Unaudited Interim Condensed Consolidated Financial Statements
June 30, 2012

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	June 30, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents	91,663	108,068
Restricted cash	6,017	10,639
Accounts receivable – trade and other	108,045	93,783
Spare parts, materials and supplies	36,506	37,074
Prepaid expenses and deposits	24,952	39,046
Assets held for sale (note 4)	1,077	12,956
Total current assets	268,260	301,566
Property and equipment (note 5)	508,734	409,040
Goodwill	6,693	6,693
Long-term investment (note 6)	-	16,351
Deferred income tax (note 7)	7,427	11,409
Other assets	38,886	28,370
	830,000	773,429
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	229,549	233,487
Dividends payable	18,602	18,602
Current portion of obligations under finance leases	2,815	2,691
Current portion of long-term debt (note 8)	19,613	11,853
Promissory note payable	-	23,002
Unearned revenue	-	21,495
Total current liabilities	270,579	311,130
Obligations under finance leases	7,657	9,086
Long-term debt (note 8)	263,409	161,305
Convertible debentures	75,926	75,108
Other long-term liabilities	84,758	73,656
	702,329	630,285
Equity	127,671	143,144
	830,000	773,429

Contingencies (note 12)
Subsequent events (note 13)

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 $	Retained earnings (deficit) $	Contributed surplus $	Equity component of convertible debentures $	Total $
Balance – January 1, 2011	-	(898,899)	1,050,269	9,497	160,867
Net income for the period	-	31,551	-	-	31,551
Other comprehensive loss for the period (net of tax)	-	(2,955)	-	-	(2,955)
Comprehensive income for the period	-	28,596	-	-	28,596
Dividends	-	(37,204)	-	-	(37,204)
Shares released from stock-based compensation plans	1,568	-	(1,568)	-	-
Expense related to the ongoing long-term incentive plan	-	-	1,171	-	1,171
Balance – June 30, 2011	1,568	(907,507)	1,049,872	9,497	153,430
Balance – July 1, 2011	1,568	(907,507)	1,049,872	9,497	153,430
Net income for the period	-	36,584	-	-	36,584
Other comprehensive loss for the period (net of tax)	-	(10,705)	-	-	(10,705)
Comprehensive income for the period	-	25,879	-	-	25,879
Dividends	-	(37,204)	-	-	(37,204)
Shares released from stock-based compensation plans	4	-	-	-	4
Expense related to the ongoing long-term incentive plan	-	-	1,035	-	1,035
Balance – December 31, 2011	1,572	(918,832)	1,050,907	9,497	143,144
Balance – January 1, 2012	1,572	(918,832)	1,050,907	9,497	143,144
Net income for the period	-	49,271	-	-	49,271
Other comprehensive loss for the period (net of tax)	-	(28,767)	-	-	(28,767)
Comprehensive income for the period	-	20,504	-	-	20,504
Dividends	-	(37,204)	-	-	(37,204)
Shares released from stock-based compensation plans	2,056	-	(2,056)	-	-
Expense related to the ongoing long-term incentive plan	-	-	1,227	-	1,227
Balance – June 30, 2012	3,628	(935,532)	1,050,078	9,497	127,671

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 and six-month periods ended June 30, 2012 and 2011

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

	Three months ended June 30,		Six months ended June 30,	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Operating revenue (note 11)				
Passenger	424,449	400,558	858,960	841,591
Other	1,825	1,488	4,387	3,474
	426,274	402,046	863,347	845,065
Operating expenses (note 11)				
Salaries, wages and benefits	100,728	97,932	205,865	199,349
Aircraft fuel	97,930	103,044	196,486	213,916
Depreciation and amortization	13,879	9,925	26,820	19,639
Food, beverage and supplies	4,457	2,541	10,046	8,119
Aircraft maintenance materials, supplies and services	39,487	37,158	79,055	80,903
Airport and navigation fees	50,319	48,344	102,760	98,558
Aircraft rent	25,053	25,400	53,324	54,291
Terminal handling services	25,015	24,324	60,091	63,817
Other	32,842	29,418	62,399	60,940
	389,710	378,086	796,846	799,532
Operating income	36,564	23,960	66,501	45,533
Non-operating income (expenses)				
Interest revenue	260	332	527	541
Interest expense	(4,442)	(2,377)	(8,466)	(4,667)
Gain on disposal of property and equipment	206	195	265	334
Foreign exchange (loss) gain	(4,759)	378	(1,044)	130
Gain on Asset Backed Commercial Paper ("ABCP")	-	547	-	547
	(8,735)	(925)	(8,718)	(3,115)
Income before deferred income taxes	27,829	23,035	57,783	42,418
Deferred income tax expense	(4,962)	(6,140)	(8,512)	(10,867)
Net income for the periods	22,867	16,895	49,271	31,551
Earnings per share, basic	0.18	0.14	0.39	0.26
Earnings per share, diluted	0.18	0.13	0.38	0.25

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

Unaudited Consolidated Statements of Comprehensive (Loss) Income

For the three and six-month periods ended June 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2012 $	**2011 $**	**2012 $**	**2011 $**
Net income for the periods	22,867	16,895	49,271	31,551
Other comprehensive loss				
Items that will not be subsequently reclassified to the statement of income				
Actuarial loss on employee benefit liabilities, net of tax recovery of $2,861 and $4,529 (2011 - $863 and $1,076)	(7,837)	(2,368)	(12,416)	(2,955)
Loss arising on revaluation of financial assets at fair value through other comprehensive loss (note 6)	(16,351)	-	(16,351)	-
Comprehensive (loss) income	(1,321)	14,527	20,504	28,596

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

chorus aviation inc.

Unaudited Consolidated Statements of Cash Flows

For the three and six-month periods ended June 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three months ended June 30, 2012 $	Three months ended June 30, 2011 $	Six months ended June 30, 2012 $	Six months ended June 30, 2011 $
Cash provided by (used in)				
Operating activities				
Net income for the periods	22,867	16,895	49,271	31,551
Charges (credits) to operations not involving cash				
Depreciation and amortization	13,879	9,925	26,820	19,639
Amortization of prepaid aircraft rent and related fees	564	480	1,102	958
Gain on disposal of property and equipment	(206)	(195)	(265)	(334)
Stock-based compensation	613	586	1,227	1,171
Unrealized foreign exchange loss (gain) on long-term debt and finance leases	4,536	(655)	1,163	(987)
Deferred income tax expense	4,962	6,140	8,512	10,867
Accretion of debt component of convertible debentures	412	389	818	772
Other	(395)	(823)	(750)	(1,392)
	47,232	32,742	87,898	62,245
Net changes in non-cash working capital balances related to operations (note 10)	(35,445)	(3,523)	(42,205)	(3,626)
	11,787	29,219	45,693	58,619
Financing activities				
Repayment of obligations under finance leases	(660)	(668)	(1,302)	(1,339)
Long-term borrowings	56,847	37,041	114,466	37,041
Repayment of long-term borrowings	(3,821)	-	(5,767)	-
Dividends	(18,602)	(18,602)	(37,204)	(18,602)
	33,764	17,771	70,193	17,100
Investing activities				
Additions to property and equipment	(81,316)	(52,574)	(149,057)	(59,541)
Assets held for sale	12,038	(12,439)	11,879	(12,439)
Proceeds on disposal of property and equipment	206	195	265	334
Decrease in restricted cash	5,000	2,532	4,622	3,182
	(64,072)	(62,286)	(132,291)	(68,464)
Net change in cash and cash equivalents during the periods	(18,521)	(15,296)	(16,405)	7,255
Cash and cash equivalents – Beginning of periods	110,184	88,447	108,068	65,896
Cash and cash equivalents – End of periods	91,663	73,151	91,663	73,151
Cash payments of interest	2,385	4,099	7,473	4,408
Cash receipts of interest	249	281	502	467
Cash and cash equivalents comprise:				
Cash	66,678	55,158	66,678	55,158
Term deposits and fixed income securities	24,985	17,993	24,985	17,993

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

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the period ended June 30, 2012

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

1 General information

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

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

Reference to Chorus or the Company in the following notes to the consolidated financial statements refer to, as the context may require, Chorus, and its predecessor, the Fund and their current and former subsidiaries (Jazz Air LP, the Partnership, Jazz Air Holding GP Inc. ("Jazz GP"), Aviation General Partner Inc., 7503695, Jazz Air Trust and the LeaseCos) collectively, Chorus and one or more of its current or former subsidiaries, one or more of Chorus' current or former subsidiaries, or Chorus itself.

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

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. In the second quarter of 2012, $9,000 was recorded in the financial statements of Chorus as revenue in respect of this settlement.

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

1 General information (continued)

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

2 Basis of presentation

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

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

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

These financial statements have been authorized for issuance by the Board of Directors on August 13, 2012.

3 Significant accounting policies, judgements and estimation uncertainty

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

Critical accounting estimates and judgements

Operating Revenue

During the second quarter, in accordance with the terms of the CPA, Chorus and Air Canada agreed on detailed Rates applicable to the period commencing on January 1, 2012 and ending on December 31, 2014. The new Rates are retroactive to January 1, 2012. Chorus and Air Canada have reconciled amounts already recorded in 2012 to these new Rates. As a result, Chorus recorded additional CPA operating revenue of $1,763 related to the three months ended March 31, 2012 in the second quarter.

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

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

New accounting standard adopted during the quarter

IFRS 9, Financial Instruments

Chorus has early adopted IFRS 9, *Financial Instruments,* commencing January 1, 2012, which replaces IAS 39. The new standard requires financial assets to be classified into two measurement categories: amortized cost and fair value. Classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For investments in equity instruments which are not subject to control, joint control, or significant influence, on initial recognition IFRS allows an entity to irrevocably elect classification at "fair value through profit or loss" or "fair value through other comprehensive income". For financial liabilities, changes in fair value attributable to an entity's own credit risk are recorded through other comprehensive income rather than through net income.

Management has designated that equity investments not held for trading that were previously classified as available for sale, to be classified as fair value through other comprehensive income.

The new accounting standard provides more relevant information for users to assess the amounts, timing and uncertainty of future cash flows. There were no resulting changes to opening retained earnings or the classification of comparable period fair value adjustments through the statement of income or statement of comprehensive income as a result of the adoption of IFRS 9.

4 Assets held for sale

During the second quarter, Chorus completed a sale of Q400 spare parts to a third party for proceeds of $12,038. These parts had previously been recorded as assets held for sale, with a carrying value of $12,038. Subsequent to June 30, 2012, the remaining Q400 spare parts, which had been recorded as assets held for sale were sold to a third party.

5 Property and equipment

	Year ended December 31, 2011					Six months ended June 30, 2012			
	Opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing / opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	132,712	225,161	-	(19,904)	337,969	115,724	-	(15,074)	438,619
Major maintenance overhauls	11,531	16,233	-	(13,219)	14,545	6,665	-	(6,332)	14,878
Facilities	12,306	-	-	(630)	11,676	17	-	(315)	11,378
Equipment	12,537	3,358	-	(5,676)	10,219	2,076	-	(2,789)	9,506
Leaseholds	13,811	297	-	(1,897)	12,211	272	-	(912)	11,571
Flight equipment under finance leases	13,656	-	(58)	(2,813)	10,785	-	-	(1,398)	9,387
Deposits on aircraft	26,067	7,695	(22,127)	-	11,635	13,395	(11,635)	-	13,395
Total	222,620	252,744	(22,185)	(44,139)	409,040	138,149	(11,635)	(26,820)	508,734

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

5 Property and equipment (continued)

	At December 31, 2011			At June 30, 2012		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	421,383	(83,414)	337,969	532,236	(93,617)	438,619
Major maintenance overhauls	28,847	(14,302)	14,545	30,990	(16,112)	14,878
Facilities	16,108	(4,432)	11,676	16,125	(4,747)	11,378
Equipment	41,929	(31,710)	10,219	44,005	(34,499)	9,506
Leaseholds	26,525	(14,314)	12,211	26,797	(15,226)	11,571
Flight equipment under finance leases	22,951	(12,166)	10,785	22,951	(13,564)	9,387
Deposits on aircraft	11,635	-	11,635	13,395	-	13,395
Total	569,378	(160,338)	409,040	686,499	(177,765)	508,734

On June 29, 2012, pursuant to its Q400 aircraft purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft, Chorus exercised six of 15 options to acquire additional Q400 aircraft. The agreement was conditional on Chorus making a pre-delivery lump sum payment of $13,395, securing financing from a third party lender to exercise the six options, and reaching an agreement with Air Canada to amend the terms of the CPA to reflect the additional six aircraft. The pre-delivery payment was made during the second quarter and the remaining conditions were satisfied subsequent to June 30, 2012. Based on the list price for the Q400 aircraft, these options are valued at approximately US$189,000. Subject to satisfaction of customary conditions, the six Q400 aircraft will be delivered at a rate of two aircraft per month in each of February, March and April 2013.

6 Long-term investment

On April 30, 2010, Chorus purchased a 33% non-voting equity interest in Latin American Regional Aviation Holding Corporation ("LARAH"). LARAH held an indirect 75% equity interest in Pluna Líneas Aéreas Uruguayas S.A. ("Pluna"). The remaining 25% equity interest in Pluna was held, indirectly, by the Government of Uruguay. In the second quarter of 2012 it was announced that Pluna was in financial difficulty and that the Uruguayan government had taken control of the airline, allowing it to continue operating. All of the shares in Pluna held indirectly by LARAH, including the portion indirectly owned by Chorus, were placed in trust with the Montevideo Stock Exchange in return for certain conditions and indemnities from the Uruguayan government. As a result, Chorus recorded a write-down of $16,351 to the fair value of the investment through other comprehensive loss, as there is no indication that the LARAH shares hold any current value and there can be no assurances that a successful recapitalization of Pluna will, if accomplished, result in Chorus holding an ownership stake in the resulting entity. Subsequent to June 30, 2012, Pluna announced that it had ceased operations indefinitely.

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

7 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 June 30,			
	2012 %	2012 $	2011 %	2011 $
Income tax expense at the Canadian statutory tax rate	26.5	7,383	28.3	6,518
Recognition of previously unrecognized cumulative eligible capital	(15.9)	(4,439)	(7.4)	(1,705)
Net impact of capital items	5.1	1,426	-	-
Non-deductible expenses	2.1	592	7.4	1,698
Impact of substantively enacted tax rates on temporary differences	-	-	(1.6)	(371)
Income tax expense	17.8	4,962	26.7	6,140

	Six months ended June 30,			
	2012 %	2012 $	2011 %	2011 $
Income tax expense at the Canadian statutory tax rate	27.0	15,590	28.3	12,002
Recognition of previously unrecognized cumulative eligible capital	(15.2)	(8,764)	(7.5)	(3,186)
Net impact of capital items	0.7	388	-	-
Non-deductible expenses	2.1	1,217	5.3	2,255
Impact of substantively enacted tax rates on temporary differences	0.1	81	(0.5)	(204)
Income tax expense	14.7	8,512	25.6	10,867

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $572,769, as at June 30, 2012, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time that those benefits can be applied to reduce current tax expense. The benefit of the 2011 cumulative eligible capital deductions that were previously restricted under the initial recognition exemption and the 2012 cumulative eligible capital deductions will be recognized as a reduction to the 2012 current tax expense throughout the year. During the three and six months ended June 30, 2012, Chorus utilized a total of $16,257 ($4,439 tax effected) and $32,457 ($8,764 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

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

8 Long-term debt

Chorus has 15 separate loan agreements with Export Development Canada ("EDC") ("Q400 financing"), which provide committed financing for the majority of the purchase price of each of the 15 related Q400 aircraft deliveries. Each loan has a maturity of 12 years and bears interest at a fixed rate. At June 30, 2012, the net book value of property and equipment pledged as collateral under Q400 financing was $317,300.

Long-term debt consists of the following:

	June 30, 2012 $
15 separate term loans, repayable in semi-annual instalments, ranging from $845 to $1,034, including fixed interest at a weighted average rate of 3.447%, maturing between May 2023 and June 2024, each secured by one Dash 8 402 ("Q400") aircraft and two PWA 150A engines	283,022[1]
Less: Current portion	19,613
	263,409

(1) At June 30, 2012, the total Q400 financing payable in US dollars was US$277,990.

The following future principal repayments on long-term debt, which are payable in US dollars, have been converted to Canadian dollars at $1.0181, which was the exchange rate in effect at the end of day closing on June 30, 2012.

	$
No later than one year	19,613
Later than one year and no later than five years	87,880
Later than five years	175,529
	283,022

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

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

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

As at June 30, 2012, the Jazz Group was in compliance with these covenants. Failure by the Jazz Group to satisfy either such ratio at an applicable time would constitute an event of default under the financing agreement, which could have a material adverse effect on Chorus.

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

8 Long-term debt (continued)

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

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

Jazz is in compliance with both of these continuous covenants.

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

9 Dividends

Since 2011, Chorus has declared a $0.15 quarterly dividend to shareholders of record on the last trading day of each quarter. Chorus declared $18,602 and $37,204 in dividends during each of the three and six months ended June 30, 2012, respectively ($18,602 and $37,204 for the three and six months ended June 30, 2011, respectively). Cash dividends paid during the three and six months ended June 30, 2012, were $18,602 and $37,204, respectively ($18,602 for the three and six months ended June 30, 2011).

10 Statement of cash flows - supplementary information

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

	Three months ended June 30, 2012 $	Three months ended June 30, 2011 $	Six months ended June 30, 2012 $	Six months ended June 30, 2011 $
(Increase) decrease in accounts receivable – trade and other	(7,746)	4,044	(14,262)	(5,698)
Decrease (increase) in spare parts, materials and supplies	704	(1,660)	568	(492)
Decrease (increase) in prepaid expenses	5,380	(804)	14,094	(2,103)
Increase in other assets	(12,002)	(1,433)	(11,870)	(1,322)
(Decrease) increase in accounts payable and accrued liabilities	(9,354)	2,391	(4,397)	11,079
Decrease in unearned revenue	(9,406)	(4,628)	(21,495)	(1,706)
Decrease in other long-term liabilities	(3,021)	(1,433)	(4,843)	(3,384)
	(35,445)	(3,523)	(42,205)	(3,626)

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

11 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 June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	$	$	$	$
Operating revenue				
Air Canada	407,390	391,828	808,151	776,544
Operating expenses				
Air Canada	18,795	19,439	41,933	45,730
Air Canada Capital Ltd.	19,755	19,012	39,306	38,374

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

	June 30,	
	2012	2011
	$	$
Accounts receivable		
Air Canada	70,257	66,077
Accounts payable and accrued liabilities		
Air Canada	61,901	67,467
Air Canada Capital Ltd.	7,511	7,293

12 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.

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

12 Contingencies (continued)

Chorus and Air Canada have proceeded to binding arbitration (the "Arbitration") in respect of the 2009 benchmarking process under the CPA (the "2009 Benchmark"). At the commencement of the Arbitration in June 2012, Air Canada amended its claim, such that it now seeks 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. The Arbitration took place in June 2012 with written submissions being exchanged in July 2012. Air Canada seeks an order that Chorus be required to pay Air Canada those amounts, or such other amounts as the arbitration panel may determine, as well as any other amount necessary to account for the adjustment of Controllable Mark-Up for payments made by Air Canada to Chorus in 2011 and on a going-forward basis. Chorus believes that the methodology it has proposed is both fair and reasonable and consistent with the relevant provisions of the CPA. However, there can be no assurances that the methodology Chorus has proposed will ultimately be the basis of conducting the 2009 Benchmark exercise, as a result of the arbitration process. If Chorus' methodology is not consistent with any Arbitration decision, operating results, financial condition and liquidity may be materially negatively impacted by any resulting reduction in the Controllable Mark-Up. No amounts have been recorded in the accounts of Chorus in 2010, 2011 or 2012 related to this claim, as management has determined that it is not probable that the Air Canada claim will be successful, and it is not practicable to determine an estimate of the possible financial effect, if any, with sufficient reliability.

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

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

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

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

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

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

13 Subsequent events

a) On July 11, 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 and the removal of nine CRJ aircraft from the Chorus fleet. Pursuant to this agreement, Covered Aircraft will be reduced from 125 to 122 aircraft, effective February 2013, at which time the annual minimum capacity guarantee of 339,000 Block Hours will be reduced to approximately 331,000 Block Hours to reflect the new number of Covered Aircraft. This agreement does not change the Mark-Up on the Controllable Costs structure or Mark-Up rates, but establishes certain new metrics. The Compensating Mark-Up will now be applied based on the range between the new annual minimum targeted Block Hours of approximately 367,000 and the revised annual minimum capacity guarantee of approximately 331,000 Block Hours. The difference between the annual minimum capacity guarantee and the annual minimum targeted Block Hours remains at 36,000 Block Hours. This agreement also resolves one of the issues raised in the 2009 Benchmark Arbitration with reference to how the Compensating Mark-Up formula will be applied.

b) Subsequent to June 30, 2012, Chorus received financing commitments from EDC covering up to 85% of the net purchase price of the six Q400 aircraft.

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

13 Subsequent events (continued)

c) On July 16, 2012, Chorus announced that it is expanding its operations and facilities in Halifax, Nova Scotia. To facilitate this expansion, Chorus has entered into an agreement to purchase an existing building and will be making modifications to its existing Halifax hangar and building. To achieve this, the Province of Nova Scotia (the "Province") has agreed to provide Chorus with a $12,000, interest-bearing, repayable loan. The Province's financial assistance will also consist of a $2,500 forgivable loan (which will be forgiven if certain employment targets are achieved) and a $2,000 employee grant to recruit, train and develop new employees or to upgrade current employees' skills.