Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2012

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	September 30, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents	141,024	108,068
Restricted cash	6,017	10,639
Accounts receivable – trade and other	83,043	93,783
Spare parts, materials and supplies	37,947	37,074
Prepaid expenses and deposits	23,882	39,046
Assets held for sale	—	12,956
Total current assets	291,913	301,566
Property and equipment (note 4)	504,528	409,040
Goodwill	6,693	6,693
Long-term investment (note 5)	—	16,351
Deferred income tax (note 6)	4,788	11,409
Other assets	37,356	28,370
	845,278	773,429
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	234,936	233,487
Dividends payable	18,602	18,602
Current portion of obligations under finance leases	2,779	2,691
Current portion of long-term debt (note 7)	19,594	11,853
Promissory note payable	—	23,002
Unearned revenue	—	21,495
Total current liabilities	275,911	311,130
Obligations under finance leases	6,677	9,086
Long-term debt (note 7)	256,742	161,305
Convertible debentures	76,344	75,108
Other long-term liabilities	94,033	73,656
	709,707	630,285
Equity	135,571	143,144
	845,278	773,429

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 - December 31, 2010	—	(898,899)	1,050,269	9,497	160,867
Net income for the period	—	45,461	—	—	45,461
Other comprehensive loss for the period (net of tax)	—	(16,496)	—	—	(16,496)
Comprehensive income for the period	—	28,965	—	—	28,965
Dividends	—	(55,806)	—	—	(55,806)
Shares released from stock-based compensation plans	1,572	—	(1,568)	—	4
Expense related to the ongoing long-term incentive plan	—	—	1,708	—	1,708
Balance - September 30, 2011	1,572	(925,740)	1,050,409	9,497	135,738
Net income for the period	—	22,674	—	—	22,674
Other comprehensive loss for the period (net of tax)	—	2,836	—	—	2,836
Comprehensive income for the period	—	25,510	—	—	25,510
Dividends	—	(18,602)	—	—	(18,602)
Expense related to the ongoing long-term incentive plan	—	—	498	—	498
Balance - December 31, 2011	1,572	(918,832)	1,050,907	9,497	143,144
Net income for the period		86,430	—	—	86,430
Other comprehensive loss for the period (net of tax)	—	(40,038)	—	—	(40,038)
Comprehensive income for the period	—	46,392	—	—	46,392
Dividends	—	(55,806)	—	—	(55,806)
Shares released from stock-based compensation plans	2,056	—	(2,056)	—	—
Expense related to the ongoing long-term incentive plan	—	—	1,841	—	1,841
Balance - September 30, 2012	3,628	(928,246)	1,050,692	9,497	135,571

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 nine-month periods ended September 30, 2012 and 2011

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	$	$	$	$
Operating revenue (note 10)				
Passenger	433,921	409,634	1,292,881	1,251,225
Other	1,725	2,026	6,112	5,500
	435,646	411,660	1,298,993	1,256,725
Operating expenses (note 10)				
Salaries, wages and benefits	105,593	98,149	311,458	297,498
Aircraft fuel	104,231	102,576	300,717	316,492
Depreciation and amortization	15,164	11,860	41,984	31,499
Food, beverage and supplies	4,254	3,475	14,300	11,594
Aircraft maintenance materials, supplies and services	40,251	36,286	119,306	117,189
Airport and navigation fees	52,887	50,334	155,647	148,892
Aircraft rent	23,985	24,981	77,309	79,272
Terminal handling services	24,352	23,897	84,443	87,714
Other	28,265	29,008	90,664	89,948
	398,982	380,566	1,195,828	1,180,098
Operating income	36,664	31,094	103,165	76,627
Non-operating income (expenses)				
Interest revenue	349	220	876	761
Interest expense	(4,706)	(2,904)	(13,172)	(7,571)
Gain on disposal of property and equipment	894	205	1,159	539
Foreign exchange gain (loss)	10,712	(10,085)	9,668	(9,955)
Gain on Asset Backed Commercial Paper (“ABCP”)	—	—	—	547
	7,249	(12,564)	(1,469)	(15,679)
Income before deferred income taxes	43,913	18,530	101,696	60,948
Deferred income tax expense	(6,754)	(4,620)	(15,266)	(15,487)
Net income for the periods	37,159	13,910	86,430	45,461
Earnings per share, basic	0.30	0.11	0.69	0.37
Earnings per share, diluted	0.28	0.11	0.66	0.36

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

Unaudited Consolidated Statements of Comprehensive Income
For the three and nine-month periods ended September 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Net income for the periods	37,159	13,910	86,430	45,461
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 $4,115 and $8,644 (2011 - $4,933 and $6,009)	(11,271)	(13,541)	(23,687)	(16,496)
Loss arising on revaluation of financial assets at fair value through other comprehensive loss (note 5)	—	—	(16,351)	—
Comprehensive income	25,888	369	46,392	28,965

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

Unaudited Consolidated Statements of Cash Flows

For the three and nine-month periods ended September 30, 2012 and 2011

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Cash provided by (used in)				
Operating activities				
Net income for the periods	37,159	13,910	86,430	45,461
Charges (credits) to operations not involving cash				
Depreciation and amortization	15,164	11,860	41,984	31,499
Amortization of prepaid aircraft rent and related fees	613	493	1,715	1,451
Gain on disposal of property and equipment	(264)	(205)	(529)	(539)
Stock-based compensation	614	537	1,841	1,708
Unrealized foreign exchange (gain) loss on long-term debt and finance leases	(10,035)	7,625	(8,872)	6,638
Deferred income tax expense	6,754	4,620	15,266	15,487
Accretion of debt component of convertible debentures	418	395	1,236	1,167
Other	(331)	(512)	(1,081)	(1,904)
	50,092	38,723	137,990	100,968
Net changes in non-cash working capital balances related to operations (note 9)	26,352	14,288	(3,815)	10,662
	76,444	53,011	134,175	111,630
Financing activities				
Repayment of obligations under finance leases	(672)	(686)	(1,974)	(2,025)
Long-term borrowings	6,300	56,352	120,766	93,393
Repayment of long-term borrowings	(3,293)	—	(9,060)	—
Dividends	(18,602)	(18,602)	(55,806)	(37,204)
	(16,267)	37,064	53,926	54,164
Investing activities				
Additions to property and equipment	(10,958)	(64,080)	(160,015)	(123,621)
Assets held for sale	(122)	(2,384)	(281)	(14,823)
Proceeds on disposal of property and equipment	264	205	529	539
(Increase) decrease in restricted cash	—	(11)	4,622	3,171
	(10,816)	(66,270)	(155,145)	(134,734)
Net change in cash and cash equivalents during the periods	49,361	23,805	32,956	31,060
Cash and cash equivalents – Beginning of periods	91,663	73,151	108,068	65,896
Cash and cash equivalents – End of periods	141,024	96,956	141,024	96,956
Cash payments of interest	5,589	275	13,062	4,683
Cash receipts of interest	332	205	834	672
Cash and cash equivalents comprise:				
Cash	91,072	71,976	91,072	71,976
Term deposits and fixed income securities	49,952	24,980	49,952	24,980

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

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

1 General information

Chorus Aviation Inc. ("Chorus" or the "Company") was incorporated on September 27, 2010 under the laws of Canada. The Company entered into an arrangement agreement dated October 4, 2010 with, among other parties, Jazz Air Income Fund (the "Fund"), pursuant to which the parties proposed to implement an arrangement (the "Arrangement") under the Canada Business Corporations Act ("CBCA"). The Arrangement, which was effective December 31, 2010, involved the exchange, on a one-for-one basis, of units of the Fund for shares of Chorus. As a result of the Arrangement, unitholders of the Fund became shareholders of Chorus. The Fund was subsequently wound up into Chorus. The Arrangement has been accounted for as a continuity of interest of the Fund because Chorus continues to substantially operate the business of the Fund and there were no ownership changes. On November 18, 2010, Chorus incorporated Aviation General Partner Inc. to act as general partner for a newly formed partnership, Jazz Aviation LP (the "Partnership"). On January 5, 2011, substantially all of the assets of Jazz Air LP were transferred to the Partnership. The airline business previously carried on by Jazz Air LP is now carried on by the Partnership. On February 28, 2011, Chorus incorporated three wholly-owned subsidiaries under the CBCA, Chorus Leasing I Inc., Chorus Leasing II Inc., and Chorus Leasing III Inc. (collectively, the "LeaseCos"). These entities were established for the sole purpose of acquiring 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 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 and the removal of nine CRJ aircraft (starting in December 2012) 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 would be applied.

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

1 General information (continued)

On August 6, 2012, 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. These new Rates were retroactive to January 1, 2012.

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.

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 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 the Company's 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, 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' annual 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 November 13, 2012.

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

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, 2011. Refer to note 3 of Chorus' annual consolidated financial statements for the year ended December 31, 2011 for information on new accounting standards and amendments not yet effective.

New accounting standard adopted during the period

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 Property and equipment

	Year ended December 31, 2011					Nine months ended September 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	117,023	—	(23,959)	431,033
Major maintenance overhauls	11,531	16,233	—	(13,219)	14,545	9,173	—	(9,930)	13,788
Facilities	12,306	—	—	(630)	11,676	5,935	—	(485)	17,126
Equipment	12,537	3,358	—	(5,676)	10,219	3,041	—	(4,147)	9,113
Leaseholds	13,811	297	—	(1,897)	12,211	301	—	(1,366)	11,146
Flight equipment under finance leases	13,656	—	(58)	(2,813)	10,785	—	—	(2,097)	8,688
Deposits on aircraft/ engines(1)	26,067	7,695	(22,127)	—	11,635	13,634	(11,635)	—	13,634
Total	222,620	252,744	(22,185)	(44,139)	409,040	149,107	(11,635)	(41,984)	504,528

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

4 Property and equipment (continued)

	At December 31, 2011			At September 30, 2012		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	421,383	(83,414)	337,969	532,036	(101,003)	431,033
Major maintenance overhauls	28,847	(14,302)	14,545	29,834	(16,046)	13,788
Facilities	16,108	(4,432)	11,676	22,043	(4,917)	17,126
Equipment	41,929	(31,710)	10,219	44,970	(35,857)	9,113
Leaseholds	26,525	(14,314)	12,211	26,826	(15,680)	11,146
Flight equipment under finance leases	22,951	(12,166)	10,785	22,951	(14,263)	8,688
Deposits on aircraft/engines(1)	11,635	—	11,635	13,634	—	13,634
Total	569,378	(160,338)	409,040	692,294	(187,766)	504,528

1) During the quarter, Chorus made a deposit to a third party for the purchase of two Q400 spare engines.

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 and reaching an agreement with Air Canada to amend the terms of the CPA to reflect the additional six aircraft. Based on the list price for the Q400 aircraft, these options are valued at approximately US$189,000. These conditions have been satisfied by Chorus, and the six Q400 aircraft are scheduled to be delivered at a rate of two aircraft per month in each of February, March and April 2013.

5 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 and ceased its operations. All of the shares in Pluna held indirectly by LARAH, including the portion indirectly owned by Chorus, have been transferred to the Government of Uruguay. As a result, in the second quarter of 2012 Chorus recorded a write-down of $16,351 to the fair value of the investment through other comprehensive loss.

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

6 Reconciliation of total tax expense

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

	Three months ended September 30,			
	2012	2012	2011	2011
	%	$	%	$
Income tax expense at the Canadian statutory tax rate	27.9	12,250	28.3	5,243
Recognition of previously unrecognized cumulative eligible capital	(9.9)	(4,363)	(12.0)	(2,233)
Net impact of capital items	(4.0)	(1,752)	4.6	849
Non-deductible expenses	1.4	619	5.7	1,056
Impact of substantively enacted tax rates on temporary differences	—	—	(1.7)	(295)
Income tax expense	15.4	6,754	24.9	4,620

	Nine months ended September 30,			
	2012	2012	2011	2011
	%	$	%	$
Income tax expense at the Canadian statutory tax rate	27.4	27,840	28.3	17,245
Recognition of previously unrecognized cumulative eligible capital	(12.9)	(13,127)	(8.9)	(5,419)
Net impact of capital items	(1.3)	(1,364)	1.4	849
Non-deductible expenses	1.8	1,836	5.4	3,311
Impact of substantively enacted tax rates on temporary differences	0.1	81	(0.8)	(499)
Income tax expense	15.1	15,266	25.4	15,487

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $556,458, as at September 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 nine months ended September 30, 2012, Chorus utilized a total of $15,470 ($4,363 tax effected) and $47,927 ($13,127 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)

7 Long-term debt

Long-term debt consists of the following:

	September 30, 2012 $	December 31, 2011 $
Term loans - purchased aircraft [(1)]	270,036	173,158
Term loan - Halifax facility [(2)]	6,300	—
	276,336	173,158
Less: Current portion	19,594	11,853
	256,742	161,305

(1) 15 individual term loans, repayable in semi-annual instalments, ranging from $816 to $998, bearing 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 PW 150A engines. At September 30, 2012, the total Q400 financing payable in US dollars was US$274,650. (December 31, 2011 - US$170,264) and the net book value of property and equipment pledged as collateral under Q400 financing was $312,770 (December 31, 2011 - $189,940).

(2) 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 September 30, 2012, the amount drawn on the loan was $6,300.

Future scheduled repayments of long-term debt at September 30, 2012 are as follows

	$
No later than one year	19,594
Later than one year and no later than five years	87,422
Later than five years	169,320
	276,336

The terms and conditions of the Q400 aircraft financing are consistent with those disclosed in Note 19 to the 2011 annual consolidated financial statements of Chorus. As at September 30, 2012, the Chorus is in compliance with all required covenants.

8 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 $55,806 in dividends during each of the three and nine months ended September 30, 2012, respectively ($18,602 and $55,806 for the three and nine months ended September 30, 2011, respectively). Cash dividends paid during the three and nine months ended September 30, 2012, were $18,602 and $55,806, respectively ($18,602 and $37,204 for the three and nine months ended September 30, 2011, respectively).

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

9 Statement of cash flows - supplementary information

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

	Three months ended September 30, 2012 $	Three months ended September 30, 2011 $	Nine months ended September 30, 2012 $	Nine months ended September 30, 2011 $
Decrease in accounts receivable – trade and other	26,840	15,608	19,200	9,910
Increase in spare parts, materials and supplies	(1,441)	(538)	(873)	(1,030)
Decrease (increase) in prepaid expenses	1,070	1,853	15,164	(250)
(Increase) decrease in other assets	121	119	(6,333)	(1,203)
Increase in accounts payable and accrued liabilities	5,387	3,158	990	14,237
Decrease in unearned revenue	—	(3,251)	(21,495)	(4,957)
Decrease in other long-term liabilities	(5,625)	(2,661)	(10,468)	(6,045)
	26,352	14,288	(3,815)	10,662

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 September 30, 2012 $	Three months ended September 30, 2011 $	Nine months ended September 30, 2012 $	Nine months ended September 30, 2011 $
Operating revenue				
Air Canada	430,523	406,264	1,238,674	1,182,808
Operating expenses				
Air Canada	18,058	20,022	59,991	65,752
Air Canada Capital Ltd.	19,467	19,111	58,773	57,485

(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:

	September 30, 2012 $	September 30, 2011 $
Accounts receivable		
Air Canada	60,984	62,180
Accounts payable and accrued liabilities		
Air Canada	72,882	68,281
Air Canada Capital Ltd.	10,848	11,715

11 Contingencies

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

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 hearings in June 2012, Air Canada amended its claim, such that it sought 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. 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 the controllable mark-up for payments made by Air Canada to Chorus in 2012 and on a going-forward basis. The Arbitration took place in June 2012 with written submissions being exchanged in July 2012. The Panel released its award (the "Award") on October 2 and 3, 2012.

In the Award, two of the three member Panel concluded that the component unit cost driver ("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"). The Panel also agreed with Chorus that fleet age impacts the rate at which maintenance costs increase. The Panel directed Air Canada and Chorus to negotiate a further adjustment that would account for the impact of fleet age, failing which the parties will submit new proposals and analysis to the Panel.

11 Contingencies (continued)

There remain disputes between the parties with respect to the interpretation and application of the Award and its impact on the controllable mark-up. Chorus is of the view that, applying the CUCD methodology, and based on the proper application of the Adjustments that the Panel has found are required to be made, the result of the 2009 Benchmark is that Chorus is not required to repay Air Canada any amounts in respect of payments made since January 1, 2010, and that its controllable mark-up will remain at 12.50% going forward until at least the 2015 Benchmark.

Air Canada, on the other hand, has asserted to Chorus its view that the impact of the Adjustments that the Panel found were required to be made would reduce the controllable mark-up to 11.41%. However, this does not account for any impact that the fleet age adjustment described above would have on the controllable mark-up. Air Canada took the position at the hearing that there should be no such fleet age adjustment. Chorus is of the view that, given its older fleet relative to those of the relevant comparable operators, any fleet age adjustment would result in a controllable mark-up higher than 11.41%, even if the Panel were to otherwise accept Air Canada's position concerning the impact of each of the various other Adjustments which the Panel indicated must be made.

The parties have 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. Chorus anticipates having all matters settled no later than the first quarter of 2013.

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 AC Claim will be successful, and it is not practicable to determine an estimate of the possible financial effect, if any, with sufficient reliability.

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

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

11 Contingencies (continued)

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

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

Chorus enters into 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 willful misconduct.