chorus
aviation inc.

Consolidated Financial Statements
December 31, 2011 and 2010

Independent Auditor's Report

February 20, 2012

To the Shareholders of
Chorus Aviation Inc.

We have audited the accompanying consolidated financial statements of Chorus Aviation Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of changes in equity, income, comprehensive income and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chorus Aviation Inc. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed) "*PricewaterhouseCoopers LLP*"

Chartered Accountants

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chorus aviation inc.

February 20, 2012

Management's Report

The accompanying consolidated financial statements of **Chorus Aviation Inc.** are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgement.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparation of the financial statements. The Audit, Finance and Risk Committee of the Board of Directors reviewed and approved the corporation's consolidated financial statements, and recommended their approval by the Board of Directors.

(signed)	"Joseph D. Randell" President and Chief Executive Officer	(signed)	"Richard Flynn" Chief Financial Officer

Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents (note 5)	108,068	65,896	223,559
Restricted cash (note 5)	10,639	8,812	-
Accounts receivable – trade and other (note 6)	93,783	87,031	59,044
Spare parts, materials and supplies (note 7)	37,074	33,844	40,755
Prepaid expenses and deposits (note 8)	39,046	25,918	19,909
Assets held for sale (note 9)	12,956	-	-
Total current assets	301,566	221,501	343,267
Property and equipment (note 10)	409,040	222,620	216,823
Goodwill (note 11)	6,693	6,693	6,693
Long-term investment (note 12)	16,351	16,351	-
Deferred income tax (note 13)	11,409	27,222	45,115
Other assets (note 14)	28,370	29,406	29,224
	773,429	523,793	641,122
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 15)	233,487	202,674	179,216
Dividends payable (note 22)	18,602	-	6,143
Current portion of obligations under finance leases (note 16)	2,691	2,748	2,681
Current portion of long-term debt (note 19)	11,853	-	114,706
Promissory note payable (note 17)	23,002	-	-
Unearned revenue (note 18)	21,495	5,498	-
Total current liabilities	311,130	210,920	302,746
Obligations under finance leases (note 16)	9,086	11,543	15,097
Long-term debt (note 19)	161,305	-	-
Convertible debentures (note 20)	75,108	73,541	77,607
Other long-term liabilities (note 21)	73,656	66,922	85,446
	630,285	362,926	480,896
Equity	143,144	160,867	160,226
	773,429	523,793	641,122

Economic dependence (note 26)
Commitments (note 27)
Contingencies (note 32)
Subsequent event (note 33)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

By: (signed) *"Karen Cramm"*
Director

By: (signed) *"Richard H. McCoy"*
Director

chorus aviation inc.

Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Retained earnings (deficit) $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Equity component of convertible debentures $	Total $
Balance – January 1, 2010	1,035,280	(878,249)	3,997	(802)	-	160,226
Net income for the year	-	55,888	-	-	-	55,888
Other comprehensive (loss) income for the year (net of tax)	-	(2,762)	-	802	-	(1,960)
Comprehensive income for the year	-	53,126	-	802	-	53,928
Distributions	-	(73,776)	-	-	-	(73,776)
Conversion of convertible debentures	6,393	-	-	-	-	6,393
Issuance of shares	4	-	-	-	-	4
Reclassification of liabilities to equity as a result of the Arrangement (note 1)	-	-	3,831	-	9,497	13,328
Shares (units) released from stock-based compensation plans	764	-	-	-	-	764
Capital reduction pursuant to the Arrangement (note 1)	(1,042,441)	-	1,042,441	-	-	-
Balance – December 31, 2010	-	(898,899)	1,050,269	-	9,497	160,867
Balance – January 1, 2011	-	(898,899)	1,050,269	-	9,497	160,867
Net income for the year	-	68,135	-	-	-	68,135
Other comprehensive loss for the year (net of tax)	-	(13,660)	-	-	-	(13,660)
Comprehensive income for the year	-	54,475	-	-	-	54,475
Dividends	-	(74,408)	-	-	-	(74,408)
Shares released from stock-based compensation plans	1,572	-	(1,568)	-	-	4
Expense related to the ongoing long-term incentive plan	-	-	2,206	-	-	2,206
Balance – December 31, 2011	1,572	(918,832)	1,050,907	-	9,497	143,144

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income
For the years ended December 31, 2011 and 2010

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

	2011 $	2010 $
Operating revenue (note 26)		
Passenger	1,657,091	1,479,584
Other	7,376	6,582
	1,664,467	1,486,166
Operating expenses (note 26)		
Salaries, wages and benefits	399,606	356,996
Aircraft fuel	410,735	299,341
Depreciation and amortization	44,139	41,889
Food, beverage and supplies	15,587	13,890
Aircraft maintenance materials, supplies and services	152,301	154,152
Airport and navigation fees	198,130	193,233
Aircraft rent	106,471	115,602
Terminal handling services	116,032	107,524
Other	119,519	116,754
	1,562,520	1,399,381
Operating income	101,947	86,785
Non-operating income (expenses)		
Interest revenue	1,090	623
Interest expense	(11,166)	(9,147)
Gain on disposal of property and equipment	682	747
Foreign exchange loss	(4,176)	(417)
Loss on derivative liabilities	-	(9,008)
Gain on Asset Backed Commercial Paper (“ABCP”)	547	-
	(13,023)	(17,202)
Income before deferred income taxes	88,924	69,583
Deferred income tax expense (note 13)	(20,789)	(13,695)
Net income for the years	68,135	55,888
Earnings per share (unit), basic (note 23(b))	$0.55	$0.46
Earnings per share (unit), diluted (note 23(b))	$0.54	$0.46

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2011 and 2010

(expressed in thousands of Canadian dollars)

	2011 $	2010 $
Net income for the years	68,135	55,888
Other comprehensive (loss) income		
Reclassification of net realized losses on derivatives designated as cash flow hedges to income	-	802
Actuarial loss on employee benefit liabilities, net of tax recovery of $4,976 (2010 - $563)	(13,660)	(1,530)
Tax adjustment to items previously charged to other comprehensive income	-	(1,232)
Comprehensive income	54,475	53,928

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010

(expressed in thousands of Canadian dollars)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Net income for the years	68,135	55,888
Charges (credits) to operations not involving cash		
Depreciation and amortization	44,139	41,889
Amortization of prepaid aircraft rent and related fees	1,975	1,895
Gain on disposal of property and equipment	(682)	(747)
Stock-based compensation	2,206	764
Unrealized foreign exchange loss (gain) on long-term debt and finance leases	3,517	(805)
Deferred income tax expense	20,789	13,695
Accretion of debt component of convertible debentures	1,567	1,589
Other	(2,379)	(697)
Loss on derivative liabilities	-	9,008
	139,267	122,479
Net changes in non-cash working capital balances related to operations (note 24)	13,702	(10,346)
	152,969	112,133
Financing activities		
Repayment of obligations under finance leases	(2,756)	(2,639)
Long-term borrowings	171,153	-
Repayment of long-term borrowings	(1,271)	(115,000)
Convertible debentures, net of deferred transaction costs	-	(140)
Dividends / distributions	(55,806)	(79,919)
Issuance of shares	-	4
	111,320	(197,694)
Investing activities		
Additions to property and equipment	(208,016)	(47,686)
Assets held for sale	(12,956)	-
Long-term investment	-	(16,351)
Proceeds on disposal of property and equipment	682	747
Increase in restricted cash	(1,827)	(8,812)
	(222,117)	(72,102)
Net change in cash and cash equivalents during the years	42,172	(157,663)
Cash and cash equivalents – Beginning of years	65,896	223,559
Cash and cash equivalents – End of years	108,068	65,896
Cash payments of interest	5,763	11,577
Cash receipts of interest	991	644

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

1 General information

Chorus Aviation Inc. ("Chorus" or the "Company") was incorporated on September 27, 2010 under the laws of Canada, its country of domicile. The Company entered into an arrangement agreement dated October 4, 2010 with, among other parties, Jazz Air Income Fund (the "Fund"), pursuant to which the parties agreed to implement an arrangement (the "Arrangement") under the Canada Business Corporations Act. The Arrangement, which was effective December 31, 2010, involved the exchange, on a one-for-one basis, of units of the Fund for shares of Chorus. As a result of the Arrangement, the Unitholders of the Fund became the shareholders of Chorus. The Fund was subsequently wound up into Chorus. The Arrangement has been accounted for as a capital reorganization with Chorus, a newly created entity, acquiring all of the net assets and business of the Fund. Chorus has the same ownership before and after the Arrangement, respectively. No adjustments were made to the assets and liabilities as a result of the Arrangement except certain liabilities related to the Fund's convertible debentures and long-term incentive plan were reclassified to equity and certain items were reclassified to adopt the presentation for a corporation. In addition, as part of the Arrangement, a resolution was passed in which the equity contributed by owners for units in the amount of $1,042,441 was reclassified from share capital to contributed surplus of the Company. As a result of becoming a corporation, Chorus is subject to Canadian federal and provincial corporate income tax on its taxable income for the period beginning on the effective date of the Arrangement. On November 18, 2010 Chorus incorporated Aviation General Partner Inc. to act as general partner for a newly formed partnership, Jazz Aviation LP (the "Partnership"). On January 5, 2011, substantially all of the assets of Jazz Air LP were transferred to the Partnership. The airline business previously carried on by Jazz Air LP is now carried on by the Partnership. On February 28, 2011, Chorus incorporated three wholly-owned subsidiaries under the Canada Business Corporations Act, as amended ("CBCA"), Chorus Leasing I Inc., Chorus Leasing II Inc., and Chorus Leasing III Inc. (collectively, the "LeaseCos"). The entities were established for the sole purpose of acquiring 15 Q400 NextGen turboprop aircraft ("Q400 aircraft").

Reference to Chorus or the Company in the following notes to the consolidated financial statements refers to, as the context may require, Chorus, and its predecessor, the Fund and their current and former subsidiaries (Jazz Air LP, the Partnership, Jazz Air Holding GP Inc. ("Jazz GP"), Aviation General Partner Inc., 7503695 Canada Inc. ("7503695"), Jazz Air Trust and the LeaseCos) collectively, Chorus and one or more of its current or former subsidiaries, one or more of Chorus' current or former subsidiaries, or Chorus itself. Prior to the Arrangement, the business of Chorus was conducted through the Fund, which was an unincorporated entity. As at January 1, 2010, and the period ended December 30, 2010, the financial statements are those of the Fund. Reference to Chorus in the following notes to the consolidated financial statements for periods and dates prior to December 30, 2010 refers to, as the context may require, the Fund and its subsidiaries Jazz Air Trust, Jazz Air LP, Jazz GP and 7503695 Canada Inc., collectively, the Fund and one or more of its current or former subsidiaries, one or more of the Fund's current or former subsidiaries, or the Fund itself.

The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6100, P.O. Box 50, Toronto, Ontario, M5X 1B8. Chorus has been established to acquire and hold, directly or indirectly, investments in the Partnership and its general partner Aviation General Partner Inc., 7503695, the LeaseCos and such other investments as the Board of Directors (the "Directors") may determine.

Chorus forms an integral part of Air Canada's domestic and transborder market presence. Chorus and Air Canada are parties to an amended and restated capacity purchase agreement, effective January 1, 2006, as amended by a letter agreement (the "Rate Amending Agreement") dated July 28, 2009 and an amending agreement (the "CPA Amending Agreement") dated September 22, 2009 (as amended, the "CPA"), under which Air Canada currently purchases the greater part of Chorus' fleet capacity on aircraft operated by Chorus (the "Covered Aircraft") at predetermined rates (the "Rates"). On March 8, 2011, Chorus and Air Canada agreed to a second amendment to the CPA (the "Second Amending Agreement") to facilitate acquisition and leasing of the Q400 aircraft. 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.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

1 General information (continued)

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

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

2 Basis of presentation and adoption of IFRS

Chorus prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are Chorus' first annual consolidated financial statements, prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "IFRS" refers to generally accepted accounting principles in Canada after the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in note 4, Chorus has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had been in effect for all such periods. Note 4 discloses the impact of the transition to IFRS on Chorus' reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in Chorus' consolidated financial statements for the year ended December 31, 2010, prepared under Canadian GAAP.

These financial statements were approved by the Board of Directors on February 20, 2012.

3 Significant accounting policies, judgments and estimation uncertainty

a) Basis of measurement

These consolidated financial statements have been prepared under a historical cost basis, except for certain financial assets and financial liabilities, including derivative instruments and the long-term investment that are measured at fair value.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant estimates made in the preparation of these financial statements include, but are not limited to, the following areas, with further information contained in the applicable accounting policy or note:

Employee benefits

- The cost and related liabilities of Chorus' post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions including those in relation to discount rates, expected rates of return on assets, future salary increases, mortality rates and future benefit increases. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty. See note 3(g) for further details.

Fair value of long-term investment (LARAH)

- Management uses judgement to value the fair value of the long-term investment in Latin American Regional Aviation Holding Corp. ("LARAH"). See note 30 for further details.

c) Principles of consolidation

These consolidated financial statements include the accounts of Chorus and its subsidiaries, the Partnership, 7503695, the LeaseCos, Jazz Air LP, Jazz GP, Aviation General Partner Inc., and the special purpose entity ("SPE") which holds the Jazz long-term incentive plan ("LTIP"). All inter-company and inter-entity balances and transactions are eliminated. Chorus has no non-controlling interests, therefore, all profits and comprehensive income are attributable to the shareholders of the Company.

d) Cash and cash equivalents

Cash and cash equivalents consist of current operating bank accounts, term deposits and fixed income securities with an original term to maturity of 90 days or less. Cash equivalents are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

e) Restricted cash

Chorus has recorded restricted cash under current assets relating to funds on deposit with a financial institution as collateral for letters of credit.

f) Operating revenue

Under the CPA, Chorus is paid to provide services to Air Canada, as explained in note 1. The related fees payable by Air Canada are recognized in revenue as the capacity is provided and incentive payments and margin adjustments are recognized, respectively, as increases in and reductions of, passenger revenue based on management estimates during the year when the amount of revenue can be measured reliably, and it is probable that the economic benefit will flow to Chorus. Revenue billings related to services performed over an extended period are billed based on the stage of completion of the transaction at the end of the reporting period, when the overall revenue and related costs can be reliably measured.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Revenue earned by Chorus under its flight services agreement with Thomas Cook and operation of charter flights is also included in passenger revenue and recognized when the service is provided. Maintenance, repair and overhaul ("MRO") operations and other sources of revenue such as third party ground handling services, are included in other revenue and are recognized when the service is provided. Revenue billings related to services performed over an extended period are billed based on the stage of completion of the transaction at the end of the reporting period, when the overall revenue and related costs can be reliably measured.

The CPA with Air Canada provides for a monthly payment for an amount per aircraft designed to reimburse Chorus for certain aircraft ownership costs. Chorus has concluded that a component of its revenue under the CPA is rental income since the CPA identifies the "right of use" of a specific type and number of aircraft over a stated period of time otherwise known as the Covered Aircraft. The amount deemed to be rental income is $141,937 for the year ended December 31, 2011 ($145,295 for the year ended December 31, 2010).

g) 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 Employee Benefits are as follows:

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

- Other employee benefits consist of two categories of benefits:

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

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

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

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

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

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

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

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

h) Stock-based compensation

Long-term incentive plan

Chorus has two share-based long-term incentive plans: the Chorus Aviation Inc. long-term incentive plan (the "Chorus LTIP") and a legacy long-term incentive plan (the "Jazz LTIP").

The Chorus LTIP is a "restricted share unit" plan under which participants receive an annual grant of restricted share units that vest at the end of a three year period, if certain performance goals established at the time of grant by the Board of Directors are achieved. A "Performance Cycle" commences January 1 of the year in respect of which the restricted share units are granted. Restricted share units entitle the participant to receive common shares of Chorus on a one-for-one basis. Additional restricted share units representing the value of monthly dividends paid on corresponding common shares of Chorus accrue for the benefit of participants. Unvested restricted share units held by participants are forfeited if performance goals or service conditions are not met. On vesting, Chorus has the option to issue the shares from treasury or purchase them on the secondary market.

The Jazz LTIP is also a "restricted share unit" plan similar to the Chorus LTIP and applies to awards granted prior to the Arrangement. Prior to the Arrangement, participants in the Jazz LTIP were granted restricted units that vested for units of the Fund over time, if certain performance goals were met. Restricted units entitled the participant to receive units of the Fund on a one-for-one basis. Additional restricted units representing the value of monthly distributions paid on the corresponding units of the Fund accrued for the benefit of the participants. Unvested restricted units held by participants were forfeited if performance goals or service conditions were not met. On vesting, Chorus has the option to issue the shares from treasury or purchase them on the secondary market. In conjunction with the Arrangement, the terms of the restricted units of the Jazz LTIP were modified to entitle participants to receive common shares of Chorus on a one-for-one basis rather than units of the Fund. Subsequent to December 31, 2010, no further grants will be made under the Jazz LTIP.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Prior to January 1, 2010, units of the Fund used to settle the restricted units of the Jazz LTIP were purchased in the secondary market and held in a trust for the benefit of the participants until vesting occurred. In connection with the Arrangement, the trust exchanged the units of the Fund for common shares of Chorus. Distributions paid by the Fund on units held by the trust were invested in additional units, which vest concurrently and proportionately with the restricted units. Dividends paid by Chorus on common shares held by the trust are also used to invest in additional common shares and vest concurrently and proportionately with the restricted units. On forfeiture of any restricted units, the units or common shares and related distributions or dividends accrue to Chorus. The trust is a SPE which is consolidated by Chorus. The units of the Fund and the shares of Chorus held by the trust were presented as a reduction of equity.

For the Chorus LTIP, the cost of the restricted share units is measured at the fair value of the common shares of Chorus at the grant date and the number of restricted share units expected to vest. The cost is recognized as compensation cost in the statement of income from the date of grant on a straight-line basis over the vesting period with a corresponding increase in equity. Chorus revises the estimate of the number of restricted stock units expected to vest when necessary, if subsequent information indicates that the number of restricted share units expected to vest differs from previous estimates.

Prior to the Arrangement, the restricted units of the Jazz LTIP were settled in units of the Fund. The units of the Fund were puttable instruments which permitted the holder to redeem the units of the Fund. This was accounted for as another long-term employee benefit with an embedded derivative liability for the right to settle the award in units of the Fund. On the grant date, Chorus recognized the embedded derivative liability at fair value using the share price at grant date and considering the number of restricted units expected to vest. Subsequent to the grant date, the embedded derivative liability was accounted for as described in note 3(i). The employee benefit liability was accounted for at present value of the obligation at the end of the period with the obligation based on the grant date fair value of the corresponding units of the Fund, with the benefit attributed to each period for which service was provided and considering other factors such as forfeitures. Changes in the present value of the obligation were recognized in salaries, wages and benefits in the statement of income.

Upon modification of the Jazz LTIP in connection with the Arrangement, the employee benefit liability, the embedded derivative liability, and the unamortized asset related to future services were reclassified to equity. Subsequent to the modification, the costs related to future services are accounted for in the same manner as the costs under the Chorus LTIP. The vesting period over which the cost of the restricted units with performance conditions only is revised, if necessary, if the estimates of the period change.

Deferred share units

Non-executive directors receive a portion of their remuneration in deferred share units (“DSUs”) under a DSU Plan designed to promote the alignment of interests between individual non-executive directors and the shareholders of Chorus. DSUs have a value equivalent to the value of the Chorus shares. DSUs vest immediately and may only be redeemed for cash and will be paid out only subsequent to the time the director ceases to be a director, or in the case of a U.S. taxpayer, subsequent to the date such person incurs a “separation from service” under applicable U.S. law. Participating directors will receive, in respect of their DSUs, an amount equivalent to the amount of any dividends paid on the shares in the form of additional DSUs. Under the DSU Plan, participants may receive an annual grant of DSUs. In addition, a participating director may elect to have his or her annual retainer and/or any additional retainer payable in the form of DSUs or a combination of DSUs and cash. DSUs are cash-settled share-based payments that are measured at fair value and recognized as a liability. The liability is remeasured at fair value each period and at the settlement date with changes in fair value recognized in the statement of income.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Employee share ownership program

Chorus' former employee unit purchase plan ("EUPP") was amended and restated and is now referred to as the Employee Share Ownership Plan (the "ESOP"). The ESOP permits employees to buy common shares of Chorus through payroll deduction. Under this plan, contributions made by employees are matched to a specific percentage by Chorus. These contributions are expensed to salaries, wages and benefits expense over the one year vesting period. The amount expected to vest is reviewed at least annually, with any change in estimate recognized immediately in salaries, wages and benefits.

i) Financial instruments

Financial instruments are classified as follows:

- Asset backed commercial paper is classified as "Financial Assets at Fair Value through Profit and Loss." These financial assets are measured at fair value, with changes in fair value recognized in the statement of income each reporting period.

- Cash and cash equivalents, restricted cash and accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest method, less a provision for impairment, established on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.

- Chorus' investment in LARAH, has been classified as "Available-for-Sale". Available-for-Sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as Available-for-Sale are recognized initially at fair value plus transaction costs and are subsequently carried at fair value with the changes in fair value recorded in other comprehensive income. Available-for-Sale investments are classified as non-current, unless the investment matures or management expects to dispose of them within twelve months.

- Accounts payable, dividends payable, promissory note payable, credit facilities, long-term debt and the debt component of convertible debentures are classified as "Other Financial Liabilities". Other Financial Liabilities are initially recognized at fair value less transaction costs, except for the debt component of the convertible debentures. Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method. Prior to the Arrangement, the debt component of the convertible debentures was measured at initial recognition as the difference between the proceeds less transactions costs less the fair value assigned to the embedded conversion derivative.

- Embedded derivatives are classified as "Financial Assets or Financial Liabilities at Fair Value through Profit or Loss". Prior to the Arrangement, the units of the Fund were puttable instruments as the units were redeemable for cash by the holder. As a result, the conversion feature was considered to be an embedded derivative liability. After initial recognition at fair value, the embedded derivatives were remeasured each period at fair value with changes in fair value recognized in non-operating income in the statement of income. As a result of the Arrangement, the embedded derivative was reclassified from financial liabilities to equity at the carrying amount of $13,130, less the related deferred tax asset of $3,633.

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Impairment of financial assets

At each reporting date, Chorus assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Chorus recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-Sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on Available-for-Sale equity instruments are not reversed.

j) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Property and equipment are depreciated to estimated residual values based on the straight-line method over their useful lives. Aircraft and flight equipment are depreciated over 20 to 30 years, with 5 - 25% estimated average residual values.

Major maintenance overhaul expenditures ("heavy checks"), including labour, are capitalized and depreciated over the expected life of the maintenance cycle. Any remaining carrying value is derecognized when the major maintenance overhaul commences. Replacement parts are recognized when the parts are replaced and depreciated over the useful life. All other costs associated with maintenance of fleet assets (including engine maintenance provided under "power-by-the-hour" arrangements) are charged to the statement of income as incurred.

Buildings are depreciated over their useful lives not exceeding 40 years on a straight-line basis. An exception to this is where the useful life of the building is greater than the term of the land lease. In these circumstances, the building is depreciated over the life of the lease.

Depreciation on other property and equipment is provided on a straight-line basis from the date assets are placed in service, to their estimated residual values, over the following estimated useful lives:

Leaseholds	Over the term of the related lease
Ground and other equipment	5 years

Property under finance leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments. Property and equipment under finance leases are depreciated to estimated residual value over the useful life, unless there is no reasonable certainty that Chorus will obtain ownership at the end of the lease term, in which case the asset is depreciated over the shorter of the lease term and its useful life.

Residual values and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

k) Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Financial assets or financial liabilities at fair value through profit and loss – expensed to net income as incurred;
- Loans and receivables, and other liabilities – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method; and
- Available-for Sale Assets – included in the initial cost of the underlying asset.

Transaction costs for operating and finance leases are capitalized and amortized over the life of the lease on a straight-line basis.

l) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Chorus' share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested annually for impairment, or at any time if an indication of impairment exists, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is tested for impairment at the cash-generating unit or ("CGU") level.

m) Impairment of non-financial assets

Property and equipment, prepaid aircraft rent and prepaid expenses and deposits are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Chorus evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

n) Foreign currency translation

Items included in the financial statements of each of the consolidated entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of Chorus and its subsidiaries is the Canadian dollar.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the statement of financial position. Non-monetary assets, liabilities and other items recorded in income are translated at rates of exchange in effect at the date of the transaction.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than the Canadian dollar are recognized in the statement of income.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

o) Provisions

Provisions are recognized in other liabilities when Chorus has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Chorus performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

p) Aircraft lease payments

Total aircraft rentals under operating leases and the related lease inducements received and fees paid over the lease term are amortized to operating expense on a straight-line basis. Prepaid aircraft rentals and related fees are the difference between the straight-line aircraft rent and the payments stipulated under the lease agreements and legal and related transaction fees associated with the leases. Current and non-current unamortized lease inducements are included in accounts payable and accrued liabilities and other long-term liabilities, respectively.

q) Spare parts, materials and supplies

Spare parts, materials and supplies are valued at the lower of cost, determined on a first in, first out basis, and net realizable value.

r) Income taxes

Chorus uses the asset and liability method for accounting for income taxes.

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be paid or recovered, using tax rates and tax laws that have been enacted or substantively enacted by the end of the period.

Deferred tax assets and liabilities are recognized for all future tax consequences attributable to the differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, except for the initial recognition of goodwill and the initial recognition of an asset or liability, which at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Deferred tax assets are also recognized for unused tax losses and unused tax credits. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates and tax laws expected to apply when the carrying amount of the assets or liabilities are recovered or settled or the unused losses are expected to be utilized.

Current and deferred income tax expense is recognized in the statement of income for the period, except to the extent that the income taxes related to a transaction or event which is recognized, in the same or different period, either in other comprehensive income or directly in equity.

s) Earnings per share (unit)

Earnings per share (unit) are calculated on a weighted average number of shares or units outstanding basis. Shares or units held in trust under the stock-based compensation plans reduce the weighted average number of outstanding shares or units from the date they are contributed to the plan.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Diluted earnings per share (unit) are presented for the effects of all dilutive potential common shares (units) by adjusting the net income attributable to Chorus shareholders and the weighted average number of shares (units) outstanding, for convertible debentures, by adding back to net income the after-tax effect of any interest expense or other changes recognized in the statement of income, and by adding to the weighted average number of common shares (units) outstanding, the weighted average number of common shares (units) that would be issued on the conversion of the convertible debentures at the later of the beginning of the period, or the date the convertible debentures were issued.

Prior to the Arrangement, the units of the Fund were puttable instruments. For purposes of calculating the net earnings per unit, the units have been considered to be equivalent to ordinary shares as defined in IAS 33, earnings per share. The calculation of diluted earnings per unit was accounted for on a similar basis as diluted earnings per share with the fair value gain or loss on the revaluation of the embedded derivative liability being reversed for the purpose of calculating diluted earnings per unit.

t) Dividends

Dividends payable by Chorus to its shareholders, which are determined at the discretion of the Directors, are recorded when declared. Distributions payable by the Fund were recorded when declared.

u) Assets held for sale

Long-term assets held for sale are classified as current assets if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. It is anticipated that the sale will be completed within one year from the date of classification.

v) Unearned revenue

Unearned revenue represents cash amounts received from customers for services that have not yet been provided. Revenue is recognized once the service has been performed.

Accounting standards issued but not yet applied

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

IFRS 9, Financial Instruments

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

IFRS 10, Consolidated Financial Statements

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

IFRS 11, Joint Ventures

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

IFRS 12, Disclosure of Interests in Other Entities

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

IFRS 13, Fair Value measurement

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

Amendments to standards

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

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

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

3 Significant accounting policies, judgments and estimation uncertainty (continued)

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

4 Transition to IFRS

Chorus adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS, Chorus prepared its financial statements in accordance with Canadian GAAP. Chorus' transition date was January 1, 2010 and Chorus has prepared its opening IFRS statement of financial position at that date. These financial statements have been prepared in accordance with the policies referenced in note 3.

Transition elections

In preparing these statements in accordance with IFRS 1, *First time adoption of International Financial Reporting Standards* ("IFRS 1"), Chorus has applied the following optional exemptions from full retrospective application of IFRS:

- Employee benefits - As at January 1, 2010, Chorus has elected to recognize all unamortized actuarial gains and losses through retained earnings.

- Business combinations – Chorus has elected to retrospectively apply the guidance under IFRS to the business combination with Jazz Air LP, which occurred in 2007 and beyond. All prior business combinations were not revisited by applying the IFRS 1 election.

- Fair value on revaluation as deemed cost – Under Canadian GAAP, Chorus applied fresh start reporting on September 30, 2004. As a result, all consolidated assets and liabilities of Chorus were reported at fair values, except for deferred income taxes. As permitted under IFRS 1, Chorus has elected to apply those fair values as deemed cost for IFRS as at the date of the revaluation being September 30, 2004, with the exception of intangible assets and goodwill, which is measured at historical cost without the application of the fresh start fair values.

In addition to the optional exemptions noted above, IFRS 1 specifies that estimates made in accordance with IFRS at the date of transition to IFRS shall be consistent with estimates made for the same date in accordance with Canadian GAAP. Chorus' estimates at the date of transition to IFRS are consistent with estimates made in accordance with Canadian GAAP or based on information that reflects conditions that existed at the date of transition to IFRS.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

4 Transition to IFRS (continued)

Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

The following tables reconcile Canadian GAAP to IFRS at each specified date.

Equity		December 31, 2010 $	January 1, 2010 $
Equity as reported under Canadian GAAP		865,183	804,455
Increase (decrease) under IFRS:			
Restatement of business combination with Jazz Air LP	(a)	(643,987)	(676,179)
Capitalization of major maintenance events	(b)	11,531	13,829
Employee benefits – additional minimum funding liability	(c)	(2,071)	(22,186)
Employee benefits - actuarial losses, pension and other employee benefits	(c)	(35,884)	(11,627)
Recognition of equity portion of convertible debentures and LTIP as liabilities	(d)	456	(6,868)
Fresh start reporting	(e)	393	393
Deferred income tax	(f)	(34,754)	58,409
Equity as reported under IFRS		160,867	160,226

Comprehensive income		Year ended December 31, 2010 $
As reported under Canadian GAAP		126,620
Increase (decrease) under IFRS in net income for:		
Amortization of CPA intangible asset	(a)	32,192
Capitalization of major maintenance events	(b)	(2,298)
Employee benefits - actuarial loss	(c)	(2,049)
Change in fair value of derivative liabilities	(d)	(8,810)
Deferred income tax	(f)	(88,965)
		(69,930)
Increase (decrease) under IFRS in other comprehensive income for:		
Employee benefits – additional minimum funding liability	(c)	20,115
Employee benefits - actuarial loss	(c)	(22,208)
Tax impact of adjustments to other comprehensive income		(669)
		(2,762)
As reported under IFRS		53,928

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

4 Transition to IFRS (continued)

Reconciliation of Statement of Income as previously reported under Canadian GAAP to IFRS

		Year ended December 31, 2010		
		Canadian GAAP $	Adj $	IFRS $
Operating revenue				
Passenger		1,479,584	-	1,479,584
Other		6,582	-	6,582
		1,486,166	-	1,486,166
Operating expenses				
Salaries, wages and benefits	(b,c,d)	361,080	(4,084)	356,996
Aircraft fuel		299,341	-	299,341
Depreciation and amortization	(b)	29,871	12,018	41,889
Amortization of CPA	(a)	32,192	(32,192)	-
Food beverage and supplies		13,890	-	13,890
Aircraft maintenance materials, supplies and services	(b)	158,018	(3,866)	154,152
Airport and navigation fees		193,233	-	193,233
Aircraft rent		115,602	-	115,602
Terminal handling services		107,524	-	107,524
Other		116,754	-	116,754
		1,427,505	(28,124)	1,399,381
Operating income		58,661	28,124	86,785
Non-operating income (expenses)				
Interest revenue		623	-	623
Interest expenses	(d)	(9,066)	(81)	(9,147)
Gain on disposal of property and equipment		747	-	747
Foreign exchange loss		(417)	-	(417)
Loss on derivative liabilities	(d)	-	(9,008)	(9,008)
		(8,113)	(9,089)	(17,202)
Income before deferred taxes		50,548	19,035	69,583
Deferred income tax recovery (expense)	(f)	75,270	(88,965)	(13,695)
Net income for the year		125,818	(69,930)	55,888

Explanation of adjustments restating equity from Canadian GAAP to IFRS as at January 1, 2010

a) Business combinations

Under Canadian GAAP, Chorus accounted for its acquisition of Jazz Air LP at fair value. Under IFRS, Chorus has determined that the transaction can be accounted for as a common control transaction and recorded using predecessor carrying values of Jazz Air LP.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

4 Transition to IFRS (continued)

Impact:

Consolidated Statement of Financial Position

- There has been no accounting recognition of the CPA asset of $676,046, and $136 of the Jazz tradename as at January 1, 2010. These adjustments are recorded through retained earnings.

Consolidated Income Statement

- No recognition of amortization expense related to the CPA asset recorded in the statement of income (under Canadian GAAP this was $32,192 for the year ended December 31, 2010).

b) Property and equipment

Under Canadian GAAP, the cost of major maintenance overhaul expenditures are charged to the income statement as incurred. Under IFRS, major maintenance overhaul expenditures on owned and finance leased aircraft will be treated as a separate asset component with the cost capitalized and depreciated over the expected period to the next major maintenance overhaul.

Impact:

Consolidated Statement of Financial Position

- At January 1, 2010, property and equipment increased by $13,829 with an offsetting increase to retained earnings.

Consolidated Income Statement

- Wages, salaries and benefits for the year ended December 31, 2010 decreased by $5,854.
- Depreciation and amortization for the year ended December 31, 2010 increased by $12,018.
- Aircraft maintenance, materials and supplies for the year ended December 31, 2010 decreased by $3,866.

c) Employee benefits

- Actuarial gains and losses

Under Canadian GAAP, Chorus applied the corridor method of accounting for all actuarial gains and losses. Under this method, gains and losses are recognized only if they exceed 10% of the greater of the projected benefit obligation or market related value of plan assets at the beginning of the year. If gains or losses exceeded the threshold, they were amortized into income over the expected remaining service life of active employees.

Under IFRS, Chorus has chosen to recognize actuarial gains and losses arising from the re-measurement of pension benefits and sick leave benefits in other comprehensive income as they arise. Actuarial gains and losses from non-pension employee benefits are recognized in net income as they arise.

- Minimum funding requirements

On January 1, 2010, an additional liability was recognized under the provisions of IFRIC 14 related to minimum funding requirements for the defined benefit pension plan under pension funding regulations to reflect contributions payable that will not be available after being paid into the plan for a refund or reduction of future contributions.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

4 Transition to IFRS (continued)

Impact:

Consolidated Statement of Financial Position

- The following table highlights the changes to Pension Benefits and Other Employee Future Benefits at January 1, 2010.

	Defined Benefit Pension Plan ("RPP") $	Supplemental Executive Retirement Plan ("SERP") $	Other Employee Future Benefits $	Total $
Net benefit asset (obligation) – Canadian GAAP	7,061	4,255	(8,062)	3,254
Recognize all cumulative actuarial gains and losses on transition	(8,604)	(1,446)	(1,577)	(11,627)
Additional minimum funding liability under IFRIC 14	(22,186)	-	-	(22,186)
Pension and other benefit liabilities	(23,729)	2,809	(9,639)	(30,559)

Consolidated Income Statement

- Wages, salaries and benefits increased by $2,049 for the year ended December 31, 2010.

Consolidated Statement of Comprehensive Income

- Under IFRS, a charge of $2,093 was recorded to other comprehensive income for the year ended December 31, 2010.

d) Derivative liabilities

Prior to the Arrangement, the units of the Fund were considered to be puttable instruments as the units were redeemable. As a result, any rights to convert the convertible debentures or receive units of the Fund under the Jazz LTIP were rights to receive puttable instruments. IFRS does not permit such rights to be classified as equity.

On January 1, 2010, under IFRS, the debt component of convertible debentures was classified as an Other Financial Liability and the conversion feature as an embedded derivative liability as explained in note 3. On initial recognition, the embedded derivative was recognized at fair value with the difference between the proceeds received, net of transaction costs, and the embedded derivative assigned to the debt component. Under Canadian GAAP, the debt component was accounted for at amortized cost and was initially measured at fair value and the conversion feature was accounted for as equity and initially measured as the difference between the proceeds received, net of transaction costs, and the debt component assigned to the equity component.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

4 Transition to IFRS (continued)

On January 1, 2010, under IFRS, the restricted units granted under the Jazz LTIP were classified as financial liabilities at fair value through profit or loss and accounted for as explained in note 3. Under Canadian GAAP, the restricted units were accounted for as equity settled stock-based compensation with the accrued costs recognized in equity.

Impact:

Consolidated Statement of Financial Position

- On transition, these equity components for the conversion feature and the restricted units with a carrying amount of $6,765 were eliminated, and liabilities of $6,868 were recognized for the conversion feature embedded in the convertible debenture and the restricted units of the Jazz LTIP with the difference reflected in retained earnings.

Consolidated Income Statement

- Changes in fair value of the derivatives throughout 2010 resulted in a $9,008 loss for the year ended December 31, 2010, recognized in non-operating expense.

- The adjustment to the debt component of the convertible debenture resulted in an increase to interest expense of $81 for the year ended December 31, 2010.

- As the compensation cost was based on the initial fair value of the derivative on the grant date, the compensation cost included in salaries, wages and benefits decreased by $279 for the year ended December 31, 2010.

e) Fresh start accounting

Accounting policy differences

Under IFRS, there are no explicit standards related to fresh start reporting or when an entity undertakes a financial reorganization.

Under Canadian GAAP, Chorus applied fresh start reporting on September 30, 2004. As a result, all consolidated assets and liabilities of Chorus were reported at fair values. Goodwill is not recognized upon adoption of fresh start reporting. Under fresh start reporting, retained earnings and contributed surplus were reset to zero.

Chorus' intangible assets under Canadian GAAP as of September 30, 2004, arose on the basis of valuations performed on September 30, 2004, following the application of fresh start reporting. In accordance with IFRS 1, the Company has elected to reverse the intangible assets that were established in accordance with Section 1625 of the CICA Handbook, *Comprehensive Revaluation of Assets and Liabilities*.

Impact:

The impact arising from the change is summarized as follows:

Consolidated Statement of Financial Position

- At January 1, 2010, goodwill, which was reported by Chorus prior to the application of fresh start reporting under Canadian GAAP of $6,693, was reinstated with a corresponding increase to retained earnings.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

4 Transition to IFRS (continued)

- At January 1, 2010, intangible assets decreased by $6,300, representing the derecognition of Canadian GAAP intangible assets that were established in accordance with fresh start reporting with a corresponding decrease to retained earnings.

f) Deferred tax

Changes to deferred income tax assets and liabilities and the related deferred tax expense or recovery are the result of the following factors:

- Changes to the accounting values from Canadian GAAP to IFRS.

- Chorus' tax rate under an income trust structure in IFRS assumes the highest marginal personal tax rate in the province of operation, Nova Scotia, to calculate the deferred tax balance. On conversion to a corporation in the fourth quarter of 2010 Chorus calculated deferred tax using substantively enacted corporate tax rates as prescribed in the income tax act.

- Under IFRS, deferred tax assets or liabilities are not recognized if they arise from the initial recognition of goodwill; or if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Impact:

Consolidated Statement of Financial Position

The following table highlights the changes to deferred income tax assets and liabilities:

	December 31, 2010 $	January 1, 2010 $
Deferred income tax asset / (liability) – Canadian GAAP	61,976	(13,294)
Changes to accounting values	5,782	2,958
Tax rate changes	-	23,564
Initial recognition exemption	(40,536)	31,887
Deferred income tax asset	27,222	45,115

Impact on statement of cash flows

The accounting policy under IFRS for major maintenance overhaul expenditures as explained in note 3(j) differs from Canadian GAAP. As a result, the expenditures that are capitalized under IFRS which were previously expensed under Canadian GAAP, have been reclassified from operating activities to investing activities. On the consolidated statement of cash flows $9,720 has been reclassified (as additions to property, plant and equipment) from operating activities to investing activities for the year ended December 31, 2010.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

5 Cash and cash equivalents

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash [1]	48,116	35,934	36,273
Term deposits and fixed income securities	59,952	29,962	187,286
Cash and cash equivalents	108,068	65,896	223,559

(1) Cash encumbered in support of issued letters of credit has been classified as restricted cash and shown separately in the consolidated statement of financial position (2011 - $10,639; 2010 - $8,812).

The weighted average interest rate on investments as at December 31, 2011 is 1.04% (2010 – 0.92%).

6 Accounts receivable – trade and other

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade receivables	9,909	11,171	1,567
Allowance for doubtful accounts	(21)	(21)	(32)
Commodity taxes	11,808	3,737	3,526
Other receivables	8,865	7,518	648
	30,561	22,405	5,709
Trade amounts due from Air Canada and its subsidiary (see note 26 – Economic Dependence)	63,222	64,626	53,335
	93,783	87,031	59,044

7 Spare parts, materials and supplies

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Spare parts	29,076	26,598	34,219
Material and supplies	2,784	2,592	2,624
Fuel and glycol inventory	5,214	4,654	3,912
	37,074	33,844	40,755

For the year ended December 31, 2011, the cost of inventories recognized as expense was $32,479 (2010 - $33,992). For the year ended December 31, 2011 inventory writedowns to net realizable value of $1,165 were recognized as an expense (2010 - $5,884).

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

8 Prepaid expenses and deposits

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Airport and navigation fees	13,355	13,086	7,965
Fuel	8,233	7,741	6,863
Aircraft rent and other	14,288	1,943	1,503
Other	3,170	3,148	3,578
	39,046	25,918	19,909

9 Assets held for sale

During 2011, Chorus acquired $12,956 (2010 - $nil) in Q400 aircraft spare parts which it is holding for sale to a third party. This sale is anticipated to be completed during the first quarter of 2012 and as such, Chorus has recorded this amount as a current asset. Chorus expects to sell the spare parts for the price that was originally paid to acquire them. Management has determined that the carrying value of the assets is representative of fair value less costs to sell.

10 Property and equipment

	Year ended December 31, 2010					Year ended December 31, 2011			
	Opening net book value $	Additions $	Disposals $	Depreciation for the period $	Closing / opening net book value $	Additions(1) $	Disposals / deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	140,767	7,919	(171)	(15,803)	132,712	225,161	-	(19,904)	337,969
Major maintenance overhauls	13,829	9,720	-	(12,018)	11,531	16,233	-	(13,219)	14,545
Facilities	12,669	273	-	(636)	12,306	-	-	(630)	11,676
Equipment	14,754	3,665	-	(5,882)	12,537	3,358	-	(5,676)	10,219
Leaseholds	18,301	213	-	(4,703)	13,811	297	-	(1,897)	12,211
Flight equipment under finance leases	16,503	-	-	(2,847)	13,656	-	(58)	(2,813)	10,785
Deposits on aircraft	-	26,067	-	-	26,067	7,695	(22,127)	-	11,635
Total	216,823	47,857	(171)	(41,889)	222,620	252,744	(22,185)	(44,139)	409,040

1) The purchase of the tenth Q400 aircraft has been included as an addition to flight equipment during 2011. However, this amount represented a non-cash transaction, and as such, it has been excluded from the statement of cash flows as at December 31, 2011.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

10 Property and equipment IFRS (continued)

	At December 31, 2011			At December 31, 2010			At January 1, 2010		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	407,630	(69,661)	337,969	202,814	(70,102)	132,712	195,810	(55,043)	140,767
Major maintenance overhauls	28,847	(14,302)	14,545	20,965	(9,434)	11,531	13,829	-	13,829
Facilities	16,108	(4,432)	11,676	16,108	(3,802)	12,306	15,972	(3,303)	12,669
Equipment	41,929	(31,710)	10,219	38,571	(26,034)	12,537	35,138	(20,384)	14,754
Leaseholds	26,525	(14,314)	12,211	26,228	(12,417)	13,811	38,587	(20,286)	18,301
Flight equipment under finance leases	22,951	(12,166)	10,785	23,201	(9,545)	13,656	23,201	(6,698)	16,503
Deposits on aircraft	11,635	-	11,635	26,067	-	26,067	-	-	-
Total	555,625	(146,585)	409,040	353,954	(131,334)	222,620	322,537	(105,714)	216,823

Depreciation expense related to property and equipment of $44,139 was recorded for the year ended December 31, 2011 (2010 - $41,889).

11 Goodwill

Goodwill, representing less than one percent of Chorus' total assets, is allocated to the Jazz CGU. The recoverable amount of the Jazz CGU was determined using fair value less costs to sell. No impairment of goodwill was recognized during 2011 or 2010.

12 Long-term investment

On April 30, 2010, Chorus completed a $15,188 investment in LARAH in return for a 33.3% non-voting equity interest. LARAH holds an indirect 75% equity interest in Pluna. The remaining 25% equity interest in Pluna is held, indirectly, by the Government of Uruguay. Chorus has appointed one of the seven directors on the Pluna board of directors.

Chorus has classified the investment as available for sale. Chorus does not have the ability to exercise significant influence over LARAH.

Chorus' ability to realize a return on the investment is dependent on the occurrence of a liquidity event, such as an IPO or the sale of the business. LARAH and its subsidiaries are private companies with no quoted market price in an active market, therefore the investment was recorded at cost and no fair value has been disclosed. In addition, transaction costs of $1,163 directly attributable to the LARAH investment have been included in the cost of the investment. As at December 31, 2011, Chorus has recorded $16,351 (2010 - $16,351) in long-term investments. See note 30 for further details.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

13 Reconciliation of total tax expense

The effective rate on the Company's earnings before income tax differs from the expected amount that would arise using the combined Canadian Federal and Provincial statutory income tax rates. A reconciliation of the difference is as follows:

	Year ended December 31,			
	2011 %	2011 $	2010 %	2010 $
Income tax expense at the Canadian statutory tax rate	28.3	25,167	29.9	20,806
Deductible trust distributions	-	-	(34.3)	(23,897)
Recognition of previously unrecognized cumulative eligible capital	(7.5)	(6,679)	(7.0)	(4,863)
Non-deductible expenses	3.1	2,748	4.3	2,998
Unrecognized benefit of capital loss	0.5	403	-	-
Impact of rate changes upon conversion to a corporation	-	-	28.6	19,936
Impact of substantively enacted tax rates on temporary differences	(1.0)	(850)	(1.8)	(1,285)
Income tax expense	23.4	20,789	19.7	13,695

The Canadian statutory tax rate has decreased by approximately 1.6% over the prior year. The decrease is a direct result of previously enacted Federal and Provincial income tax rate reductions.

Deferred tax

Components of the net deferred income tax asset are as follows:

	December 31, 2010 $	Recognized in Net Income $	Recognized in OCI $	Charged Directly to Equity $	December 31, 2011 $
Deferred income tax liability					
- Deferred Partnership income	-	(14,542)	-	-	(14,542)
- Convertible debentures	(1,048)	228	-	-	(820)
- Property and equipment	-	(4,115)	-	-	(4,115)
Deferred income tax asset					
- Loss carryforwards	-	10,319	-	-	10,319
- Property and equipment	9,709	(9,709)	-	-	-
- Deferred lease inducement	10,246	359	-	-	10,605
- Pension and other future employee benefits	7,437	(3,426)	4,976	-	8,987
- Other long-term liabilities	878	97	-	-	975
Net deferred income tax	27,222	(20,789)	4,976	-	11,409

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

13 Reconciliation of total tax expense (continued)

	January 1, 2010 $	Recognized in Net Income $	Recognized in OCI $	Charged Directly to Equity $	December 31, 2010 $
Deferred income tax liability					
- Convertible debentures	(54)	2,506	-	(3,500)	(1,048)
Deferred income tax asset					
- Loss carryforwards	-	-	-	-	-
- Property and equipment	16,220	(6,511)	-	-	9,709
- Deferred lease inducement	18,357	(8,111)	-	-	10,246
- Pension and other future employee benefits	9,098	(963)	(669)	(29)	7,437
- Other	1,494	(616)	-	-	878
Net deferred income tax	45,115	(13,695)	(669)	(3,529)	27,222

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $612,126 (December 31, 2010 - $639,337 and January 1, 2010 - $394,879) related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures will not be recognized in the financial statements until such time that those benefits can be applied to reduce current tax expense. During 2011, Chorus utilized $27,211 (2010 - $16,265) of these previously unrecognized tax deductions to reduce the income of the Partnership.

As at December 31, 2011, Chorus has $1,423 (December 31, 2010 - $nil and January 1, 2010 - $nil) of allowable capital losses that has not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

The estimated recovery periods for the deferred tax balances are as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred tax assets			
- Deferred tax assets to be recovered within 12 months	6,759	9,709	16,899
- Deferred tax assets to be recovered after more than 12 months	24,127	18,561	28,270
Deferred tax liabilities			
- Deferred tax assets to be recovered within 12 months	(14,770)	(228)	-
- Deferred tax assets to be recovered after more than 12 months	(4,707)	(820)	(54)
	11,409	27,222	45,115

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

14 Other assets

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Prepaid aircraft rent and related fees, net of accumulated amortization	25,006	24,891	25,362
Accrued pension benefit asset (SERP) (note 29)	2,624	4,065	2,809
Asset backed commercial paper (note 30)	740	450	1,053
	28,370	29,406	29,224

15 Accounts payable and accrued liabilities

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade payables and accrued liabilities	136,387	115,440	97,277
Commodity taxes	13,640	7,041	10,073
Current portion of deferred lease inducements	3,240	3,168	3,368
Debenture interest payable	3,810	-	1,028
	157,077	125,649	111,746
Trade payables and accrued liabilities due to Air Canada and its subsidiary (see note 26 – Economic Dependence)	76,410	77,025	67,470
	233,487	202,674	179,216

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

16 Obligations under finance leases

Chorus has entered into finance leases related to aircraft and ground equipment. The obligations are as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
No later than one year	3,625	3,902	4,147
Later than one year and no later than five years	10,311	13,654	18,547
Total minimum lease payments	13,936	17,556	22,694
Less: Amount representing interest (at rates ranging from 8.755% to 9.450%)	2,159	3,265	4,916
Present value of net minimum finance lease payments	11,777	14,291	17,778
Less: Current portion	2,691	2,748	2,681
Obligations under finance leases	9,086	11,543	15,097

The present value of net minimum finance lease payments is as follows:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
No later than one year	2,691	2,748	2,681
Later than one year and no later than five years	9,086	11,543	15,097
	11,777	14,291	17,778

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.017, which was the exchange rate in effect at the end of day closing on December 31, 2011 (2010 - $0.995; 2009 - $1.047). Interest of $1,130 (2010 - $1,421) relating to finance lease obligations has been included in aircraft rent. The majority of these lease agreements are renewable at the end of the lease period, at market rates.

17 Promissory note payable

Chorus has issued, to a third party, a 48 day, non-interest bearing promissory note to finance the bridge period between the purchase of the tenth Q400 aircraft on December 16, 2011 and the expected draw under the EDC long-term financing on February 2, 2012. The promissory note, with a principal amount of $23,002 is secured by a first priority interest in the tenth Q400 aircraft (see note 33 – Subsequent event).

18 Unearned revenue

Unearned revenue of $21,495 at December 31, 2011 (2010 - $5,498) represents a prepayment for services scheduled to occur by April 2012. The revenue will be recognized as services are rendered over the contract period.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

19 Long-term debt

a) During 2011, Chorus signed nine separate loan agreements with Export Development Canada ("EDC"), which provided committed financing for the majority of the purchase price of each of the nine related Q400 aircraft deliveries. Each loan has a maturity of 12 years and bears interest at a fixed rate. The remaining amount of the purchase price not financed through EDC was funded by applying aircraft deposits previously made by Chorus to the manufacturer and from working capital. At December 31, 2011, the net book value of property and equipment pledged as collateral under EDC financing was $189,940.

Long-term debt consists of the following:

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

(1) At December 31, 2011, the total EDC financing payable in US dollars was US$170,264.

The following future principal repayments on long-term debt are payable in US dollars and have been converted to Canadian currency at $1.017, which was the exchange rate in effect at the end of day closing on December 31, 2011.

	$
No later than one year	11,853
Later than one year and no later than five years	51,979
Later than five years	109,326
	173,158

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

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

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

Jazz is in compliance with both of these continuous covenants.

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

19 Long-term debt (continued)

b) The following provides a breakdown of Chorus' outstanding credit facilities at January 1, 2010.

	January 1, 2010 $
Revolving term facility[(a)]	-
Term facility[(b)]	115,000
Prepaid interest[(c)]	(294)
	114,706
Less: Current portion	114,706
	-

(a) Bearing interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%.
(b) Bearing interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%.
(c) Long-term debt is presented net of prepaid interest.

The credit facilities matured on February 1, 2010 and all amounts owing thereunder were repaid and the related security was released. At January 1, 2010, the net book value of property and equipment pledged as collateral under the credit facilities were $200,320.

20 Convertible debentures

In November of 2009, Chorus entered into an agreement to sell to a group of underwriters $86,250 principal amount of 9.50% convertible unsecured subordinated debentures (the "Debentures"). The net proceeds received by Chorus from the sale of Debentures were $82,265 after deduction of the underwriters' fee and the expenses of the offering. Proceeds from the offering are being used for working capital requirements and for general purposes of Chorus.

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

20 Convertible debentures (continued)

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

The following table allocates the Debentures between debt and equity:

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

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

On December 14, 2010, $6,040 of note principal with an amortized debt cost of $5,515 and a derivative liability value of $878 was converted into 1,150,476 units.

For the year ended December 31, 2011, the total interest expense on the convertible debentures was $9,187 (2010 - $9,738) which included interest accretion of $1,567 (2010 - $1,589).

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

21 Other long-term liabilities

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Accrued pension benefit liability ("RPP") (note 29)	20,737	12,766	23,729
Accrued other future employee benefits liability (note 29)	15,454	13,230	9,639
Deferred operating lease inducements, non-current portion	36,481	40,926	44,637
Debenture derivative	-	-	5,000
Other	984	-	2,441
	73,656	66,922	85,446

22 Dividends / Distributions

During 2011, Chorus declared a $0.15 quarterly dividend to shareholders of record on the last trading day of March, June, September and December. In total, Chorus declared $74,408 in dividends during 2011. Cash dividends paid during 2011 were $55,806.

During 2010, Chorus declared a $0.05 monthly distribution to Unitholders of Record on the last day of trading of every month. In total, Chorus declared $73,776 in distributions during 2010. Cash distributions paid during 2010 were $79,919.

As part of the Arrangement, the final cash distribution of $0.05 per unit for Unitholders of the Fund covering the period from December 1, 2010 to December 31, 2010 was paid by the Fund to the transfer agent (CIBC Mellon) for the benefit of Unitholders prior to December 31, 2010 and was distributed on January 10, 2011 to Unitholders of record at the close of business on December 31, 2010. As a result, there was a reduction of cash and no distribution payable by the Fund to Unitholders at December 31, 2010.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

23 Capital stock

a) Capital stock

Authorized:
An unlimited number of Class A Variable Voting Shares, no par value; and
An unlimited number of Class B Voting Shares, no par value

Issued and outstanding:

	Number of Shares (Units)	$
Units issued and outstanding January 1, 2010	122,864,012	1,040,856
Units held in trust at January 1, 2010	(869,668)	(5,576)
Units reported in equity January 1, 2010	121,994,344	1,035,280
Conversion of convertible debentures	1,150,476	6,393
Units redeemed	(42)	-
Units released from the stock-based compensation plan	180,924	764
Total Fund units reported in equity prior to the Arrangement	123,325,702	1,042,437
Initial subscription of Chorus Shares	1,025	4
Units reported in equity cancelled pursuant to the Arrangement	(123,325,702)	(1,042,437)
Chorus Shares issued	124,014,446	1,042,437
Capital reduction pursuant to the Arrangement (note 1)(1)	-	(1,042,441)
Shares issued and outstanding December 31, 2010	124,015,471	-
Shares held in trust December 31, 2010	(688,744)	-
Shares reported in equity December 31, 2010	123,326,727	-
Shares released from the stock-based compensation plan(2)	213,828	1,572
Shares reported in equity December 31, 2011	123,540,555	1,572

1) Pursuant to the Arrangement, share capital was reduced to $1 (not in thousands of dollars) for the Class A Variable Voting Shares and $1 (not in thousands of dollars) for the Class B Voting Shares.
2) As Shares from the stock-based compensation plan vest, they are released from the trust into capital at the weighted average cost on date of grant.

	2011	2010
Total issued and outstanding common shares		
Class A Variable Voting	13,173,264	43,698,611
Class B Voting	110,842,207	80,316,860
	124,015,471	124,015,471
Class B shares held in trust	(474,916)	(688,744)
Shares reported in equity	123,540,555	123,326,727

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

23 Capital stock (continued)

The common shares issuable by Chorus consist of an unlimited number of Variable Voting Shares and an unlimited number of Voting Shares. The two classes of common shares have equivalent rights as common shareholders except for voting rights. Holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Chorus exceeds 25% or, (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that, (i) the Variable Voting Shares as a class do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of Chorus, and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% of the votes that may be cast at such meeting.

Variable Voting Shares are to be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians within the meaning of the Canada Transportation Act. An issued and outstanding Variable Voting Share shall be converted into one Voting Share automatically and without any further act of Chorus or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the Canada Transportation Act.

Voting Shares are to be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share shall be converted into one Variable Voting Share automatically and without any further act of Chorus or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

b) Earnings per share

The following table provides a breakdown of the numerator and denominator used in the calculation of earnings per share and diluted earnings per share.

Numerator	2011 $	2010 $
Income	68,135	55,888
Interest expense on convertible debentures, net of tax	7,137	-
Diluted income	75,272	55,888
Denominator		
Weighted average number of shares	123,513,092	122,206,203
Weighted average convertible debenture dilutive shares	15,278,096	-
Weighted average number of diluted shares	138,791,188	122,206,203

In 2010, the convertible debentures were anti-dilutive and excluded from diluted earnings per share. In 2010 and 2011, the Jazz LTIP shares held in trust were anti-dilutive and excluded from diluted earnings per share.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

23 Capital stock (continued)

c) Stock-based compensation

The details of shares held in trust under stock-based compensation plans discussed in note 3 are as follows:

	December 31, 2011 Jazz LTIP	December 31, 2010 Jazz LTIP	January 1, 2010 Jazz LTIP
Number of shares granted	995,892	995,892	995,892
Number of shares forfeited	(184,322)	(156,705)	(126,224)
	811,570	839,187	869,668
Number of shares vested	(336,654)	(150,443)	-
Number of shares outstanding, end of year	474,916	688,744	869,668
Weighted average remaining life (years)	0.08	0.64	1.27
Cost of shares purchased during the year(1)	$nil	$nil	$2,268
Weighted average fair value per share on date of grant	$4.33	$5.28	$6.41

(1) Commencing with the 2010 grant, shares were granted notionally, rather than purchased on the open market at time of grant.

During the year ended 2011, Chorus notionally granted 498,962 shares under the Chorus LTIP (2010 - 557,519 units were notionally granted under the Jazz LTIP).

Total compensation expense related to stock-based compensation during 2011 was $2,206 (2010 - $1,926).

24 Statement of cash flows – supplementary information

Net changes in non-cash working capital balances related to operations:

	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Increase in accounts receivable – trade and other	(6,752)	(27,987)
(Increase) decrease in spare parts, materials and supplies	(3,230)	6,911
Increase in prepaid expenses	(13,128)	(6,009)
Increase in other assets	(1,124)	(2,455)
Increase in accounts payable and accrued liabilities	31,275	24,260
Increase in unearned revenue	15,997	5,498
Decrease in other long-term liabilities	(9,336)	(10,564)
	13,702	(10,346)

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

25 Related parties

Compensation of key management

Key management includes Chorus' Directors, President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Administrative Officer. Compensation awarded to key management is summarized as follows:

	Year ended December 31, 2011 $	2010 $
Salaries and other benefits	3,461	3,211
Other post-employment benefits	1,149	1,339
Stock-based compensation	1,658	1,221
	6,268	5,771

26 Economic dependence

The transactions between Air Canada and its subsidiary (Air Canada Capital Ltd.) and Chorus are summarized in the table below:

	Year ended December 31, 2011 $	2010 $
Operating revenue		
Air Canada	1,575,394	1,453,634
Operating expenses		
Air Canada	87,662	94,043
Air Canada Capital Ltd.	77,469	84,315

The following balances with Air Canada and its subsidiary (Air Canada Capital Ltd.) are included in the financial statements:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Accounts receivable			
Air Canada	63,222	64,626	53,335
Accounts payable and accrued liabilities			
Air Canada	68,915	66,328	59,048
Air Canada Capital Ltd.	7,495	10,697	8,422

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

26 Economic dependence (continued)

Capacity Purchase Agreement

Chorus is party to the CPA with Air Canada, under which Air Canada purchases the capacity of certain specified aircraft operated by Chorus under the tradename of "Air Canada Express", formerly "Air Canada Jazz" on routes specified by Air Canada. Under this agreement, Chorus is required to provide Air Canada with the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance, and airport operations for such flights. Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada retains all revenue derived from the sale of seats to passengers and cargo services and pays Chorus for the capacity provided.

Chorus is paid fees, on a monthly basis, for the capacity provided. These fees consist of 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 aircraft covered by the CPA. The Rates for these metrics are fixed for annual periods and vary by aircraft type with current Rates in effect until December 31, 2011. In addition, Air Canada is required to reimburse Chorus for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. As these costs are required to operate the aircraft provided under the CPA, the reimbursement of these costs are included in revenue.

The fees which are related to controllable costs are paid on the first day of each month based on estimates for that month. Such estimates are reconciled at the end of the month for actual amounts and true-up payments are made no later than the 30th day of the following month. Pass-through costs are reimbursed by Air Canada 30 days following the month in which they were incurred.

Pursuant to the terms of the CPA, Chorus and Air Canada agreed to re-set detailed Rates (subject to the terms of the contract) applicable to the period commencing on January 1, 2009 and ending on December 31, 2011. During the first quarter of 2009, Chorus reached an agreement with Air Canada regarding the establishment of new Rates for controllable costs that are payable by Air Canada under the CPA for the three-year period ending December 31, 2011. The new Rates were retroactive to January 1, 2009.

Chorus is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction criteria. Rates negotiated under the CPA were initially established to provide a mark-up of 16.72% on Chorus' controllable costs.

Amendments to the CPA

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

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

26 Economic dependence (continued)

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

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

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

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

The Controllable Mark-Up may be reduced as a result of benchmarking Chorus' Controllable Costs to those of a group of comparable operators (the "Comparable Operators"). Under the CPA, this benchmarking was to be effected in 2010 (based on information from Chorus' 2009 calendar year – the "2009 Benchmark") and again in 2016 (using information from Chorus' 2015 calendar year – the "2015 Benchmark"). If the 2009 Benchmark reveals that the percentage difference between Chorus' Unit Costs and the median controllable unit costs, stage length adjusted, of the Comparable Operators has increased compared to the percentage difference of these costs for the twelve month period beginning July 1, 2006 and ending June 30, 2007, the Controllable Mark-Up shall be reduced accordingly with effect as of January 1, 2010 until December 31, 2020 (unless as a result of the 2015 Benchmark it is further reduced) to the lower of 12.50% or the percentage that is equal to 16.72% minus the change in Controllable Mark-up resulting from the 2009 Benchmark. If the 2015 Benchmark indicates that percentage difference between Chorus' Controllable Costs and the median controllable unit costs, stage length adjusted, of the Comparable Operators has increased compared to the percentage difference determined during the 2009 Benchmark, the Controllable Mark-Up then in effect shall be reduced based on the results of the 2015 Benchmark, with effect as of January 1, 2016 until December 31, 2020. The comparison of Chorus' Unit Costs to the median controllable unit costs, stage length adjusted, shall be subject to adjustments required to reflect the differences between Chorus and each Comparable Operator in fleet type and size, aircraft utilization, currency, geographical deployment and growth relative to Chorus.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

26 Economic dependence (continued)

Chorus and Air Canada were unable to reach agreement in 2010 on the results of the 2009 Benchmark. On February 3, 2011, Chorus and Air Canada agreed to proceed to binding arbitration in respect of the 2009 Benchmark (the "Arbitration"). On October 3, 2011, Air Canada delivered its claim in the Arbitration (the "AC Claim"). In the AC Claim, Air Canada seeks a declaration that the appropriate methodology for comparing Chorus' Unit Costs to the adjusted median controllable unit costs of the Comparable Operators is a "component unit cost driver methodology" or "CUCD". The AC Claim further seeks a declaration that the proper application of the CUCD for the purpose of the 2009 Benchmark results in a reduction of the Controllable Mark-Up from 12.50% to 9.54%, effective from January 2010. Air Canada claims that, if the Controllable Mark-Up is reduced from 12.50% to 9.54%, Chorus would be required to repay Air Canada the amount of $26,000 in respect of payments made by Air Canada to Chorus in 2010. Air Canada seeks an order that Chorus be required to pay Air Canada that amount, or such other amount as the arbitration panel may determine, as well as any other amount necessary to account for the adjustment of Controllable Mark-Up for payments made by Air Canada to Chorus in 2011 and on a going-forward basis. The AC Claim also alleges that the formula for calculating the Compensating Mark-Up ought to be adjusted to take into account any reduction in the Controllable Mark-Up.

On November 7, 2011, Chorus delivered its Defence and Counterclaim in the Arbitration (the "Chorus Claim"). In the Chorus Claim, Chorus asserts that the relevant provisions of the CPA provide that the preferred methodology to be applied for comparing Chorus' Unit Costs to the adjusted median controllable unit costs of the Comparable Operators shall be on a "cost per available seat mile" or "CASM" basis. Chorus further asserts that, if a CASM methodology is applied with the appropriate normalizations and adjustments no adjustment to the Controllable Mark-Up will be required as a result of the 2009 Benchmark. As a result, Chorus is not required to repay Air Canada any amounts in respect of payments made in 2010 or 2011 and its Controllable Mark-Up will remain at 12.50% going forward until at least the 2015 Benchmark. In the alternative, Chorus asserts that, even if the arbitration panel were to accept that CASM was not an appropriate methodology, the CUCD methodology proposed by Air Canada in the AC Claim is not an "alternate market recognized benchmark" as contemplated by the CPA. In the further alternative, the Chorus Claim asserts that, even if CUCD were to be found to be an "alternate recognized benchmark", a proper application of the CUCD methodology with the appropriate normalizations and adjustments would not result in the adjustment to the Controllable Mark-Up claimed by Air Canada. Finally, Chorus states that the CPA does not provide for any adjustment to the Compensating Mark-Up formula resulting from an adjustment to the Controllable Mark-Up as a consequence of the 2009 Benchmark exercise. Hearing of the Arbitration has been scheduled for June 2012.

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

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

The CPA Amending Agreement provides for changes to the long range fleet plan, reflecting the agreement of Air Canada and Chorus to renew the fleet of Covered Aircraft. Air Canada and Chorus agreed that the fleet of Covered Aircraft shall be reduced from 133 aircraft to 125 aircraft (the "Guaranteed Minimum Number of Covered Aircraft"). The reduction in Covered Aircraft to the Guaranteed Minimum Number of Covered Aircraft was completed in April 2010.

The initial Q400 aircraft was delivered on May 26, 2011, and entered into service on June 7, 2011. Effective July 1, 2011, following the entry of the second Q400 aircraft into service, the number of aircraft comprising the Covered Aircraft returned to 125, being the Guaranteed Minimum Number of Covered Aircraft. Upon the delivery of each remaining Q400 aircraft, one CRJ-100 will be removed from the fleet of Covered Aircraft, such that the number of aircraft shall remain at the Guaranteed Minimum Number of Covered Aircraft.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

26 Economic dependence (continued)

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

Pursuant to the terms of the CPA Amending Agreement, Air Canada and Chorus also agreed, effective as of August 1, 2009, to treat the rent charged to Chorus for five of the CRJ-100 aircraft as a pass-through cost.

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

Margin adjustment

As a result of the CPA Amending Agreement, the controllable target margin has been reduced from 14.32% to 11.11% effective August 1, 2009. With respect to each calendar year after 2009, 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. For the years ended December 31, 2011 and 2010, no margin adjustment was recorded.

Master Services Agreement

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

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

Other

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

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

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

27 Commitments

Chorus is committed to the following future minimum lease payments under operating leases for flight equipment and base facilities that have initial non-cancellable terms in excess of one year. The majority of these lease agreements are renewable at the end of the lease period, at market rates.

	December 31, 2011	
	Other third parties $	Air Canada and its subsidiaries $
No later than one year	13,011	89,329
Later than one year and no later than five years	33,391	306,943
Later than five years	21,912	389,964

A significant portion of the minimum lease payments for aircraft are payable in US dollars and have been converted to Canadian currency at $1.017, which was the exchange rate in effect at the end of day closing on December 31, 2011 (2010 - $0.9946).

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. Future minimum lease payments that will arise under these leases are listed in the above table under the heading “Air Canada and its subsidiaries”.

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

Bombardier Purchase Agreement

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

The purchase agreement with Bombardier required on-going monthly predelivery payments in the aggregate amount of $33,762. As at December 31, 2011, Chorus has made all of the required predelivery payments.

28 Post-employment expenses

Chorus has recorded pension and other post-employment future benefit expenses for the year ended December 31, 2011 of $27,695 (2010 - $21,076).

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

29 Pension and other future employee benefits

Chorus maintains several registered defined contribution pension plans for eligible employees and a registered defined benefit plan for Pilots. Chorus is the plan sponsor for these plans under the Pension Benefits Standard Act, 1985 (Canada). In addition, Chorus maintains an unregistered supplemental executive retirement plan which is partially funded for certain employees. Contributions to the supplementary pension plan started in December 2007. The registered and supplementary defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and the final average earnings for a specified period.

Chorus also maintains Other (non-pension) Employee Future Benefits. The Other Employee Future Benefits include medical and dental benefits provided to the employees on long-term disability and Workplace Safety Insurance Board ("WSIB"). These benefits cease to be provided when the employee reaches age 65. The sick leave gratuity benefits represent the payout of sick leave accruals upon or just prior to retirement for eligible employees. The self-insured WSIB benefits are in respect of self-insured benefits provided to Ontario employees.

The total expense for Chorus' defined contribution plans including two pension plans sponsored by an employee group and a union respectively, for which Chorus is obligated to make defined contributions only, for the year ended December 31, 2011 is $8,700, and for the year ended December 31, 2010 is $7,841.

During 2011, Chorus made $32,203 in cash payments to registered pension plans (2010 - $26,543), comprised of $23,426 for the Registered Defined Benefit Plan (2010 - $18,895) and $8,777 for defined contribution pension plans (2010 - $7,648). Total cash payments made in 2011 for the Other Employee Future Benefits were $1,418 (2010 - $1,237).

The most recent actuarial valuations of the defined pension benefit plans for funding purposes were as of January 1, 2011 and the next funding valuation will be as of January 1, 2012.

The discount rate used to determine pension obligations was determined by reference to the market interest rates on corporate bonds rated "AA", or higher, with cash flows that approximate the timing and amount of the expected benefit payments. An increase to the discount rate of 0.25% results in a decrease to the pension obligation of $9,100 and a decrease of $1,200 to the pension expense. A decrease to the discount rate of 0.25% results in an increase to the pension obligation of $9,100 and an increase of $1,200 to the pension expense.

Expected return of plan assets are determined based on the facts and circumstances that exist at the measurement date. A 0.25% increase to return on assets decreases pension expense by $400. A 0.25% decrease to return on assets increases pension expense by $400.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2012 are $34,100. Expected contributions to the defined contribution pension plans for the year ending December 31, 2012 are $10,500.

chorus aviation inc.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

29 Pension and other future employee benefits (continued)

Information about Chorus' defined benefit plans and other future employee benefits in aggregate, is as follows:

	Pension Benefits		Other Future Employee Benefits	
	2011	2010	2011	2010
	$	$	$	$
Change in benefit obligation				
Benefit obligation, beginning of year	171,388	126,456	13,230	9,639
Current service cost	16,109	8,238	2,070	1,739
Interest cost	10,884	9,202	682	592
Plan participants' contributions	7,961	6,432	-	-
Benefits paid	(1,707)	(4,253)	(1,418)	(1,237)
Actuarial loss	8,854	25,313	890	2,497
Benefit obligation, end of year	213,489	171,388	15,454	13,230
Change in plan assets				
Fair market value of plan assets, beginning of year	163,723	127,721	-	-
Expected return on plan assets	11,073	8,787	-	-
Employer contribution	24,906	21,684	1,418	1,237
Plan participants' contributions	7,961	6,432	-	-
Benefits paid	(1,707)	(4,252)	(1,418)	(1,237)
Actuarial (loss) gain	(11,286)	3,351	-	-
Fair market value of plan assets, end of year	194,670	163,723	-	-
Funded status, end of year	(18,819)	(7,665)	(15,454)	(13,230)
Accrued contributions	706	1,035	-	-
Additional liability under IFRIC 14	-	(2,071)	-	-
Accrued benefit liability	(18,113)[(1)]	(8,701)[(1)]	(15,454)	(13,230)

1) Includes a $20,737 liability related to RPP and a $2,624 asset related to SERP (2010 - $12,766 for RPP and $4,065 for SERP). The accrued benefit liability for RPP is included in other long-term liabilities and the accrued benefit asset for SERP is included in other assets.

The amounts recognized in the balance sheet for the defined benefit pension plans are determined as follows:

	December 31,	
	2011	2010
	$	$
Present value of defined benefit obligation	213,489	171,388
Fair value of plan assets	194,670	163,723
Deficit in the plan	(18,819)	(7,665)
Actuarial loss on plan liabilities	8,854	25,313
Actuarial (loss) gain on plan assets	(11,286)	3,351

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

29 Pension and other future employee benefits (continued)

Plan assets are comprised as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Canadian equity	37%	35%	34%
Debt securities	31%	35%	37%
International equity	26%	24%	24%
Short-term and other	6%	6%	5%
	100%	100%	100%

The plan's assets are invested in a balanced fund and include no significant investment in Chorus, at the measurement date.

Weighted average assumptions used to determine the accrued benefit liability:

	Pension		Other Future Employee Benefits	
	2011	2010	2011	2010
Discount rate to determine accrued benefit obligations	5.4%	5.7%	4.3%	4.9%
Discount rate to determine the pension and benefit cost	5.7%	6.8%	4.9%	5.8%
Rate of compensation increase	5.0%	5.0%	5.0%	5.0%
Expected return on plan assets	6.2%	6.3%	n/a	n/a
Health care inflation – Select to determine accrued benefit obligation	n/a	n/a	6.1%	6.9%
Health care inflation – Select to determine pension and benefit cost	n/a	n/a	6.9%	7.0%

The health care inflation assumption was graded down in and after 2030 to 4.5% per annum

The effect of a 1% movement in the assumed health care cost trend rate on other employee future benefits is as follows:

	Increase $	Decrease $
Effect on the aggregate of the current service cost and interest cost	72	(69)
Effect on the defined benefit obligation	515	(466)

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

29 Pension and other future employee benefits (continued)

Chorus' net defined benefit pension plan and other future employee benefits expense recognized in the consolidated statement of income and consolidated statement of comprehensive income is as follows:

	Pension		Other Future Employee Benefits	
	2011 $	2010 $	2011 $	2010 $
Components of cost under IAS 19				
Amounts recognized in profit or loss:				
Current service cost	16,109	8,238	2,070	1,739
Interest cost	10,884	9,202	682	592
Expected return on plan assets	(11,073)	(8,787)	-	-
Costs arising in the period	15,920	8,653	2,752	2,331
Actuarial loss recognized in the consolidated statement of income	-	-	323	2,251
	15,920	8,653	3,075	4,582
Actuarial loss	20,140	21,962	567	246
Effect of minimum funding requirement	(2,071)	(20,115)	-	-
Loss recognized in the statement of other comprehensive income for the period	18,069	1,847	567	246
Cumulative actuarial losses and effect of minimum funding requirements recognized in the statement of other comprehensive income	52,152	34,083	2,390	1,823

30 Financial instruments and fair values

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

Measurement categories

As explained in note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: loans and receivables; fair value through profit or loss; available for sale assets; and, for liabilities, amortized cost. The following table shows the carrying and fair values of assets and liabilities for each of these categories at December 31, 2011, December 31, 2010 and January 1, 2010.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

30 Financial instruments and fair values (continued)

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying Amount $	Fair Value $	Carrying Amount $	Fair Value $	Carrying Amount $	Fair Value $
Financial assets						
Loans and receivables						
Cash and cash equivalents	108,068	108,068	65,896	65,896	223,559	223,559
Restricted cash	10,639	10,639	8,812	8,812	-	-
Accounts receivable (1)	81,975	81,975	83,294	83,294	55,518	55,518
Fair value through profit and loss						
Asset backed commercial paper	740	740	450	450	1,053	1,053
Available for sale						
Long-term investment	16,351	16,351	16,351	16,351	-	-
Financial liabilities						
Other financial liabilities, carried at amortized cost						
Accounts payable and accrued liabilities (includes current portion of obligations under finance leases) (1)	222,538	222,538	198,381	198,381	171,824	171,824
Dividends payable	18,602	18,602	-	-	6,143	6,143
Promissory note payable	23,002	23,002	-	-	-	-
Long-term debt	173,158	179,671	-	-	114,706	115,000
Obligations under finance leases	9,086	9,086	11,543	11,543	15,097	15,097
Convertible debentures	75,108	77,361	73,541	81,767	77,607	80,142

(1) Assets and liabilities, such as commodity taxes, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded.

30 Financial instruments and fair values (continued)

Fair value of financial instruments

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

- Asset backed commercial paper

  The ABCP classified as level three is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis. During the year ended December 31, 2011, a valuation gain of $547 (2010 - $nil) was recorded.

- Long-term investment

  The fair value of the investment in LARAH is estimated by applying probabilities to various discounted cash flow scenarios developed by the Company. Cash flow projections are developed for five years based on historical financial information and projections by management of LARAH, and include reasonably possible alternative assumptions. Key assumptions in the cash flows models include revenue growth based on growth trends achieved during 2011 and operating margins based on historical trends, adjusted for risks and uncertainties in the operating plans for LARAH. Terminal growth rates of 3% are assumed in the scenarios, based on long-term average growth rates for the commuter airline industry and the local markets. The cash flows are discounted using discount rates from 8.9% to 11.3%. The result of the fair value calculation approximates the original cost of the investment; therefore, no fair value adjustment has been recorded. The range of reasonably possible alternative fair values as at December 31, 2011 is $11,549 to $21,614.

- Long-term debt

  At December 31, 2011, the fair value of the fixed rate term loans is $179,671. These fair values have been calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- Finance leases

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

- Convertible debentures

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

30 Financial instruments and fair value (continued)

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheet, classified using the fair value hierarchy described above:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Level 3			
Asset backed commercial paper	740	450	1,053
Long-term investment	16,351	16,351	-
	17,091	16,801	1,053

The following table presents the changes in level 3 instruments by class of asset for the years ended December 31, 2011 and 2010.

	2011 $	2010 $
Start of year	16,801	1,053
Acquisition of long-term investment	-	16,351
Payments received	(257)	(603)
Gains recognized in profit or loss	547	-
	17,091	16,801

Financial risk factors

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

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

30 Financial instruments and fair values (continued)

Interest rate risk

Investments included in Chorus' cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Chorus' objective is to maintain these balances in highly liquid investments. As at December 31, 2011, Chorus' investments consisted of bankers acceptances and bankers deposit notes issued by three schedule 1 banks.

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

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

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

Credit risk

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

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

With the exception of trade receivables, there are no financial assets past due. As at December 31, 2011, the total amount of trade receivables is $73,110 (2010 - $75,797), net of allowance for bad debts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The amount of this allowance is unchanged from prior year and considered immaterial. At December 31, 2011, trade receivables of $67,845 (2010 - $71,784) were not past due or impaired; $5,286 (2010 - $4,013) were past due, but not impaired; and $21 (2010 - $21) were impaired. The aging of the latter two categories is as follows:

	December 31, 2011 $	December 31, 2010 $
Past due but not impaired		
60 – 90 days	968	313
Over 90 days	4,318	3,700
	5,286	4,013
Impaired		
60 – 90 days	-	-
Over 90 days	21	21
	21	21

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

30 Financial instruments and fair values (continued)

Chorus continues to work with the entities from which it holds these past due receivables to recover the full amount outstanding. Approximately $63,222 (2010 - $64,626) of the total receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada. Chorus does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

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

Chorus' objective is to maintain sufficient liquidity to meet liabilities when due. Chorus monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. Letters of credit totaling approximately $10,639 (December 31, 2010 - $8,812) have been issued as security for groundhandling, charters and airport fee contracts, lease payments on rental space and aircraft, and certain employee benefits.

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

The tables below analyze Chorus' non-derivative financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The analysis is based on foreign exchange and interest rates in effect at the consolidated statement of financial position date, and includes both principal and interest cashflows for long-term debt, obligations under finance leases and convertible debentures.

	Less than 3 months $	3 months to 1 year $	2 - 5 years $	Over 5 years $
Principal				
Trade payables and accrued liabilities	212,797	-	-	-
Finance leases	672	2,019	9,086	-
Long-term debt	1,956	9,897	51,979	109,326
Promissory note	23,002	-	-	-
Convertible debentures	-	-	80,210	-
	238,427	11,916	141,275	109,326
Interest				
Finance leases	233	701	1,225	-
Long-term debt	1,042	5,217	20,471	15,406
Convertible debentures	1,905	5,715	15,240	-
	3,180	11,633	36,936	15,406

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

30 Financial instruments and fair values (continued)

	December 31, 2011			
	Less than 3 months $	3 months to 1 year $	2 - 5 years $	Over 5 years $
Total principal and interest		-		-
Trade payables and accrued liabilities[(1)]	212,797		-	
Finance leases	905	2,720	10,311	-
Long-term debt (including current)	2,998	15,114	72,450	124,732
Promissory note	23,002	-	-	-
Convertible debentures	1,905	5,715	95,450	-
	241,607	23,549	178,211	124,732

(1) Excludes commodity taxes and deferred lease inducements as they do not meet the definition of a financial liability. Debenture interest is included in convertible debentures within the table.

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 its services within the CPA 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 so are 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 dollar denominated assets was $40,459 and US denominated liabilities was $270,448 at December 31, 2011. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $2,300.

31 Capital management

Chorus' capital consists of cash, cash equivalents, restricted cash, long-term debt, convertible debentures and shareholders' equity (excluding accumulated other comprehensive income).

The total capital as at December 31, 2011 and December 31, 2010 is calculated as follows:

	Year ended December 31,	
	2011 $	2010 $
Cash and cash equivalents	(108,068)	(65,896)
Restricted cash	(10,639)	(8,812)
Long-term debt (including current portion)	173,158	-
Convertible debentures (including equity portion)	84,605	83,038
Capital	1,572	-
Contributed surplus	1,050,907	1,050,269
Deficit	(918,832)	(898,899)
Total capital	272,703	159,700

31 Capital management (continued)

Chorus' main objectives when managing capital are:

- to provide a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations;
- to ensure sufficient liquidity to pursue its growth strategy and undertake selective investment; and
- to provide a rewarding return on investment to its shareholders.

In managing its capital structure, Chorus monitors performance throughout the year having regard to anticipated cash dividends, working capital requirements and maintenance capital expenditures, available cash on deposit and, where applicable, bank borrowings. As at December 31, 2011, the Jazz Group had external debt covenants as described in note 19. In managing its capital structure, Chorus monitors performance throughout the year having regard to financial metrics within these covenants. Chorus manages its capital structure and may make adjustments to it, in order to support its broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust its capital structure, Chorus may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, or issue new debt.

32 Contingencies

The CBCA provides that the Directors will act honestly and in good faith with a view to the best interest of Chorus and in connection with that duty, will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The CBCA and bylaws of Chorus provide that each Director will be entitled to indemnification from Chorus in respect of the exercise of the Director's power and the discharge of the Director's duties, provided that the Director acted honestly and in good faith with a view to the best interests of all shareholders, or in the case of a criminal or administrative action proceeding that is enforced by a monetary penalty, where the Director had reasonable grounds for believing that his/her conduct was lawful. Chorus has agreed to indemnify its directors and officers against certain costs and damages incurred by the directors and officers as a result of lawsuits or any other judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. The directors and officers are covered by directors' and officers' liability insurance. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

Chorus and Air Canada have proceeded to binding arbitration in respect of the 2009 Benchmark (the "Arbitration"). Hearing of the Arbitration is scheduled for June 2012. Air Canada has filed a clam in respect of the 2009 Benchmark. Air Canada claims that, if the Controllable Mark-Up is reduced from 12.50% to 9.54%, Chorus would be required to repay Air Canada the amount of $26,000 in respect of payments made by Air Canada to Chorus in 2010. Air Canada seeks an order that Chorus be required to pay Air Canada that amount, or such other amount as the arbitration panel may determine, as well as any other amount necessary to account for the adjustment of Controllable Mark-Up for payments made by Air Canada to Chorus in 2011 and on a going-forward basis. For the reasons described in note 26, Chorus believes that the methodology it has proposed is both fair and reasonable and consistent with the relevant provisions of the CPA. However, there can be no assurances that the methodology Chorus has proposed will ultimately be the basis of conducting the 2009 Benchmark exercise, as a result of the arbitration process. If Chorus' methodology is not consistent with any arbitration decision, operating results, financial condition and liquidity may be materially negatively impacted by any resulting reduction in the Controllable Mark-Up. No amounts have been recorded in the accounts of Chorus in 2010 or 2011 related to this claim, as management has determined that it is not probable that the Air Canada claim will be successful and it is not practicable to determine an estimate of the possible financial effect, if any, with sufficient reliability. See note 26 – Economic Dependence for additional details.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

32 Contingencies (continued)

In February 2006, Chorus commenced proceedings before the Ontario Superior Court of Justice ("Ontario Court") against the Toronto Port Authority ("TPA"), Porter Airlines Inc. ("Porter") and other defendants (collectively with Porter, the "Porter Defendants") after Chorus became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, Porter counterclaimed against Chorus and Air Canada alleging various tort claims, including conspiracy, and violations of competition law, including that Chorus and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming $850,000 in damages. Concurrently with the Ontario Court proceedings, Chorus commenced judicial review proceedings against the TPA before the Federal Court of Canada ("Federal Court") relating to Chorus' access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, in the Federal Court proceedings, Porter filed a defence and counterclaim against Chorus and Air Canada making allegations and seeking damages similar to those in the Ontario Court counterclaim. On October 16, 2009, Chorus discontinued its action in the Ontario Court against the Porter Defendants and the TPA. On the same date, the counterclaim filed by Porter in the Ontario Court against Chorus and Air Canada was stayed pending the outcome of the proceeding in Federal Court. On March 29, 2010, Chorus discontinued its action in the Federal Court against the TPA, in which the Porter Defendants intervened and were made parties. On May 14, 2010 Porter discontinued its counterclaim in the Federal Court. The counterclaim against Chorus and Air Canada brought by Porter in the Ontario Court was reinstated on February 22, 2011. Chorus maintains that Porter's counterclaim is without merit. The counterclaim will be vigorously contested by Chorus in court. If Chorus is not successful in defending the counterclaim, it could be subject to a material damages award. It is not practicable to determine an estimate of the possible financial effect, uncertainties related to the amount or timing of any outflows or the possibility of any reimbursement. Accordingly, no amounts have been recorded in the accounts of Chorus related to this claim.

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

Various other 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.

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 substantially all of the cities that it serves. It is common in such commercial lease transactions for Chorus as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to Chorus' use or occupancy of the leased or licensed premises. In certain cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but generally excludes any liabilities caused by their gross negligence or willful misconduct. In addition, Chorus typically indemnifies such parties for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

In aircraft and engine financing or leasing agreements, Chorus typically indemnifies the financing parties, Directors 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 engines and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, but generally excludes any liabilities caused by their gross negligence or willful misconduct. In addition, in aircraft and engine financing or leasing transactions, including those structured as leveraged leases, Chorus typically provides indemnities in respect of certain tax consequences.

(expressed in thousands of Canadian dollars, except shares (units) and earnings per share (unit))

32 Contingencies (continued)

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

33 Subsequent event

On February 2, 2012, Chorus repaid its promissory note and drew on the EDC financing for the tenth Q400 aircraft, which had been delivered in December 2011. The term loan is repayable by Chorus to EDC in semi-annual instalments of $US963, matures in February 2024, and is secured by one Q400 aircraft and two PWA 150A engines.