effective for annual periods beginning on or after January 1, 2013. The revised standard requires immediate recognition of actuarial gains and losses in other comprehensive income, eliminating the previous options that were available. A number of other amendments have been made to recognition, measurement, classification and disclosure. Chorus' accounting policy as at December 31, 2012 for recognition of actuarial gains and losses through other comprehensive income was consistent with the revisions contained in the standard. Chorus has retrospectively applied the amendments to IAS 19 and as a result has restated net income from the 2012 comparative period to be lower than originally reported under the historical standard. The decrease arose due to the projected rate of return on plan assets being higher than the discount rate, and results in the statement of income receiving an additional pre-tax charge of $1.2 million, recorded to salaries, wages and benefits, and a reduction of income tax expense of $0.3 million for the year ended December 31, 2012 with an offsetting equivalent increase of $0.9 million (net of tax of $0.3 million) to actuarial gain on employee benefits liabilities in other comprehensive income. The revised standard does not impact the balances of employee benefits in the statement of financial position or the total amount of comprehensive income for prior years.

The IASB made several amendments to IAS 36, *Impairment of assets*, in conjunction with issuing IFRS 13. They later issued a limited scope amendment, effective January 1, 2014, introducing additional disclosures about fair value measurement where an impairment has been recorded or reversed. Chorus has early adopted the limited scope amendment with no material impact on the Company's financial statements.

16. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

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

An evaluation of the design and effectiveness of the operation of Chorus' disclosure controls and procedures has been conducted by management, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2013, Chorus' disclosure controls and procedures, as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Internal control over financial reporting has been designed, based on the framework established in "Internal Control - Integrated Framework" issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of Chorus' financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above. Based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting was effective as of December 31, 2013.

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

There has been no change in Chorus' internal control over financial reporting that occurred during the year ended 2013 that has materially affected, or is reasonably likely to materially affect, Chorus' or the Partnership's internal control over financial reporting.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A, and the consolidated financial statements of Chorus for December 31, 2013, and Chorus' Board of Directors approved these documents prior to their release.

17. OUTLOOK

The discussion that follows represents forward-looking information (refer to Section 2 – Introduction, "Caution regarding forward-looking information"). This outlook is provided for the purpose of providing information about current expectations for 2014. This information may not be appropriate for other purposes.

The North American airline industry continues to be highly competitive and cost sensitive. Air Canada, is facing increasing competition, particularly in the markets which Chorus operates for Air Canada. As well, Air Canada has stated its intention and has commenced implementing a regional airline diversification strategy. As such, Chorus is experiencing lower demand on its 50-seat CRJ fleet and Dash 8-100 and 300 fleet, placing downward pressure on Block Hour production. The Q400 and CRJ705 fleets continue to be in high demand from Air Canada.

Based on the 2013 - 2014 Winter Schedule Period, and the Summer 2014 schedule and planning assumptions received from Air Canada, Chorus anticipates between 368,000 and 378,000 Billable Block Hours for 2014. The actual number of Billable Block Hours for 2014 may vary from this anticipated range due to a number of factors. See Section 20 - Risk Factors for risks related to this forward-looking information, in particular the section on "Risks Relating to the Relationship with Air Canada" and the section on "Risks Relating to the Industry".

18. ADDITIONAL INFORMATION

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

19. NON-GAAP FINANCIAL MEASURES

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

EBITDA

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

	Three months ended December 31,			**Year ended December 31,**		
	2013	**2012**		**2013**	**2012**	
(expressed in thousands of Canadian dollars)	**$**	**$**	**Change**	**$**	**$**	**Change**
Operating income	32,475	25,127	7,348	124,262	127,386	(3,124)
Depreciation and amortization(1)	16,457	14,761	1,696	62,602	56,745	5,857
EBITDA	**48,932**	**39,888**	**9,044**	**186,864**	**184,131**	**2,733**
EBITDA margin (%)(2)	**11.8**	**9.7**	**2.1**	**11.2**	**10.8**	**0.4**

(1) Includes depreciation and amortization related to major maintenance overhauls of $3.6 million (2012 - $3.3 million) and $14.6 million (2012 - $13.2 million) for the three months and year ended December 31, 2013, respectively.
(2) EBITDA margin is calculated as EBITDA divided by operating revenues.

Standardized Free Cash Flow

Standardized Free Cash Flow is a non-GAAP measure used as an indicator of financial strength and performance. Standardized Free Cash Flow is defined as cash flows from operating activities, as reported in accordance with GAAP, less total capital expenditures and dividends.

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

	Three months ended December 31,			Year ended December 31,		
	2013	2012		2013	2012	
(expressed in thousands of Canadian dollars)	$	$	Change	$	$	Change
Cash flows from operating activities	30,891	8,632	22,259	160,617	142,807	17,810
Maintenance Capital Expenditures, net of gain on disposal (1)	(3,028)	(5,532)	2,504	(36,650)	(30,345)	(6,305)
Standardized Free Cash Flow before growth capital expenditures and dividends	27,863	3,100	24,763	123,967	112,462	11,505
Growth capital expenditures(2)	(3,987)	(4,500)	513	(121,747)	(139,173)	17,426
Dividends paid	(9,191)	(18,602)	9,411	(55,696)	(74,408)	18,712
Standardized Free Cash Flow	**14,685**	**(20,002)**	**34,687**	**(53,476)**	**(101,119)**	**47,643**

(1) Includes expenditures related to capitalized major maintenance overhauls of $1.6 million (2012 - $2.1 million) and $17.5 million (2012 - $11.3 million) for the three months and year ended December 31, 2013, respectively.

(2) Growth capital expenditures relate to the purchase of Q400 aircraft and Q400 engines.

Adjusted Net Income

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

(expressed in thousands of Canadian dollars, except per share amounts)	Three months ended December 31, 2013 $	2012 $	Change	Year ended December 31, 2013 $	2012 $	Change
Net income for the periods	8,755	14,456	(5,701)	61,866	100,223	(38,357)
Unrealized foreign exchange loss (gain)	12,056	3,258	8,798	22,827	(5,614)	28,441
Adjusted net income	**20,811**	**17,714**	**3,097**	**84,693**	**94,609**	**(9,916)**
Adjusted net income per share - basic	**0.17**	**0.14**	**0.03**	**0.69**	**0.76**	**(0.07)**
Non-recurring items:						
Thomas Cook net loss (income)	*—*	*144*	*(144)*	*—*	*(11,535)*	*11,535*
Voluntary employee severance	*1,241*	*—*	*1,241*	*9,893*	*—*	*9,893*
Adjusted net income, after non-recurring items	*22,052*	*17,858*	*4,194*	*94,586*	*83,074*	*11,512*
Adjusted net income after non-recurring items per share - basic	*0.18*	*0.14*	*0.04*	*0.77*	*0.67*	*0.10*

Return on Invested Capital

Return on Investment Capital is a measure commonly used to assess the efficiency with which a company allocates its capital to generate returns. Return is calculated based on Chorus' earnings before tax, excluding special items, finance costs and implied interest on off-balance sheet aircraft leases for aircraft for which Chorus holds the head lease. Invested capital includes average long-term debt, average finance lease obligations, average shareholders' equity and off-balance sheet aircraft operating leases for aircraft for which Chorus holds head lease.

	Year ended December 31,		
	2013	**2012**	**Change**
(expressed in thousands of Canadian dollars)	$	$	$
Income before income taxes	85,881	118,418	(32,537)
Unrealized foreign exchange on long-term debt and finance leases	22,827	(5,614)	28,441
Income before income taxes (and unrealized foreign exchange on long-term debt and finance leases)	108,708	112,804	(4,096)
Add:			
Finance costs	22,182	17,896	4,286
Implicit interest in operating leases (1)	4,994	11,413	(6,419)
	135,884	142,113	(6,229)
Invested capital:			
Average long-term debt (2)	417,775	301,241	116,534
Average obligations under finance leases (3)	7,659	10,333	(2,674)
Average shareholders' equity	159,048	137,630	21,418
Off-balance sheet aircraft leases (4)	71,348	163,043	(91,695)
	655,830	612,247	43,583
Return on invested capital(5)	20.7%	23.2%	(2.5)%

(1) Interest implicit in operating leases is equal to 7.0 percent of 7.5 times the trailing 12 months of aircraft lease expense. 7.0 percent is a proxy and does not necessarily represent actual for any given period.
(2) Average long-term debt includes the current portion and long-term portion.
(3) Average obligations under finance leases include the current portion and long-term portion.
(4) Off-balance sheet aircraft leases are calculated by multiplying the annual aircraft leasing expense by 7.5 only for aircraft which Chorus holds the head lease. For the three months and year ended December 31, 2013, these aircraft lease expense totaled $2,209 and $9,513, respectively (2012 - $3,387 and $21,739, respectively).
(5) Aircraft rent was $89.9 million for the year ended December 31, 2013 and $100.1 million for the year ended December 31, 2012. The majority of Chorus' aircraft under operating leases are subleased from Air Canada, or its subsidiary, who hold the head lease or own the aircraft. Aircraft rent related to these aircraft of $80.4 million for the year ended December 31, 2013 and $78.3 million for the year ended December 31, 2012 have been removed from the calculation due to Air Canada's offsetting liability under the CPA for rental payments and return condition obligations. If these Air Canada operating leases were included return on invested capital would be 14.1% and 15.3%, respectively.

20. 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 impact 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 currently covers all of Chorus' existing operating fleet (except four 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 Jazz occurs without the consent of Air Canada, Air Canada may terminate the CPA. The existence of this right may limit Chorus' ability to negotiate or consummate the sale of all or part of its business to another entity or otherwise participate in any consolidation in the airline industry.

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

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

The 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.

Under 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 and will establish rates for each of the succeeding three years. There can be no assurance that the estimates of the future costs used and to be used in negotiating such rate resets is and will be accurate.

The 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 376,106, 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. Additionally, 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.

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

Air Canada's collective bargaining agreement with ACPA and the Small Jets Settlement Agreement entered into by Air Canada, Chorus, ACPA and the Air Line Pilots Association ("ALPA") limit the number of regional jet aircraft which can be operated by Chorus under the CPA. The Small Jets Settlement Agreement also prevents Chorus from operating the 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 formerly operated by Chorus.

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

Labour costs and labour relations

Labour costs constitute the largest percentage of Chorus' total operating costs that are borne by Chorus. There can be no assurance that the estimates of Chorus' future labour costs will be accurate. If such costs exceed Chorus' estimates, Chorus may realize decreased 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 of 2015. The collective agreement governing Chorus' Maintenance and Engineering employees, represented by the former Canadian Auto Workers, (now Unifor) expires in October of 2015. Chorus' Airports Customer Service employees and Crew Schedulers, also represented by Unifor have Collective Agreements in place until January 2016 and July 2016, respectively. Chorus' flight dispatch employees, represented by the Canadian Air Line Dispatchers Association ("CALDA"), signed a six year deal expiring in July of 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 Section 12 - Financial Instruments and Risk Management.

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 announced its intention to launch Encore, an affiliated low cost, short haul regional airline. Encore launched in June 2013, with two Q400 aircraft in Western Canada, by December 31, 2013 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 formerly operated by Chorus.

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 expiry 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

On the Early Redemption Date, Chorus redeemed $60.0 million of $80.21 million aggregate principal amount of the Debentures, representing approximately 75.0% of the then outstanding balance of Debentures, on a pro rata basis. On redemption, Chorus paid the holders of the redeemed Debentures the outstanding principal amount of the Debentures redeemed (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 $1,000.00 principal amount of Debentures. The Debentures that were redeemed were cancelled and ceased to bear interest from and after the Early Redemption Date.

Holders of the Debentures that were to be redeemed had the right to convert their Debentures into Variable Voting Shares or Voting Shares, as applicable, at a conversion price of $5.25 per Share, being a rate of 190.4762 Shares per $1,000.00 principal amount of Debentures.

Chorus used surplus cash to pay the Redemption Price, together with all accrued and unpaid interest thereon as described above. Following the redemption, $20.21 million of Debentures were outstanding.

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.

21. GLOSSARY OF TERMS

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

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

"**Annual Delivered 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;

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

"**Average stage length**" means the average distance of a non-stop flight leg between take-off and landing as defined by International Air Transport Association (IATA) guidelines;

“**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;

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

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

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

“**Chorus**” references herein to Chorus or the Company in this MD&A refer to, as the context may require, Chorus Aviation Inc. and its current and former subsidiaries (the Partnership, Aviation GP, 7503695, the Initial LeaseCos Chorus Leasing Amalco (2012) Inc., Chorus Aviation Holdings Inc., Chorus Airport Services Inc., Jazz Aviation Holdings Inc., Jazz Aircraft Financing Inc., Jazz Leasing Inc. and amalgamated Chorus Leasing III Inc.) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries or Chorus itself;

"**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;

“**CICA**” means the Canadian Institute of Chartered Accountants;

“**CPA Canada Handbook**” means the Chartered Professional Accountants of Canada Handbook - Accounting - Part 1, which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”);

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

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

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

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

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

“**CPA**” means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and 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;

"**CTAs**" means common terms agreements;

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

"**Departure**" means one take off of an aircraft;

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

"**Fixed and Variable Controllable Rates**" means Chorus' total billed controllable rates broken down into Variable and Fixed based upon the nature of the underlying cost as set out in Schedule D of the CPA;

“**Flight Completion**" means the percentage of flights completed from flights originally scheduled;

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

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

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

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

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

“**IASB**” means the International Accounting Standards Board;

“**IFRS**” means International Financial Reporting Standards;

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

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

“**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 Jazz, Jazz Aircraft Financing Inc. and Jazz Leasing Inc.;

“**Jazz Leasing Inc.**” means Jazz Leasing Inc., a corporation incorporated under the CBCA on November 28, 2013;

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

“**Maintenance Capital Expenditures**” represent expenditures incurred to sustain operations or Chorus’ productive capacity, which excludes Q400 aircraft and engine purchases;

“**Management**” means management personnel of Chorus;

“**MD&A**” means Chorus’ management’s discussion and analysis of results of operations and financial condition;

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

"**On-time performance**" means the percentage of flights that arrive within 15 minutes of their scheduled time;

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

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

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

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

“**Q400 aircraft**” means Q400 NextGen turboprop aircraft;

“**Rate Amending Agreements**” means the agreements to amend and re-set the rates between Jazz and Air Canada dated July 6, 2009, August 6, 2012, and June 3, 2013;

"**Return on Investment Capital**" is a measure commonly used to assess the efficiency with which a company allocates its capital to generate returns. Return is calculated based on our earnings before tax, excluding special items, finance costs and implied interest on our off-balance sheet aircraft leases for aircraft for which Chorus holds head lease. Invested capital includes average long-term debt, average finance lease obligations, average shareholders' equity and off-balance sheet aircraft operating leases for aircraft for which Chorus holds head lease.

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

“**Shares**” mean common shares of Chorus Aviation Inc., which includes Class A Variable Voting Shares and Class B Voting Shares;

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

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

"**TSX**" means the Toronto Stock Exchanges; and

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