chorus aviation inc.

Unaudited Interim Condensed Consolidated Financial Statements
March 31, 2012

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	March 31, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents	110,184	108,068
Restricted cash	11,017	10,639
Accounts receivable – trade and other	100,299	93,783
Spare parts, materials and supplies	37,210	37,074
Prepaid expenses and deposits	30,332	39,046
Assets held for sale	13,115	12,956
Total current assets	302,157	301,566
Property and equipment (note 4)	441,297	409,040
Goodwill	6,693	6,693
Long-term investment	16,351	16,351
Deferred income tax (note 5)	9,527	11,409
Other assets	27,736	28,370
	803,761	773,429
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	238,903	233,487
Dividends payable	18,602	18,602
Current portion of obligations under finance leases	2,698	2,691
Current portion of long-term debt (note 6)	15,050	11,853
Promissory note payable	-	23,002
Unearned revenue	9,406	21,495
Total current liabilities	284,659	311,130
Obligations under finance leases	8,215	9,086
Long-term debt (note 6)	210,628	161,305
Convertible debentures	75,514	75,108
Other long-term liabilities	77,764	73,656
	656,780	630,285
Equity	146,981	143,144
	803,761	773,429

Contingencies (note 10)
Subsequent events (note 11)

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

chorus aviation inc.

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Retained earnings (deficit) $	Contributed surplus $	Equity component of convertible debentures $	Total $
Balance – January 1, 2011	-	(898,899)	1,050,269	9,497	160,867
Net income for the period	-	14,656	-	-	14,656
Other comprehensive loss for the period (net of tax)	-	(587)	-	-	(587)
Comprehensive income for the period	-	14,069	-	-	14,069
Dividends	-	(18,602)	-	-	(18,602)
Shares released from stock-based compensation plans	1,568	-	(1,568)	-	-
Expense related to the ongoing long-term incentive plan	-	-	585	-	585
Balance – March 31, 2011	1,568	(903,432)	1,049,286	9,497	156,919
Balance – April 1, 2011	1,568	(903,432)	1,049,286	9,497	156,919
Net income for the period	-	53,479	-	-	53,479
Other comprehensive loss for the period (net of tax)	-	(13,073)	-	-	(13,073)
Comprehensive income for the period	-	40,406	-	-	40,406
Dividends	-	(55,806)	-	-	(55,806)
Shares released from stock-based compensation plans	4	-	-	-	4
Expense related to the ongoing long-term incentive plan	-	-	1,621	-	1,621
Balance – December 31, 2011	1,572	(918,832)	1,050,907	9,497	143,144
Balance – January 1, 2012	1,572	(918,832)	1,050,907	9,497	143,144
Net income for the period	-	26,404	-	-	26,404
Other comprehensive loss for the period (net of tax)	-	(4,579)	-	-	(4,579)
Comprehensive income for the period	-	21,825	-	-	21,825
Dividends	-	(18,602)	-	-	(18,602)
Shares released from stock-based compensation plans	2,056	-	(2,056)	-	-
Expense related to the ongoing long-term incentive plan	-	-	614	-	614
Balance – March 31, 2012	3,628	(915,609)	1,049,465	9,497	146,981

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

Unaudited Consolidated Statements of Income
For the three-month periods ended March 31, 2012 and 2011

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

	Three months ended March 31, 2012 $	2011 $
Operating revenue (note 9)		
Passenger	434,511	441,033
Other	2,562	1,986
	437,073	443,019
Operating expenses (note 9)		
Salaries, wages and benefits	105,137	101,417
Aircraft fuel	98,556	110,872
Depreciation and amortization	12,941	9,714
Food, beverage and supplies	5,589	5,578
Aircraft maintenance materials, supplies and services	39,568	43,745
Airport and navigation fees	52,441	50,214
Aircraft rent	28,271	28,891
Terminal handling services	35,076	39,493
Other	29,557	31,522
	407,136	421,446
Operating income	29,937	21,573
Non-operating income (expenses)		
Interest revenue	267	209
Interest expense	(4,024)	(2,290)
Gain on disposal of property and equipment	59	139
Foreign exchange gain (loss)	3,715	(248)
	17	(2,190)
Income before deferred income taxes	29,954	19,383
Deferred income tax expense	(3,550)	(4,727)
Net income for the periods	26,404	14,656
Earnings per share, basic	$0.21	$0.12
Earnings per share, diluted	$0.20	$0.12

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

Unaudited Consolidated Statements of Comprehensive Income
For the three-month periods ended March 31, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2012 $	2011 $
Net income for the periods	26,404	14,656
Other comprehensive loss		
Actuarial loss on employee benefit liabilities, net of tax recovery of $1,668 (2011 - $213)	(4,579)	(587)
Comprehensive income	21,825	14,069

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

Unaudited Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2012 $	Three months ended March 31, 2011 $
Cash provided by (used in)		
Operating activities		
Net income for the periods	26,404	14,656
Charges (credits) to operations not involving cash		
Depreciation and amortization	12,941	9,714
Amortization of prepaid aircraft rent and related fees	538	478
Gain on disposal of property and equipment	(59)	(139)
Stock-based compensation	614	585
Unrealized foreign exchange gain on long-term debt and finance leases	(3,373)	(332)
Deferred income tax expense	3,550	4,727
Accretion of debt component of convertible debentures	406	383
Other	(355)	(569)
	40,666	29,503
Net changes in non-cash working capital balances related to operations (note 8)	(6,760)	(103)
	33,906	29,400
Financing activities		
Repayment of obligations under finance leases	(642)	(671)
Long-term borrowings	57,619	-
Repayment of long-term borrowings	(1,946)	-
Dividends	(18,602)	-
	36,429	(671)
Investing activities		
Additions to property and equipment	(67,741)	(6,967)
Assets held for sale	(159)	-
Proceeds on disposal of property and equipment	59	139
(Increase) decrease in restricted cash	(378)	650
	(68,219)	(6,178)
Net change in cash and cash equivalents during the periods	2,116	22,551
Cash and cash equivalents – Beginning of periods	108,068	65,896
Cash and cash equivalents – End of periods	110,184	88,447
Cash payments of interest	5,088	309
Cash receipts of interest	253	186
Cash and cash equivalents comprise:		
Cash	70,229	53,620
Term deposits and fixed income securities	39,955	34,827

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

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

1 General information

Chorus Aviation Inc. ("Chorus" or the "Company") was incorporated on September 27, 2010 under the laws of Canada. The Company entered into an arrangement agreement dated October 4, 2010 with, among other parties, Jazz Air Income Fund (the "Fund"), pursuant to which the parties proposed to implement an arrangement (the "Arrangement") under the Canada Business Corporations Act ("CBCA"). The Arrangement, which was effective December 31, 2010, involved the exchange, on a one-for-one basis, of units of the Fund for shares of Chorus. As a result of the Arrangement, unitholders of the Fund became shareholders of Chorus. The Fund was subsequently wound up into Chorus. The Arrangement has been accounted for as a continuity of interest of the Fund because Chorus continues to substantially operate the business of the Fund and there were no ownership changes. On November 18, 2010, Chorus incorporated Aviation General Partner Inc. to act as general partner for a newly formed partnership, Jazz Aviation LP (the "Partnership"). On January 5, 2011, substantially all of the assets of Jazz Air LP were transferred to the Partnership. The airline business previously carried on by Jazz Air LP is now carried on by the Partnership. On February 28, 2011, Chorus incorporated three wholly-owned subsidiaries under the CBCA, Chorus Leasing I Inc., Chorus Leasing II Inc., and Chorus Leasing III Inc. (collectively, the "LeaseCos"). These entities were established for the sole purpose of acquiring 15 Q400 NextGen turboprop aircraft ("Q400 aircraft").

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 and its country of domicile is Canada. Chorus was established to acquire and hold, directly or indirectly, investments in the Partnership and its general partner Aviation General Partner Inc., 7503695 Canada Inc. ("7503695"), the LeaseCos and such other investments as the Board of Directors (the "Directors") may determine.

Reference to Chorus or the Company in the following notes to the consolidated financial statements refer 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, 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.

Chorus provides a significant part of Air Canada's domestic and transborder network. 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.

Chorus also operated Boeing 757-200 aircraft on behalf of Thomas Cook to various sun destinations from Canadian gateways, pursuant to a Flight Services Agreement. See note 11 "Subsequent events" for a discussion of the early termination of this agreement by Thomas Cook, with effect as of April 30, 2012.

Under the CPA, Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. Termination of the Thomas Cook flying program is expected to return seasonality to previous patterns. 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.

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

2 Basis of presentation

Chorus prepares its unaudited interim condensed consolidated financial statements (the "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 – Part 1 ("CICA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements are in compliance with International Accounting Standards 34, *Interim Financial Reporting* ("IAS 34"). Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 3 of Chorus' consolidated financial statements for the year ended December 31, 2011. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2011.

These financial statements include all adjustments, composed of normal recurring adjustments, considered necessary by management to fairly state Chorus' results of operations, financial position and cash flows. The operating results for interim periods are not necessarily indicative of results that may be expected for any other interim period or for the full year.

These financial statements have been authorized for issuance by the Board of Directors on May 14, 2012.

3 Significant accounting policies, judgements and estimation uncertainty

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2011. Refer to note 3 of Chorus' consolidated financial statements for the year ended December 31, 2011 for information on new accounting standards and amendments not yet effective.

Critical accounting estimates and judgements

Operating Revenue

Pursuant to the terms of the CPA, Chorus and Air Canada are to re-set detailed Rates 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. The negotiation of these Rates has not been completed. As a result, for the period ended March 31, 2012, Chorus used a mutually agreed upon interim Rate of 1.25% plus the prior year's Rate as the basis for estimating CPA operating revenues during the quarter ended March 31, 2012. Once the new Rates are established, Chorus and Air Canada will reconcile amounts already recorded to those Rates now under negotiation. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. As such, Chorus' revenue is subject to judgement and estimate uncertainty. Were the negotiated Rates to differ 1% from the current estimate being used, the amount of operating revenue recognized under the CPA in the quarter would be increased/decreased by approximately $2,350.

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

4 Property and equipment

	Year ended December 31, 2011					Three months ended March 31, 2012			
	Opening net book value $	Additions $	Disposals $	Depreciation for the period $	Closing / opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	132,712	225,161	-	(19,904)	337,969	45,658	-	(7,361)	376,266
Major maintenance overhauls	11,531	16,233	-	(13,219)	14,545	3,445	-	(2,879)	15,111
Facilities	12,306	-	-	(630)	11,676	-	-	(157)	11,519
Equipment	12,537	3,358	-	(5,676)	10,219	503	-	(1,390)	9,332
Leaseholds	13,811	297	-	(1,897)	12,211	43	-	(455)	11,799
Flight equipment under finance leases	13,656	-	(58)	(2,813)	10,785	-	-	(699)	10,086
Deposits on aircraft	26,067	7,695	(22,127)	-	11,635	-	(4,451)	-	7,184
Total	222,620	252,744	(22,185)	(44,139)	409,040	49,649	(4,451)	(12,941)	441,297

	At December 31, 2011			At March 31, 2012		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	421,383	(83,414)	337,969	464,399	(88,133)	376,266
Major maintenance overhauls	28,847	(14,302)	14,545	29,509	(14,398)	15,111
Facilities	16,108	(4,432)	11,676	16,108	(4,589)	11,519
Equipment	41,929	(31,710)	10,219	42,432	(33,100)	9,332
Leaseholds	26,525	(14,314)	12,211	26,568	(14,769)	11,799
Flight equipment under finance leases	22,951	(12,166)	10,785	22,951	(12,865)	10,086
Deposits on aircraft	11,635	-	11,635	7,184	-	7,184
Total	569,378	(160,338)	409,040	609,151	(167,854)	441,297

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

5 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:

	Three months ended March 31,			
	2012 %	2012 $	2011 %	2011 $
Income tax expense at the Canadian statutory tax rate	27.4	8,207	26.7	5,169
Recognition of previously unrecognized cumulative eligible capital	(14.4)	(4,325)	(7.7)	(1,479)
Non-taxable portion of capital gains	(3.4)	(1,038)	-	-
Non-deductible expenses	2.0	625	2.9	557
Impact of substantively enacted tax rates on temporary differences	0.3	81	2.5	480
Income tax expense	11.9	3,550	24.4	4,727

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $588,823, as at March 31, 2012, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time that those benefits can be applied to reduce current tax expense. The benefit of the 2011 cumulative eligible capital deductions that were previously restricted under the initial recognition exemption and the 2012 cumulative eligible capital deductions will be recognized as a reduction to the 2012 current tax expense throughout the year. During the first quarter of 2012, Chorus utilized a total of $16,200 ($4,325 tax effected) of these previously unrecognized tax deductions to reduce its taxable income.

6 Long-term debt

Chorus has 12 separate loan agreements with Export Development Canada ("EDC") ("Q400 financing"), which provide committed financing for the majority of the purchase price of each of the 12 related Q400 aircraft deliveries. Each loan has a maturity of 12 years and bears interest at a fixed rate. At March 31, 2012, the net book value of property and equipment pledged as collateral under Q400 financing was $252,740.

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

6 Long-term debt (continued)

Long-term debt consists of the following:

	March 31, 2012 $
$225,678 owing under 12 separate term loans, repayable in semi-annual instalments, ranging from $960 to $1,013, including fixed interest at a weighted average rate of 3.559%, maturing between May 2023 and March 2024, each secured by one Dash 8 402 ("Q400") aircraft and two PWA 150A engines	225,678[1]
Less: Current portion	15,050
	210,628

(1) At March 31, 2012, the total Q400 financing payable in US dollars was US$226,244.

The following future principal repayments on long-term debt, which are payable in US dollars, have been converted to Canadian dollars at $0.9975, which was the exchange rate in effect at the end of day closing on March 31, 2012.

	$
No later than one year	15,050
Later than one year and no later than five years	68,602
Later than five years	142,026
	225,678

Under the Q400 financing, the "Jazz Group" (currently comprised of Jazz and the LeaseCos) is required to be in compliance with the following quarterly financial covenants:

- Maximum Adjusted Leverage Ratio of 2.25:1: adjusted consolidated debt[1] to consolidated EBITDAR[2]; and
- Minimum Adjusted Interest Coverage Ratio of 1.66:1: consolidated EBITDAR to the sum of consolidated interest expenses plus consolidated lease expense

(1) Consolidated Debt includes amounts related to Q400 financing, letters of credit and finance leases.
(2) Earnings before interest, taxes, depreciation, amortization and rent. This is a non-GAAP measurement.

As at March 31, 2012, 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 Q400 financing 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 and earnings per share)

7 Dividends

Since 2011, Chorus has declared a $0.15 quarterly dividend to shareholders of record on the last trading day of each quarter. Chorus declared $18,602 in dividends during each of the three months ended March 31, 2012 and March 31, 2011. Cash dividends paid during the three months ended March 31, 2012 were $18,602 (March 31, 2011 - $nil).

8 Statement of cash flows – supplementary information

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

	Three months ended March 31, 2012 $	2011 $
Increase in accounts receivable – trade and other	(6,516)	(9,742)
(Increase) decrease in spare parts, materials and supplies	(136)	1,168
Decrease (increase) in prepaid expenses	8,714	(1,299)
Increase in other assets	132	111
Increase in accounts payable and accrued liabilities	4,957	14,532
Decrease in unearned revenue	(12,089)	(2,922)
Decrease in other long-term liabilities	(1,822)	(1,951)
	(6,760)	(103)

9 Economic dependence

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

	Three months ended March 31, 2012 $	2011 $
Operating revenue		
Air Canada	400,761	384,726
Operating expenses		
Air Canada	23,138	26,291
Air Canada Capital Ltd.	19,551	19,362

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

	March 31, 2012 $	2011 $
Accounts receivable		
Air Canada	62,553	63,481
Accounts payable and accrued liabilities		
Air Canada	71,139	70,780
Air Canada Capital Ltd.	11,146	10,863

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

10 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 (the "Arbitration") in respect of the 2009 benchmarking process under the CPA (the "2009 Benchmark"). Hearing of the Arbitration is scheduled for June 2012. 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. 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, 2011 or 2012 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.

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.

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

10 Contingencies (continued)

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.

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.

11 Subsequent events

a) On April 13, 2012, Chorus announced that it had received notification from Thomas Cook of its intention to discontinue operating dedicated charter aircraft, branded as Thomas Cook Canada, due to market conditions. As a consequence, the remaining three years of the five-year flight services agreement with Chorus were terminated, effective April 30, 2012. Chorus continued to operate the Thomas Cook Canada flights, as scheduled, for the remainder of the winter 2011-2012 program with the normal seasonal wind down completed on April 28, 2012. Chorus and Thomas Cook reached a commercial settlement in respect of the termination of the flight services agreement, the economic terms of which reflect the original and intended expiration of the agreement, and address the recovery of certain initial start-up costs and foregone revenues. Amounts related to this settlement were recorded in the financial statements of Chorus on the effective date of the termination.

b) Chorus has entered into an agreement with a third party with respect to the sale of Q400 aircraft spare parts, which are classified as assets held for sale, for an amount which approximates the carrying value recorded on its statement of financial position. This agreement was effective May 1, 2012.