Unaudited Interim Condensed Consolidated Financial Statements
March 31, 2013

chorus aviation inc.

May 9, 2013

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 generally accepted accounting principles in Canada ("GAAP"). 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)

	March 31, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	118,132	118,306
Restricted cash	4,526	6,017
Accounts receivable – trade and other	99,291	78,949
Spare parts, materials and supplies	39,046	38,149
Prepaid expenses and deposits	26,743	25,942
Total current assets	287,738	267,363
Property and equipment (note 4)	611,743	499,872
Goodwill	6,693	6,693
Deferred income tax (note 5)	—	2,099
Other assets	41,459	36,280
	947,633	812,307
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	224,913	205,588
Dividends payable (note 8)	18,662	18,602
Current portion of obligations under finance leases	3,001	2,875
Current portion of long-term debt (note 7)	27,667	20,281
Income tax payable	362	513
Promissory note payable (note 6)	7,682	—
Total current liabilities	282,287	247,859
Obligations under finance leases	5,366	6,014
Long-term debt (note 7)	368,663	257,165
Convertible debentures	77,200	76,769
Deferred income tax (note 5)	1,134	—
Other long-term liabilities	88,675	92,385
	823,325	680,192
Equity	124,308	132,115
	947,633	812,307

Economic dependence (note 10)
Contingencies (note 13)
Subsequent event (note 14)

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Contributed surplus $	Equity component of convertible debentures $	Total $
Balance - December 31, 2011	1,572	(918,832)	1,050,907	9,497	143,144
Net income for the period (note 3)	—	26,183	—	—	26,183
Other comprehensive loss for the period (net of tax) (note 3)	—	(4,358)	—	—	(4,358)
Comprehensive income for the period	—	21,825	—	—	21,825
Dividends	—	(18,602)	—	—	(18,602)
Shares released from stock-based compensation plans	2,056	—	(2,056)	—	—
Expense related to the stock-based compensation plans	—	—	614	—	614
Balance - March 31, 2012	3,628	(915,609)	1,049,465	9,497	146,981
Net income for the period	—	74,040	—	—	74,040
Other comprehensive loss for the period (net of tax)	—	(34,940)	—	—	(34,940)
Comprehensive income for the period	—	39,100	—	—	39,100
Dividends	—	(55,806)	—	—	(55,806)
Expense related to the stock-based compensation plans	—	—	1,840	—	1,840
Balance - December 31, 2012	3,628	(932,315)	1,051,305	9,497	132,115
Net income for the period	—	9,180	—	—	9,180
Other comprehensive gain for the period (net of tax)	—	2,542	—	—	2,542
Comprehensive income for the period	—	11,722	—	—	11,722
Dividends	—	(18,662)	—	—	(18,662)
Share issuance for stock-based compensation plans (note 8)	1,566	—	(3,068)	—	(1,502)
Expense related to the stock-based compensation plans	—	—	635	—	635
Balance - March 31, 2013	5,194	(939,255)	1,048,872	9,497	124,308

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

chorus aviation inc.

Unaudited Consolidated Statements of Income
For the three-month periods ended March 31, 2013 and 2012

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

	Three months ended March 31,	
	2013	2012
	$	$
Operating revenue (note 10)		
Passenger	413,503	434,511
Other	2,777	2,562
	416,280	437,073
Operating expenses (note 10)		
Salaries, wages and benefits (note 3)	108,578	105,439
Aircraft fuel	96,693	98,556
Depreciation and amortization	13,391	12,941
Food, beverage and supplies	3,999	5,589
Aircraft maintenance materials, supplies and services	37,192	39,568
Airport and navigation fees	48,075	52,441
Aircraft rent	22,896	28,271
Terminal handling services	33,734	35,076
Other	30,893	29,557
	395,451	407,438
Operating income	20,829	29,635
Non-operating income (expenses)		
Interest revenue	225	267
Interest expense	(4,979)	(4,024)
Gain on disposal of property and equipment	60	59
Foreign exchange (loss) gain	(5,039)	3,715
Other	750	—
	(8,983)	17
Income before deferred income taxes	11,846	29,652
Income tax expense (note 5)		
Current income tax	(362)	—
Deferred income tax	(2,304)	(3,469)
	(2,666)	(3,469)
Net income for the periods	9,180	26,183
Earnings per share, basic	$0.07	$0.21
Earnings per share, diluted	$0.07	$0.20

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

Unaudited Consolidated Statements of Comprehensive Income
For the three-month periods ended March 31, 2013 and 2012

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2013 $	2012 $
Net income for the periods	9,180	26,183
Other comprehensive gain (loss)		
Items that will not be subsequently reclassified to the statement of income		
Actuarial gain (loss) on employee benefit liabilities, net of tax expense (recovery) of $929 (2012 - ($1,587)) (note 3)	2,542	(4,358)
Comprehensive income	11,722	21,825

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

Unaudited Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2013 and 2012

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2013 $	2012 $
Cash provided by (used in)		
Operating activities		
Net income for the periods	9,180	26,183
Charges (credits) to operations not involving cash		
Depreciation and amortization	13,391	12,941
Amortization of prepaid aircraft rent and related fees	605	538
Gain on disposal of property and equipment	(60)	(59)
Stock-based compensation	635	614
Unrealized foreign exchange loss (gain) on long-term debt and finance leases	5,566	(3,373)
Current income tax expense	362	—
Deferred income tax expense	2,304	3,469
Accretion of debt component of convertible debentures	431	406
Other	557	(355)
	32,971	40,364
Net changes in non-cash balances related to operations (note 9)	(25)	(6,458)
	32,946	33,906
Financing activities		
Repayment of obligations under finance leases	(706)	(642)
Long-term borrowings	117,486	57,619
Repayment of long-term borrowings	(3,983)	(1,946)
Increase in other assets	(5,930)	—
Dividends	(18,602)	(18,602)
	88,265	36,429
Investing activities		
Additions to property and equipment	(122,936)	(67,741)
Assets held for sale	—	(159)
Proceeds on disposal of property and equipment	60	59
Decrease (Increase) in restricted cash	1,491	(378)
	(121,385)	(68,219)
Net change in cash and cash equivalents during the periods	(174)	2,116
Cash and cash equivalents – Beginning of periods	118,306	108,068
Cash and cash equivalents – End of periods	118,132	110,184
Cash payments of interest	1,986	5,088
Cash receipts of interest	304	253
Cash payments of tax	619	—

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

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

1 General information

Chorus Aviation Inc. ("Chorus") was incorporated on September 27, 2010 under the laws of Canada. 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 and 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 "Initial LeaseCos"). The Initial LeaseCos were established for the sole purpose of acquiring Q400 NextGen turboprop aircraft ("Q400 aircraft") and related equipment. On December 31, 2012, the Initial LeaseCos were reorganized (the "Reorganization") as follows: Chorus Leasing I Inc. and Chorus Leasing II Inc. amalgamated to form Chorus Leasing Amalco (2012) Inc. ("Amalco"), and Chorus Leasing III Inc. then acquired the assets and liabilities of Amalco in exchange for preferred shares.

The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6100, P.O. Box 50, Toronto, Ontario, M5X 1B8 and its country of domicile is Canada. Chorus was established to acquire and hold, directly or indirectly, investments in the Partnership and its general partner Aviation General Partner Inc., 7503695 Canada Inc. ("7503695"), the Initial LeaseCos and other investments that it may acquire from time to time.

Reference to Chorus in the following notes to the consolidated financial statements refer to, as the context may require, Chorus, its subsidiaries (the Partnership, Aviation General Partner Inc., 7503695, and Chorus Leasing III Inc.) collectively, Chorus and one or more of its subsidiaries, one or more of Chorus' subsidiaries, or Chorus itself.

Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services to Chorus. Chorus and Air Canada are parties to 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 the acquisition and leasing of the Q400 aircraft. On June 29, 2012, Chorus and Air Canada agreed to amend the CPA to support the continued fleet renewal program in connection with the acquisition of the six additional Q400 aircraft (delivered in the first quarter of 2013) and the removal of nine remaining CRJ100 aircraft (starting in December 2012) from the Chorus fleet.

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

Under the CPA, Chorus has historically experienced greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. Termination of the Thomas Cook flying program has returned seasonality to these previous patterns. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' revenues do not fluctuate significantly with passenger load factors.

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

2 Basis of presentation

Chorus prepares its unaudited interim condensed consolidated financial statements (the "financial statements") in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 ("CICA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements are in compliance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain information included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Chorus' accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, have been set out in note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2012. These financial statements should be read in conjunction with Chorus' consolidated financial statements for the year ended December 31, 2012.

These financial statements have been authorized for issuance by the Board of Directors on May 9, 2013.

3 Significant accounting policies

Except as otherwise indicated hereunder, these financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of Chorus for the year ended December 31, 2012. Refer to note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2012 for information on new accounting standards and amendments not yet effective.

New accounting standards adopted during the period

IFRS 10, Consolidated Financial Statements

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

IFRS 11, Joint Ventures

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

3 Significant accounting policies (continued)

IFRS 13, Fair Value measurement

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

Amendments to standards

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

IAS 19, *Employee Benefits*, has been amended effective for annual periods beginning on or after January 1, 2013. The revised standard requires immediate recognition of actuarial gains and losses in other comprehensive income, eliminating the previous options that were available. A number of other amendments have been made to recognition, measurement and classification. Chorus' accounting policy as at December 31, 2012 for recognition of actuarial gains and losses through other comprehensive income was consistent with the revisions contained in the standard. Chorus has retrospectively applied the amendments to IAS 19 and as a result has restated net income from the 2012 comparative period to be lower than originally reported under the historical standard. The decrease arose due to the projected rate of return on plan assets being higher than the discount rate, and results in the statement of income receiving an additional pre-tax charge of $302 with an offsetting pre-tax reduction to other comprehensive income. The revised standard does not impact the balances of employee benefits in the statement of financial position or the total amount of comprehensive income for prior years.

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

4 Property and equipment

	Year ended December 31, 2012					Three months ended March 31, 2013			
	Opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing / opening net book value $	Additions[(1)] $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	337,969	123,777	—	(32,799)	428,947	132,819	—	(7,640)	554,126
Major maintenance overhauls	14,545	11,267	—	(13,229)	12,583	4,305	—	(3,406)	13,482
Facilities	11,676	6,270	—	(683)	17,263	702	—	(200)	17,765
Equipment	10,219	4,181	—	(5,442)	8,958	831		(1,036)	8,753
Leaseholds	12,211	322	—	(1,795)	10,738	—	—	(410)	10,328
Flight equipment under finance leases	10,785	—	—	(2,797)	7,988	—	—	(699)	7,289
Deposits on aircraft/ engines	11,635	13,634	(11,874)	—	13,395	—	(13,395)	—	—
Total	409,040	159,451	(11,874)	(56,745)	499,872	138,657	(13,395)	(13,391)	611,743

1) A portion ($2,326) of the purchase of the 20th and 21st Q400 aircraft represented a non-cash transaction and, as such, has been excluded from the statement of cash flows at March 31, 2013.

	At December 31, 2012			At March 31, 2013		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	537,041	(108,094)	428,947	667,925	(113,799)	554,126
Major maintenance overhauls	29,261	(16,678)	12,583	28,996	(15,514)	13,482
Facilities	22,378	(5,115)	17,263	23,080	(5,315)	17,765
Equipment	46,110	(37,152)	8,958	46,942	(38,189)	8,753
Leaseholds	26,847	(16,109)	10,738	26,826	(16,498)	10,328
Flight equipment under finance leases	22,951	(14,963)	7,988	22,951	(15,662)	7,289
Deposits on aircraft/engines	13,395	—	13,395	—	—	—
Total	697,983	(198,111)	499,872	816,720	(204,977)	611,743

Change in estimates

During the period ended March 31, 2013 Chorus reviewed the residual value of its owned aircraft and the estimated useful economic lives of these aircraft. As a result, the expected residual values of the Dash 8-100 and 300 aircraft have been revised upwards. The effect of these changes on depreciation expense for the period ended March 31, 2013 was approximately $2,100. The change in estimate is expected to reduce annual depreciation expense by approximately $8,300 for 2013 and subsequent years.

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

5 Income taxes

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

	Three months ended March 31,			
	2013 %	2013 $	2012 %	2012 $
Income tax expense at the Canadian statutory tax rate	26.0	3,077	27.4	8,126
Recognition of previously unrecognized cumulative eligible capital related to:				
- current period	(21.9)	(2,591)	(9.1)	(2,746)
- prior period	—	—	(5.3)	(1,579)
Net impact of capital items	13.2	1,565	(3.4)	(1,038)
Non-deductible expenses	5.2	615	2.0	625
Impact of tax rate changes and tax rate differential	—	—	0.3	81
Income tax expense	22.5	2,666	11.9	3,469

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $537,858, as at March 31, 2013, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time that those benefits can be applied to reduce current tax expense. During the periods ended March 31, 2013 and March 31, 2012, Chorus utilized a total of $9,685 ($2,591 tax effected) and $16,200 ($4,325 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at March 31, 2013, Chorus had $13,516 (December 31, 2012 - $9,594) of allowable capital losses that have not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

6 Promissory note payable

As at March 31, 2013, Chorus had issued, to a third party, two unsecured, non-interest bearing promissory notes, each with a principal amount of $3,841, for delivery of the 20th and 21st Q400 aircraft. These promissory notes were repaid in full on April 2, 2013.

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

7 Long-term debt

Long-term debt consists of the following:

	As at March 31, 2013 $	As at December 31, 2012 $
Term loans - purchased aircraft (1)	386,177	267,339
Term loans - purchased engines (2)	3,853	3,807
Term loan - Halifax facility (3)	6,300	6,300
	396,330	277,446
Less: Current portion	27,667	20,281
	368,663	257,165

(1) 21 individual term loans, repayable in semi-annual instalments, ranging from $843 to $1,031, bearing fixed interest at a weighted average rate of 3.386%, maturing between May 2023 and March 2025, each secured primarily by one Q400 aircraft and two PW150A engines. At March 31, 2013, the total Q400 aircraft financing payable in US dollars was US$380,095 (March 31, 2012 - US$226,244), and the net book value of property and equipment pledged as collateral under Q400 aircraft financing was $434,850 (March 31, 2012 - $252,740).

(2) Two individual term loans, repayable in quarterly instalments of $53, including fixed interest at a rate of 4.591%, maturing December 2024, each secured by one PW150A engine. At March 31, 2013, the total Q400 engine financing payable in US dollars was US$3,792 (March 31, 2012 - $nil) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $4,673 (March 31, 2012 - $nil).

(3) Nova Scotia Jobs Fund loan, with a maximum contribution of $12,000, bearing interest at a fixed rate of 3.33% annually. Principal repayments of $1,000 are payable annually commencing on August 31, 2016. Maturing on August 31, 2027, the loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases. As of March 31, 2013, the amount drawn on the loan was $6,300 (March 31, 2012 - $nil).

The following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.0160, which was the exchange rate in effect at the end of day closing March 31, 2013.

	$
No later than one year	27,667
Later than one year and no later than five years	128,028
Later than five years	240,635
	396,330

The terms and conditions of the Q400 aircraft and engine financing are consistent with those disclosed in note 18 to the 2012 annual consolidated financial statements of Chorus. As at March 31, 2013, Chorus is in compliance with all the required covenants.

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

8 Capital stock and dividends

Capital stock

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

Issued and outstanding:

	Number of Shares[3]	$
Shares reported in equity December 31, 2011	123,540,555	1,572
Shares released from the stock-based compensation plan [1]	474,916	2,056
Shares issued and outstanding December 31, 2012	124,015,471	3,628
Shares issued during the period [2]	398,355	1,566
Shares issued and outstanding March 31, 2013	124,413,826	5,194

1) As Shares from the stock-based compensation plan vested, they were released from the trust into capital at the weighted average cost on date of grant.
2) On February 25, 2013 Chorus issued 398,355 Class B Common Voting Shares to satisfy the vesting of the stock-based compensation plans. The shares were issued at market price at closing on the day of issuance, net of the amount Chorus paid in withholding taxes on behalf of the employees.
3) References to Shares above are inclusive of Class A Common Variable Voting Shares and Class B Common Voting Shares. As at March 31, 2013, Chorus had 6,345,096 Class A Common Variable Voting Shares (December 31, 2012 - 15,472,846) and 118,068,730 Class B Common Voting Shares (December 31, 2012 - 108,542,625).

Dividends

Since January 1, 2012, Chorus has declared a $0.15 quarterly dividend to shareholders of record on the last trading day of each quarter. Chorus declared $18,662 in dividends during the period ended March 31, 2013 (2012- $18,602). Cash dividends paid during the period ended March 31, 2013 were $18,602 (2012 - $18,602).

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

9 Statement of cash flows - supplementary information

Net changes in non-cash balances related to operations:

	Three months ended March 31, 2013 $	2012 $
Increase in accounts receivable – trade and other	(20,525)	(6,516)
Increase in spare parts, materials and supplies	(897)	(136)
(Increase) decrease in prepaid expenses	(801)	8,714
Decrease in other assets	71	132
Increase in accounts payable and accrued liabilities	22,666	4,957
Decrease in unearned revenue	—	(12,089)
Decrease in other long-term liabilities	(539)	(1,520)
	(25)	(6,458)

10 Economic dependence

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

	Three months ended March 31, 2013 $	2012 $
Operating revenue		
Air Canada	411,139	400,761
Operating expenses		
Air Canada	21,441	23,138
Air Canada Capital Ltd.	19,666	19,551

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

10 Economic dependence (continued)

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

	March 31, 2013 $	March 31, 2012 $
Accounts receivable		
Air Canada	63,185	62,553
Accounts payable and accrued liabilities		
Air Canada	75,904	71,139
Air Canada Capital Ltd.	11,215	11,146

2009 Benchmark Process

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

10 Economic dependence (continued)

Chorus and Air Canada were unable to reach an 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 sought 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 sought 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 claimed that, if the Controllable Mark-Up was 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.

At the commencement of the Arbitration hearings in June 2012, Air Canada amended its claim to seek a declaration that the Controllable Mark-Up be reduced to 9.48% rather than 9.54%, and that Chorus be required to repay Air Canada the amount of $24,400 and $24,700 in respect of payments made by Air Canada to Chorus in 2010 and 2011, respectively. In its amended Claim, Air Canada sought an order that Chorus be required to pay Air Canada those amounts, or such other amounts as the arbitration panel (the “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 2012 and on a going-forward basis. Such adjustment for 2012 and the first quarter of 2013 is estimated to be approximately $25,000 and $6,000, respectively. The AC Claim also alleged that the formula for calculating the Compensating Mark-Up ought to be adjusted to take into account any reduction in the Controllable Mark-Up (the “Compensating Mark-Up Claim").

On November 7, 2011, Chorus delivered its Defence and Counterclaim in the Arbitration (the “Chorus Claim”). In the Chorus Claim, Chorus asserted that the relevant provisions of the CPA provide that the preferred methodology to be applied for comparing Chorus' Unit Costs to the stage length adjusted median controllable unit costs of the Comparable Operators is on a “cost per available seat mile” or “CASM” basis. Chorus further asserted that, if a CASM methodology is applied with the appropriate normalizations and adjustments, no adjustment to the Controllable Mark-Up would be required as a result of the 2009 Benchmark. As a result, Chorus asserted that it was not required to repay Air Canada any amounts in respect of payments made in 2010 or 2011, and that its Controllable Mark-Up will remain at 12.50% going forward until at least the 2015 Benchmark. In the alternative, Chorus asserted that, even if the 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 asserted that, even if CUCD were to be found to be an “alternate market 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 stated 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.

During the Arbitration, Chorus and Air Canada resolved the Compensating Mark-Up Claim as part of the June 29, 2012 agreement to further amend the CPA to support a continued fleet renewal program with the acquisition of six additional Q400 aircraft and the removal of nine remaining CRJ100 aircraft. The Compensating Mark-Up Claim was therefore removed as a dispute to be determined by the Panel.

The initial hearing of the Arbitration occurred in June 2012. Subsequent to the hearing, the parties exchanged written submissions and then reply submissions. On October 2 and 3, 2012, the Panel released its award (the “Award”).

10 Economic dependence (continued)

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

There remain substantive disputes between the parties with respect to the interpretation and application of the Award and its impact on the Controllable Mark-Up. The parties have been unable to reach agreement on either the calculation of certain of the Adjustments or the Fleet Age Adjustment.

Chorus' position is that, applying the CUCD methodology, along with the proper application of the Adjustments required by the Panel other than the Fleet Age Adjustment, the Controllable Mark-Up should remain at 12.50%.

Air Canada previously asserted to Chorus its view that the impact of the Adjustments required by the Panel would reduce the Controllable Mark-Up to 11.41%. However, this does not account for any impact that the Fleet Age Adjustment would have on the Controllable Mark-Up. Air Canada took the position at the initial hearing that there should be no such Fleet Age Adjustment.

Air Canada now takes the position that a Fleet Age Adjustment ought to be made and that such adjustment should be in its favour. The effect of making the Fleet Age Adjustment, in the manner asserted by Air Canada, would be to materially reduce the Controllable Mark-Up below the 11.41% rate that Air Canada asserts should otherwise result from the application of the other Adjustments.

Chorus remains of the view that, given its older fleet relative to those of the relevant comparable operators, and consistent with the position it took at the initial hearing, any Fleet Age Adjustment would only be to the benefit of Chorus and therefore regardless of the decision on the other Adjustments, the Fleet Age Adjustment should result in the Controllable Mark-Up remaining at 12.50% until at least the 2015 Benchmark and that it should not be required to repay Air Canada any amounts in respect of payments made since January 1, 2010.

Following the release of the Award, the parties scheduled a further hearing with the Panel to occur in the last week of November 2012 to resolve the outstanding issues in dispute, including the impact of the Fleet Age Adjustment. That hearing was subsequently adjourned to the first week of April 2013 in order to provide the parties with additional time to put forward evidence on the issues which remain in dispute. The April 2013 hearing occurred but the parties were unable to complete their respective submissions within the time available. As a result, further hearing dates have been scheduled for July 2013 and a date for oral argument in September 2013.

As a consequence of the issues remaining in dispute, the impact, if any, of the 2009 Benchmark and the Arbitration to the Controllable Mark-Up on Chorus' Controllable Costs cannot be stated at this time with reasonable certainty.

No amounts have been recorded in the accounts of Chorus in 2010, 2011, 2012 or 2013 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.

11 Financial instruments and fair values

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; fair value through other comprehensive income; and amortized cost. With the exception of the items noted below, all financial instruments have fair values that approximate carrying value due to their short term nature.

Chorus' financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, asset backed commercial paper ("ABCP"), accounts payable and accrued liabilities, dividends payable, promissory note payable, obligations under finance leases, long-term debt, and convertible debentures.

The following financial instruments have fair values that differ from carrying value:

- Long-term debt

  At March 31, 2013, the fair value of the fixed rate term loans is $402,438 compared to a carrying value of $396,330. 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.

- Convertible debentures

  At March 31, 2013, Chorus' convertible debentures have a fair value of $80,790, compared to a carrying value of $77,200. The debentures are listed on the Toronto Stock Exchange and their fair value was determined using the closing price on the last trading day of the period.

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

12 Capital management

Chorus' capital consists of cash and cash equivalents, restricted cash, finance leases, long-term debt, convertible debentures and equity.

Total capital as at March 31, 2013 and December 31, 2012 is calculated as follows:

	March 31, 2013 $	December 31, 2012 $
Cash and cash equivalents	(118,132)	(118,306)
Restricted cash	(4,526)	(6,017)
Finance leases (including current portion)	8,367	8,889
Long-term debt (including current portion)	396,330	277,446
Convertible debentures (excluding equity portion)	77,200	76,769
Equity	124,308	132,115
Total capital	483,547	370,896

Chorus' main objectives when managing capital are to provide a strong capital base to maintain shareholder, creditor and market confidence and to sustain future development of the business. Chorus manages its capital structure and makes adjustments to it in light of changes in economic conditions and Chorus' risk profile. The airline business is capital intensive and highly sensitive to uncertain external circumstances.

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

In managing its capital structure, Chorus monitors performance throughout the year having regard to anticipated cash dividends, working capital requirements, maintenance and growth capital expenditures, available cash on deposit and, where applicable, long-term borrowings. Chorus also monitors performance having regard to financial metrics within the covenants associated with the Q400 aircraft and engine financing, and other financial metrics such as adjusted net debt. Adjusted net debt is calculated as the sum of long-term debt, finance leases, convertible debentures and capitalized operating leases less cash and cash equivalents.

12 Capital management (continued)

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

(unaudited) (expressed in thousands of Canadian dollars)	March 31, 2013 $	December 31, 2012 $	Change $
Total long-term debt and finance leases	374,029	263,179	110,850
Current portion of long-term debt and finance leases	30,668	23,156	7,512
Convertible debentures	77,200	76,769	431
Total long-term debt and finance leases (including current portion) and convertible debentures	481,897	363,104	118,793
Less: Cash and cash equivalents	(118,132)	(118,306)	174
Net debt	363,765	244,798	118,967
Capitalized operating leases (1)	710,310	750,623	(40,313)
Adjusted net debt (1)	1,074,075	995,421	78,654

(1) Adjusted net debt is a non-GAAP financial measure used by Chorus and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of the capital management by Chorus and provides management with a measure of its net indebtedness. Chorus includes capitalized operating leases which is a measure commonly used in the airline industry to ascribe a value to obligations under operating leases. Common industry practice is to multiply annualized aircraft rent by 7.5. This definition of capitalized operating leases is used by Chorus and may not be comparable to similar measures presented by other public companies. Aircraft rent was $94,700 for the twelve months ended March 31, 2013 and $100,100 for the twelve months ended December 31, 2012. The majority of Chorus' operating leases are subleased from Air Canada, or its subsidiary, who hold the head lease or own the aircraft. Aircraft rent related to these aircraft was $78,465 for the twelve months ended March 31, 2013 and $78,344 for the twelve months ended December 31, 2012. If these Air Canada operating leases were removed from the above definition, adjusted, net debt would be $485,590 and $407,842, respectively.

Chorus and Air Canada are involved in an ongoing complex arbitration process regarding the 2009 Benchmark (see note 10 - Economic Dependence - 2009 Benchmarking Process). Chorus remains confident in its position that the Controllable Mark-up of 12.5% in the CPA should not change as a result of the Arbitration. Accordingly, no amounts have been recorded in the accounts of Chorus in 2010, 2011, 2012 or 2013 related to the AC Claim. 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.

However, in any litigation process there is always some risk of an adverse outcome. This risk combined with the extended duration of the Arbitration has created the risk of a material retroactive amount owing to Air Canada for the period commencing January 1, 2010 should Air Canada succeed in its claim for a material fleet age adjustment in its favour. The longer this process continues without resolution, the larger the amount of any potential retroactive payment.

12 Capital management (continued)

In addition, Chorus' $80,200 convertible debentures come due in December 2014. Chorus anticipates that an increase in liquidity will provide increased flexibility in addressing the maturity of those debentures, in the context of challenging conditions for the airline industry and global economic uncertainty. Those debentures, issued in November 2009, were used to pay part of the term debt of $115,000 which was established at the time of the Chorus initial public offering in 2006 and matured in February 2010. As a result, Chorus believes that strengthening its cash position during this period is prudent.

Chorus will continue to manage its financial leverage ratios, such as its adjusted net debt to equity ratio which has increased as a result of the financing of its new Q400 aircraft fleet. Such continued accretive investment in fleet renewal may occur either through refurbishment of the classic Dash 8-100 and Dash 8-300 series aircraft or further investment in new generation aircraft.

In consideration of these factors, on May 9, 2013, Chorus announced that it has reduced its quarterly dividend from $0.15 per share to $0.075 per share going forward. This will enable Chorus to retain additional cash of $9,331 per quarter.

While Chorus has current cash available to pay the dividend at the previous rate, the Board of Directors has determined that, given the factors discussed above, it is prudent and advisable to conserve Chorus's financial resources. The Board of Directors will continue to assess the dividend payment on an ongoing basis in the context of capital management and Chorus' competitive position and industry outlook.

Diversification of the Chorus business is also a corporate objective which may require additional financial flexibility. Chorus continues to examine potential investment opportunities that will strengthen its business.

13 Contingencies

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

Chorus and Air Canada were unable to reach an agreement in 2010 on the results of the 2009 Benchmark. On February 2, 2011, Chorus and Air Canada agreed to proceed to binding arbitration in respect of the 2009 Benchmark. For further details, including amounts claimed by Air Canada, see note 10 - Economic Dependence.

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

13 Contingencies (continued)

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

Chorus enters into various operating agreements and real estate licenses or leases, which in some cases permit Chorus to use certain premises and/or operate at certain airports, and which in other cases lease space in Chorus' facilities to its tenants. It is common in such commercial license or lease transactions for the licensee or tenant to agree to indemnify the landlord for tort liabilities that arise out of or relate to its use or occupancy of the licensed or leased 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, the licensee or tenant, as the case may be, typically indemnifies the landlord for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

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

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

14 Subsequent event

On May 9, 2013, Chorus announced that it has reduced its quarterly dividend from $0.15 per share to $0.075 per share going forward. This will enable Chorus to retain additional cash of $9,331 per quarter (see note 12 - Capital management).