Unaudited Consolidated Financial Statements
September 30, 2011

November 7, 2011

Management's Report

The accompanying unaudited consolidated financial statements of **Chorus Aviation Inc.** are the responsibility of management and have been approved by the Board of Directors. The unaudited consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The unaudited 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 unaudited 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

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	96,956	65,896	223,559
Restricted cash	5,641	8,812	-
Accounts receivable – trade and other	77,121	87,031	59,044
Spare parts, materials and supplies	34,874	33,844	40,755
Prepaid expenses	26,168	25,918	19,909
Assets held for resale (note 6)	14,823	-	-
Total current assets	255,583	221,501	343,267
Property and equipment (note 6)	314,742	222,620	216,823
Goodwill	6,693	6,693	6,693
Long-term investment	16,351	16,351	-
Deferred income tax (note 5)	17,744	27,222	45,115
Other assets (note 5)	29,581	29,406	29,224
	640,694	523,793	641,122
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	217,452	208,172	179,216
Dividends payable (note 10)	18,602	-	6,143
Current portion of obligations under finance leases	2,809	2,748	2,681
Current portion of long-term debt	6,668	-	114,706
Total current liabilities	245,531	210,920	302,746
Obligations under finance leases	10,081	11,543	15,097
Long-term debt (note 7)	92,748	-	-
Convertible debentures	74,707	73,541	77,607
Other long-term liabilities (note 5)	81,889	66,922	85,446
	504,956	362,926	480,896
Equity	135,738	160,867	160,226
	640,694	523,793	641,122

Economic dependence (note 9)
Contingencies (note 11)
Subsequent events (note 12)

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

Unaudited Consolidated Statement 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
Other comprehensive (loss) income for the period	-	(3,651)	-	802	-	(2,849)
Distributions	-	(55,287)	-	-		(55,287)
Shares (units) held by stock based compensation plans	764	-	-	-	-	764
Net income for the period	-	67,770	-	-	-	67,770
Balance – September 30, 2010	1,036,044	(869,417)	3,997	-	-	170,624
Other comprehensive income for the period	-	889	-	-	-	889
Distributions	-	(18,489)	-	-	-	(18,489)
Conversion of convertible debentures	6,393	-	-	-	-	6,393
Issuance of shares	4	-	-	-	-	4
Reclassification of liabilities to equity as a result of the Arrangement	-	-	3,831	-	9,497	13,328
Capital reduction pursuant to the Arrangement (note 1)	(1,042,441)	-	1,042,441	-	-	-
Net loss for the period	-	(11,882)	-	-	-	(11,882)
Balance – December 31, 2010	-	(898,899)	1,050,269	-	9,497	160,867
Other comprehensive loss for the period	-	(16,496)	-	-	-	(16,496)
Dividends	-	(55,806)	-	-	-	(55,806)
Shares held by stock based compensation plans	1,056	-	(1,052)	-	-	4
Accretion related to the ongoing long-term incentive plan	-	-	1,708	-	-	1,708
Net income for the period	-	45,461	-	-	-	45,461
Balance – September 30, 2011	1,056	(925,740)	1,050,925	-	9,497	135,738

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

Unaudited Consolidated Statements of Income

For the three and nine months ended September 30, 2011 and 2010

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

	Three months ended September 30, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Operating revenue (note 9)				
Passenger	409,634	377,541	1,251,225	1,088,964
Other	2,026	1,568	5,500	4,527
	411,660	379,109	1,256,725	1,093,491
Operating expenses (note 9)				
Salaries, wages and benefits	98,149	91,023	297,498	264,297
Aircraft fuel	102,576	77,632	316,492	214,827
Depreciation and amortization	11,860	10,385	31,499	31,617
Food, beverage and supplies	3,475	3,478	11,594	9,694
Aircraft maintenance materials, supplies and services	36,286	40,190	117,189	116,672
Airport and navigation fees	50,334	49,628	148,892	142,200
Aircraft rent	24,981	28,422	79,272	86,881
Terminal handling services	23,897	23,366	87,714	75,985
Other	29,008	28,009	89,948	82,604
	380,566	352,133	1,180,098	1,024,777
Operating income	31,094	26,976	76,627	68,714
Non-operating income (expenses)				
Interest revenue	220	160	761	354
Interest expense	(2,904)	(1,946)	(7,571)	(7,156)
Gain on disposal of property and equipment	205	104	539	588
Foreign exchange (loss) gain	(10,085)	963	(9,955)	(698)
Gain (loss) on derivative liabilities	-	3,910	-	(116)
Gain on Asset Backed Commercial Paper (“ABCP”)	-	-	547	-
	(12,564)	3,191	(15,679)	(7,028)
Income before deferred income taxes	18,530	30,167	60,948	61,686
Deferred income tax (expense) recovery (note 5)	(4,620)	(4)	(15,487)	6,084
Net income for the periods	13,910	30,163	45,461	67,770
Earnings per share (unit), basic	0.11	0.25	0.37	0.55
Earnings per share (unit), diluted	0.11	0.20	0.36	0.48

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

Unaudited Consolidated Statements of Comprehensive Income
For the three and nine months ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2011 **$**	**2010** **$**	**2011** **$**	**2010** **$**
Net income for the periods	13,910	30,163	45,461	67,770
Other comprehensive (loss) income				
Reclassification of net realized losses on derivatives designated as cash flow hedges to income	-	-	-	802
Net (loss) gain on employee benefit liabilities, net of tax recovery (expense) of $4,933 and $6,009 (2010 - $(38) and $2,769)	(13,541)	38	(16,496)	(2,769)
Tax adjustment to items previously charged to other comprehensive income	-	-	-	(882)
Comprehensive income	369	30,201	28,965	64,921

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

Unaudited Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2011 and 2010

(expressed in thousands of Canadian dollars)

	Three months ended September 30, 2011 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2011 $	Nine months ended September 30, 2010 $
Cash provided by (used in)				
Operating activities				
Net income for the periods	13,910	30,163	45,461	67,770
Charges (credits) to operations not involving cash				
Depreciation and amortization	11,860	10,385	31,499	31,617
Amortization of prepaid aircraft rent and related fees	493	483	1,451	1,417
Gain on disposal of property and equipment	(205)	(104)	(539)	(588)
Stock based compensation	537	-	1,708	764
Unrealized foreign exchange loss (gain)	7,625	(528)	6,638	(327)
Deferred income tax expense (recovery)	4,620	4	15,487	(6,084)
Accretion of debt component of convertible debentures	395	401	1,167	1,184
Other	(512)	(1,061)	(1,904)	(34)
(Gain) loss on derivative liabilities	-	(3,910)	-	116
	38,723	35,833	100,968	95,835
Net changes in non-cash working capital balances related to operations (note 8)	14,288	2,023	10,662	(6,983)
	53,011	37,856	111,630	88,852
Financing activities				
Repayment of obligations under finance leases	(686)	(669)	(2,025)	(1,966)
Repayment of long-term debt	-	-	-	(115,000)
Long-term borrowings	56,352	-	93,393	-
Convertible debentures, net of deferred financing costs	-	-	-	(140)
Dividends / distributions	(18,602)	(18,429)	(37,204)	(55,287)
	37,064	(19,098)	54,164	(172,393)
Investing activities				
Additions to property and equipment	(70,509)	(6,332)	(126,633)	(15,534)
Purchase deposits on aircraft, net of applied deposits	6,429	(3,022)	3,012	(22,666)
Assets held for resale	(2,384)	-	(14,823)	-
Long-term investment	-	-	-	(16,351)
Proceeds on disposal of property and equipment	205	104	539	588
(Increase) decrease in restricted cash	(11)	-	3,171	-
	(66,270)	(9,250)	(134,734)	(53,963)
Net change in cash and cash equivalents during the periods	23,805	9,508	31,060	(137,504)
Cash and cash equivalents – Beginning of periods	73,151	76,547	65,896	223,559
Cash and cash equivalents – End of periods	96,956	86,055	96,956	86,055
Cash payments of interest	275	356	4,683	7,171
Cash receipts of interest	205	127	672	371
Cash and cash equivalents comprise:				
Cash	71,976	86,055	71,976	86,055
Term deposits and fixed income securities	24,980	-	24,980	-

The accompanying notes are an integral part of these unaudited 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. 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, 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 for the period ended September 30, 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. 2010 – 2011 represented the inaugural season of flying under the Flight Services Agreement, which will remain in place for four 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, Chorus has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "GAAP" or "IFRS" refers to generally accepted accounting principles in Canada after the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34 and IFRS 1. 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.

The policies applied in these interim consolidated financial statements are based on IFRS, effective as of November 7, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in Chorus' annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with Chorus' Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010, and Chorus' unaudited consolidated 2011 quarterly financial statements. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented. Note 5 provides certain disclosures required in annual financial statements prepared in accordance with IFRS which are material to an understanding of these financial statements.

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

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 that are measured at fair value.

The preparation of financial statements in conformity with GAAP 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 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(f) for further details.

Income taxes

- Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustments to Chorus' deferred and current tax assets and liabilities.

Amortization period for long-lived assets

- Chorus makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, Chorus' fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense.

Impairment considerations on long-lived assets

- An impairment test is performed by comparing the carrying amount of the asset or cash generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates.

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").

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

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

Provisions

- Provisions are recorded when management believes it is probable that an outflow of resources will be required to settle an obligation. Management's assumptions on the likelihood of a potential obligation being realized and the value of the potential obligation are subject to significant estimates and actual results could be materially different from these estimates.

b) Principles of consolidation

These consolidated financial statements include the accounts of Chorus and its subsidiaries, 7503695, the LeaseCos, Jazz Air LP, Jazz GP, Aviation General Partner Inc., the special purpose entity ("SPE") which holds the Jazz long-term incentive plan ("LTIP") and the consolidated accounts of the Partnership. All inter-company and inter-entity balances and transactions are eliminated.

c) 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.

d) 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.

e) 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 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.

The CPA with Air Canada provides for a monthly payment for an amount per aircraft designed to reimburse Chorus for certain aircraft ownership costs. In accordance with International Financial Reporting Interpretations Committee ("IFRIC") interpretation 4, *Determining Whether an Arrangement Contains a Lease*, 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 $35,753 for the three months ended September 30, 2011 ($36,134 for the three months ended September 30, 2010) and $103,684 for the nine months ended September 30, 2011 ($109,937 for the nine months ended September 30, 2010).

f) Employee benefits

The significant policies related to employee benefits, consistent with IAS 19, *"Employee Benefits"* of the CICA Handbook relating to Chorus' 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:

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

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

- 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 the same line items in the statement of income as the related compensation cost.

- Other employee benefits consist of two categories of benefits:

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

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

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

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

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

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

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

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

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

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

g) 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.

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, 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 an other 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(h). 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.

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

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

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 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.

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.

h) 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.

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

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

- Accounts payable, distributions 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.

- After the Arrangement, the embedded derivative was reclassified from financial liabilities to equity at the carrying amount of $13,026, less the related deferred tax asset of $3,529.

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.

i) 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 - 20% 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.

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

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

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.

j) 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 balance 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.

k) 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 operating segment level.

l) Impairment of non-financial assets

Property and equipment 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.

m) Foreign currency translation

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.

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

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

n) 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.

o) 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.

p) 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.

q) 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.

r) Earnings per share (unit)

Earnings per share are calculated on a weighted average number of shares or units outstanding basis. Shares or units held 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.

Diluted earnings per share are presented for the effects of all dilutive potential common shares by adjusting the net income attributable to Chorus shareholders and the weighted average number of shares outstanding, as follows:

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

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

(i) 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 outstanding, the weighted average number of common shares 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.

(ii) for the restricted share units under the Chorus and Jazz LTIPs, by adding to the weighted average number of common shares outstanding, the number of potential common shares that would be issued if the end of the period were the end of the performance period based on the grants as of the beginning of the period or the grant date, if later.

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.

s) 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.

t) Assets held for resale

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.

Accounting standards issued but not yet applied

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, 2013, 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 IAS 19, Employee Benefits

The IASB issued revisions to IAS 19, 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.

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. Chorus will ultimately prepare its opening statement of financial position and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of December 31, 2011, or prior. Accordingly, the opening statement of financial position and financial statements for 2010 and 2011 may differ from these financial statements.

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

4 Transition to IFRS (continued)

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. All prior business combinations will not be 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, 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.

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 $	September 30, 2010 $	January 1, 2010 $
Equity as reported under Canadian GAAP		865,183	792,943	804,455
Increase (decrease) under IFRS:				
Restatement of business combination with Jazz Air LP	(a)	(643,987)	(652,035)	(676,179)
Capitalization of major maintenance events	(b)	11,531	11,998	13,829
Employee benefits – additional minimum funding liability under IFRIC 14	(c)	(2,071)	-	(22,186)
Employee benefits - actuarial losses, pension and other employee benefits	(c)	(35,884)	(39,908)	(11,627)
Recognition of equity portion of convertible debentures and LTIP as liabilities	(d)	456	(7,538)	(6,868)
Fresh start reporting	(e)	393	393	393
Deferred income tax	(f)	(34,754)	64,771	58,409
Equity as reported under IFRS		160,867	170,624	160,226

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

4 Transition to IFRS (continued)

Comprehensive income		Year ended December 31, 2010 $	Three months ended September 30, 2010 $	Nine months ended September 30, 2010 $
As reported under Canadian GAAP		126,620	19,082	41,998
Increase (decrease) under IFRS in net income for:				
Amortization of CPA intangible asset	(a)	32,192	8,048	24,144
Capitalization of major maintenance events	(b)	(2,298)	426	(1,831)
Employee benefits - actuarial loss	(c)	(2,049)	(180)	(557)
Change in fair value of derivative liabilities	(d)	(8,810)	3,756	343
Deferred income tax	(f)	(88,965)	(969)	4,475
		(69,930)	11,081	26,574
Increase (decrease) under IFRS in other comprehensive income for:				
Employee benefits – additional minimum funding liability under IFRIC 14	(c)	20,115	-	22,186
Employee benefits - actuarial loss	(c)	(22,208)	-	(27,800)
Tax impact of adjustments to other comprehensive income		(669)	38	1,963
		(2,762)	38	(3,651)
As reported under IFRS		53,928	30,201	64,921

(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

		Three months ended September 30, 2010			Nine months ended September 30, 2010		
		Canadian GAAP $	Adj $	IFRS $	Canadian GAAP $	Adj $	IFRS $
Operating revenue							
Passenger		377,541	-	377,541	1,088,964	-	1,088,964
Other		1,568	-	1,568	4,527	-	4,527
		379,109	-	379,109	1,093,491	-	1,093,491
Operating expenses							
Salaries, wages and benefits	(b,c,d)	92,728	(1,705)	91,023	268,570	(4,273)	264,297
Aircraft fuel		77,632	-	77,632	214,827	-	214,827
Depreciation and amortization	(b)	7,409	2,976	10,385	22,486	9,131	31,617
Amortization of CPA	(a)	8,048	(8,048)	-	24,144	(24,144)	-
Food beverage and supplies		3,478	-	3,478	9,694	-	9,694
Aircraft maintenance materials, supplies and services	(b)	41,552	(1,362)	40,190	119,659	(2,987)	116,672
Airport and navigation fees		49,628	-	49,628	142,200	-	142,200
Aircraft rent		28,422	-	28,422	86,881	-	86,881
Terminal handling services		23,366	-	23,366	75,985	-	75,985
Other		28,009	-	28,009	82,604	-	82,604
		360,272	(8,139)	352,133	1,047,050	(22,273)	1,024,777
Operating income		18,837	8,139	26,976	46,441	22,273	68,714
Non-operating income (expenses)							
Interest revenue		160	-	160	354	-	354
Interest expenses	(d)	(1,947)	1	(1,946)	(7,098)	(58)	(7,156)
Gain on disposal of property and equipment		104	-	104	588	-	588
Foreign exchange gain (loss)		963	-	963	(698)	-	(698)
Gain (loss) on derivative liabilities	(d)	-	3,910	3,910	-	(116)	(116)
		(720)	3,911	3,191	(6,854)	(174)	(7,028)
Income before deferred taxes		18,117	12,050	30,167	39,587	22,099	61,686
Deferred income tax (expense) recovery	(f)	965	(969)	(4)	1,609	4,475	6,084
Net income for the periods		19,082	11,081	30,163	41,196	26,574	67,770

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

4 Transition to IFRS (continued)

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.

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 made 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 $8,048 for the three months ended September 30, 2010 and $24,144 for the nine months ended September 30, 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

- Maintenance and labour expense recorded under Canadian GAAP for the three and nine months ended September 30, 2010 decreased by $3,402 and $7,300, respectively.
- Depreciation and amortization for the three and nine months ended September 30, 2010 increased by $2,976 and $9,131, respectively.

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.

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

4 Transition to IFRS (continued)

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.

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 $180 and $557 for the three and nine months ended September 30, 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. For the three months ended September 30, 2010, income of $38 was recorded and for the nine months ended September 30, 2010, a charge of $2,769 was recorded to other comprehensive income.

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 interests. IFRS does not permit such rights to be classified as equity.

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

4 Transition to IFRS (continued)

On January 1, 2010, under GAAP, 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.

On January 1, 2010, under GAAP, 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 $3,910 gain for the three months ended September 30, 2010 and a $116 loss for the nine months ended September 30, 2010, recognized in non-operating expense.

- The adjustment to the debt component of the convertible debenture resulted in an increase to interest expense of $1 and $58 for the three and nine months ended September 30, 2010, respectively.

- 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 increased by $155 and decreased by $517 for the three and nine months ended September 30, 2010, respectively.

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*.

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

4 Transition to IFRS (continued)

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.
- 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

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

4 Transition to IFRS (continued)

Impact on statement of cash flows

The accounting policy under IFRS for major maintenance overhaul expenditures as explained in note 3(i) 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 $3,402 and $7,300 has been reclassified (as additions to property, plant and equipment) from operating activities to investing activities for the three and nine months ended September 30, 2010, respectively.

5 Additional IFRS information for the year ended December 31, 2010

The following provides certain disclosures required in annual financial statements prepared in accordance with IFRS, which are material to an understanding of the December 31, 2010 annual financial statements.

Commitments

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 September 30, 2011, Chorus took delivery of five Q400 aircraft.

The purchase agreement with Bombardier required on-going monthly predelivery payments in the aggregate amount of $33,762. As at September 30, 2011, Chorus has made all of the required predelivery payments.

Other assets

	As at September 30, 2011 $	As at December 31, 2010 $
Prepaid aircraft rent and related fees, net of accumulated amortization	25,009	24,891
Accrued pension benefit asset (SERP)	3,775	4,065
Asset backed commercial paper	797	450
	29,581	29,406

Other long-term liabilities

	As at September 30, 2011 $	As at December 31, 2010 $
Accrued pension benefit liability (RPP)	28,018	12,766
Accrued other future employee benefits liability	15,468	13,230
Deferred operating lease inducements, non-current portion	38,086	40,926
Other	317	-
	81,889	66,922

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

5 Additional IFRS information for the year ended December 31, 2010 (continued)

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, 2010 $
Salaries and other benefits	3,211
Other post-employment benefits	1,339
Stock based compensation	1,221
	5,771

Pension and other future employee benefits

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

	For the year ended December 31, 2010	
	Pension Benefits $	Other Future Employee Benefits $
Change in benefit obligation		
Benefit obligation, beginning of year	126,456	9,639
Current service cost	8,238	1,739
Interest cost	9,202	592
Plan participants' contributions	6,432	-
Benefits paid	(4,253)	(1,237)
Actuarial loss	25,313	2,497
Benefit obligation, end of year	171,388	13,230
Change in plan assets		
Fair value of plan assets, beginning of year	127,721	-
Expected return on plan assets	8,787	-
Employer contribution	21,684	1,237
Plan participants' contributions	6,432	-
Benefits paid	(4,252)	(1,237)
Actuarial gain	3,351	
Fair value of plan assets, end of year	163,723	-
Funded status, end of year	(7,665)	(13,230)
Accrued contributions	1,035	-
Additional liability under IFRIC 14	(2,071)	-
Accrued benefit asset (liability)	(8,701)	(13,230)

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

5 Additional IFRS information for the year ended December 31, 2010 (continued)

The expected return on assets assumption was determined in consultation with Chorus' actuary, based on the target allocations of the pension plans and median returns at the end of 2010. Expected returns for the categories of plan assets are as follows:

Equities - 7.7%
Fixed Income - 3.6%

	Three months ended September 30,			
	2011		2010	
	Pension $	Other Future Employee Benefits $	Pension $	Other Future Employee Benefits $
Components of cost under IAS 19				
Amounts recognized in profit or loss:				
Current service cost	4,027	518	2,060	435
Interest cost	2,721	171	2,301	148
Expected return on plan assets	(2,768)	-	(2,197)	-
Cost arising in the period	3,980	689	2,164	583
Differences between cost arising in the period and cost recognized in the period in respect of actuarial loss	-	328	-	180
	3,980	1,017	2,164	763

	Nine months ended September 30,			
	2011		2010	
	Pension $	Other Future Employee Benefits $	Pension $	Other Future Employee Benefits $
Components of cost under IAS 19				
Amounts recognized in profit or loss:				
Current service cost	12,081	1,552	6,180	1,305
Interest cost	8,163	511	6,903	444
Expected return on plan assets	(8,304)	-	(6,591)	-
Cost arising in the period	11,940	2,063	6,492	1,749
Differences between cost arising in the period and cost recognized in the period in respect of actuarial loss	-	1,051	-	557
	11,940	3,114	6,492	2,306

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

5 Additional IFRS information for the year ended December 31, 2010 (continued)

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 September 30,			
	2011 %	2011 $	2010 %	2010 $
Income tax expense at the Canadian statutory tax rate	28.3	5,243	50.0	15,083
Deductible trust distributions	-	-	(37.8)	(11,389)
Recognition of previously unrecognized tax deductible amounts	(12.0)	(2,233)	(11.5)	(3,474)
Non-deductible expenses	5.7	1,056	3.7	1,112
Unrecognized benefit of capital loss	4.6	849	-	-
Tax effect of temporary differences reversing after period end	(1.7)	(295)	(4.4)	(1,328)
Income tax expense (recovery)	24.9	4,620	0.0	4

	Nine months ended September 30,			
	2011 %	2011 $	2010 %	2010 $
Income tax expense at the Canadian statutory tax rate	28.3	17,245	49.5	30,559
Deductible trust distributions	-	-	(44.4)	(27,397)
Recognition of previously unrecognized tax deductible amounts	(8.9)	(5,419)	(15.2)	(9,370)
Non-deductible expenses	5.4	3,311	4.3	2,676
Unrecognized benefit of capital loss	1.4	849	-	-
Tax effect of temporary differences reversing after period end	(0.8)	(499)	(4.1)	(2,552)
Income tax expense (recovery)	25.4	15,487	(9.9)	(6,084)

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

5 Additional IFRS information for the year ended December 31, 2010 (continued)

Deferred tax

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

	September 30, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred income tax liability			
- Deferred Partnership income	(8,988)	(1,048)	(54)
- Convertible debentures	(877)	-	-
Deferred income tax asset			
- Loss carryforwards	3,892	-	-
- Property and equipment	1,181	9,709	16,220
- Deferred lease inducement	10,869	10,246	18,357
- Other long-term liabilities	11,667	8,315	10,592
Net deferred income tax asset	17,744	27,222	45,115

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $616,574 as at September 30, 2011 (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.

As at September 30, 2011, Chorus has $3,001 (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.

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

6 Property and equipment

	Flight equipment $	Facilities $	Equipment $	Leaseholds $	Assets under finance leases $	Deposits on aircraft $	Total $
At January 1, 2010							
Cost	209,639	15,972	35,138	38,587	23,201	-	322,537
Accumulated depreciation	(55,043)	(3,303)	(20,384)	(20,286)	(6,698)	-	(105,714)
Net book value	154,596	12,669	14,754	18,301	16,503	-	216,823
Year ended December 31, 2010							
Opening net book value	154,596	12,669	14,754	18,301	16,503	-	216,823
Additions	17,639	273	3,665	213	-	26,067	47,857
Disposals	(171)	-	-	-	-	-	(171)
Depreciation for the period	(27,821)	(636)	(5,882)	(4,703)	(2,847)	-	(41,889)
Closing net book value	144,243	12,306	12,537	13,811	13,656	26,067	222,620
At January 1, 2011							
Cost	195,083	16,108	38,571	26,228	23,201	26,067	325,258
Accumulated deprecation	(50,840)	(3,802)	(26,034)	(12,417)	(9,545)	-	(102,638)
Net book value	144,243	12,306	12,537	13,811	13,656	26,067	222,620
Period ended September 30, 2011							
Opening net book value	144,243	12,306	12,537	13,811	13,656	26,067	222,620
Additions	123,889	-	2,498	246	-	7,695	134,328
Disposals/applied deposits	-	-	-	-	-	(10,707)	(10,707)
Depreciation for the period	(23,286)	(472)	(4,160)	(1,447)	(2,134)	-	(31,499)
Closing net book value	244,846	11,834	10,875	12,610	11,522	23,055	314,742
At September 30, 2011							
Cost	318,972	16,108	41,069	26,474	23,201	23,055	448,879
Accumulated deprecation	(74,126)	(4,274)	(30,194)	(13,864)	(11,679)	-	(134,137)
Net book value	244,846	11,834	10,875	12,610	11,522	23,055	314,742

As at September 30, 2011, Chorus has acquired $14,823 in Q400 rotable parts which it is holding for resale to a third party. The amount has been recorded as a current asset.

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

7 Long-term debt

On March 10, 2011, Chorus signed loan agreements with Export Development Canada ("EDC"), which in total provided committed financing for the majority of the purchase price of each of the 15 firm Q400 aircraft orders. Each aircraft will have a separate term loan with a maturity of 12 years. The remaining amount will be funded by applying aircraft deposits previously made by Chorus to the manufacturer and from working capital. At September 30, 2011, the net book value of property and equipment pledged as collateral under EDC financing was $104,023.

Long-term debt consists of the following:

	September 30, 2011 $
$99,416 owing under five separate term loans, repayable in semi-annual instalments, ranging from $1,009 to $1,064, including fixed interest at a weighted average rate of 3.831%, maturing between May 2023 and September 2023, each secured by one Dash 8 402 ("Q400") aircraft and two PWA 150A engines	99,416[(1)]
Less: Current portion	6,668
	92,748

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

Future principal repayments on long-term debt are as follows:

	$
2011	1,287
2012	6,723
2013	6,982
2014	7,252
2015	7,532
Thereafter	69,641

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 September 30, 2011, the "Jazz Group" is 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.

At September 30, 2011, the fair value of the fixed rate term loans is $108,000. 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.

The term loans bear fixed interest rates. Therefore, this debt is not subject to interest rate volatility. Chorus accounts for its long-term debt at amortized cost, and therefore, a change in interest rates at September 30, 2011 would not impact earnings.

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

7 Long-term debt (continued)

Chorus receives certain revenue and incurs certain expenses in US currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for services in the underlying currency related to the expenditure. As a result, its primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under finance leases, and long-term debt, which are long-term and subject to larger unrealized gains or losses. Chorus mitigates this currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US denominated assets was $30,429 and US denominated liabilities was $167,295 at September 30, 2011. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $1,369, of which approximately $948 relates to long-term debt.

8 Statement of cash flows – supplementary information

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	$	$	$	$
Decrease (increase) in accounts receivable – trade and other	15,608	(7,358)	9,910	(7,558)
(Increase) decrease in spare parts, materials and supplies	(538)	1,612	(1,030)	5,353
Decrease (increase) in prepaid expenses	1,853	(2,846)	(250)	(5,271)
Decrease (increase) in other assets	119	111	(1,203)	(2,497)
(Decrease) increase in accounts payable and accrued liabilities	(93)	12,165	9,280	10,430
Decrease in other long-term liabilities	(2,661)	(1,661)	(6,045)	(7,440)
	14,288	2,023	10,662	(6,983)

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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	$	$	$	$
Operating revenue				
Air Canada	406,264	375,296	1,182,808	1,084,483
Operating expenses				
Air Canada	20,022	21,365	65,752	69,244
Air Canada Capital Ltd.	19,111	21,158	57,485	64,212

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

9 Economic dependence (continued)

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

	As at September 30, 2011 $	2010 $
Accounts receivable		
Air Canada	62,180	59,183
Accounts payable and accrued liabilities		
Air Canada	68,281	55,758
Air Canada Capital Ltd.	11,715	14,528

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 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.

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

9 Economic dependence (continued)

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.

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% shall 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.

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

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

9 Economic dependence (continued)

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

Chorus and Air Canada were unable to reach agreement in 2010 on the results of the 2009 Benchmark. On February 3, 2011, Chorus and Air Canada agreed to proceed to binding arbitration in respect of the 2009 Benchmark (the "Arbitration"). On October 3, 2011, Air Canada delivered its claim in the Arbitration (the "AC Claim"). In the AC Claim, Air Canada seeks a declaration that the appropriate methodology for comparing Chorus' Unit Costs to the adjusted median controllable unit costs of the Comparable Operators is a "component unit cost driver methodology" or "CUCD". The AC Claim further seeks a declaration that the proper application of the CUCD for the purpose of the 2009 Benchmark results in a reduction of the Controllable Mark-Up from 12.50% to 9.54%, effective from January 2010. Air Canada claims that, if the Controllable Mark-Up is reduced from 12.50% to 9.54%, Chorus would be required to repay Air Canada the amount of $26,000 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.

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 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.

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

9 Economic dependence (continued)

The CPA Amending Agreement provides for amendments 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 a guaranteed minimum number of 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 return of the ten aircraft temporarily reduced the fleet of Covered Aircraft to 123 aircraft.

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.

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.

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.

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 three and nine months ended September 30, 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 insurance and corporate real estate services, environmental affairs services and legal 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 (formerly ACGHS Limited Partnership) 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))

10 Dividends

A quarterly dividend of $0.15 per share, declared in September 2011 was paid in October 2011 (2010 - $0.05 monthly distribution per unit, for a total of $0.15 per unit for the three months ended September 30, 2010, was declared). This dividend was recorded in the financial statements for the period ended September 30, 2011.

11 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.

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.

Various other lawsuits and claims that have arisen in the normal course of business are pending by and against Chorus and provisions have been recorded where appropriate. 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.

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

11 Contingencies (continued)

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.

12 Subsequent events

a) On October 3, 2011, Air Canada delivered its claim in respect of the 2009 Benchmarking Arbitration and on November 7, 2011, Chorus delivered its defence and counterclaim. For further details, please refer to note 9 – Economic Dependence.

b) In October, Chorus took delivery of the sixth and seventh Q400 aircraft. The sixth Q400 entered into service on November 1, 2011 and the seventh is scheduled to enter into service on December 1, 2011. Chorus has secured EDC financing for the majority of the purchase price for each of the two Q400 aircraft orders. These term loans are repayable by Chorus to EDC in semi-annual instalments of US$988 and US$987, respectively, mature in October 2023 and are each secured by one Q400 aircraft and two PWA 150A engines. These financing arrangements are consistent with financing obtained by Chorus from EDC for each of the 15 firm Q400 aircraft to be delivered by the manufacturer.

c) On October 18, 2011, Chorus and Bombardier Inc. signed a change order in respect of delivery dates regarding the original purchase agreement for Q400 aircraft. Chorus will now take delivery of the ninth and tenth Q400 aircraft prior to December 31, 2011. The original agreement contemplated delivery of the ninth and tenth Q400 aircraft in January 2012 and February 2012, respectively.