chorus aviation inc.

(formerly Jazz Air Income Fund)

Consolidated Financial Statements
December 31, 2010 and 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Summit Place
1601 Lower Water Street, Suite 400
Halifax, Nova Scotia
Canada B3J 3P6
Telephone +1 (902) 491 7400
Facsimile +1 (902) 422 1166
www.pwc.com/ca

Independent Auditor's Report

February 7, 2011

To the Shareholders
of Chorus Aviation Inc.

We have audited the accompanying consolidated financial statements of Chorus Aviation Inc. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010 and 2009 and the consolidated statements of shareholders' equity, income, comprehensive income, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chorus Aviation Inc. and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

February 7, 2011

Management's Report

The accompanying consolidated financial statements of **Chorus Aviation Inc.** are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The 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 consolidated financial statements, and recommended their approval by the Board of Directors.

(signed) "Joseph D. Randell"
President and Chief Executive Officer

(signed) "Allan D. Rowe"
Chief Financial Officer

Consolidated Balance Sheets
As at December 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	2010 $	2009 $
Assets		
Current assets		
Cash and cash equivalents	65,896	223,559
Restricted cash (note 10)	8,812	-
Accounts receivable – trade and other (note 16)	87,031	59,044
Spare parts, materials and supplies	33,844	40,755
Prepaid expenses	25,918	19,909
Total current assets	221,501	343,267
Property and equipment (note 4)	211,089	202,994
Intangible assets (note 5)	650,287	682,479
Long-term investment (note 6)	16,351	-
Future income tax (note 8)	61,976	-
Other assets (note 7)	50,673	37,731
	1,211,877	1,266,471
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note16)	208,172	179,216
Distributions payable	-	6,143
Current portion of obligations under capital leases (note 9)	2,748	2,681
Current portion of long-term debt (note10)	-	114,706
Total current liabilities	210,920	302,746
Obligations under capital leases (note 9)	11,543	15,097
Convertible debentures (note 11)	73,997	78,180
Future income tax (note 8)	-	13,294
Other long-term liabilities (note 12)	50,234	52,699
	346,694	462,016
Shareholders' Equity	865,183	804,455
	1,211,877	1,266,471

Economic dependence (note 16)
Commitments (note 17)
Contingencies (note 22)
Subsequent events (note 23)

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

Approved by the Board of Directors

By: (signed) *"Karen Cramm"*
Director

By: (signed) *"Richard H. McCoy"*
Director

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	Shareholders' (Unitholders') capital $	Retained earnings (deficit) Accumulated earnings $	Retained earnings (deficit) Distributions $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Equity component of convertible debentures $	Total $
Balance – December 31, 2008	1,034,451	20,102	(250,738)	7,400	(3,186)	-	808,029
Change in fair value during the year	-	-	-	-	2,384	-	2,384
Distributions	-	-	(102,787)	-	-		(102,787)
Issue of convertible debentures (note 11)	-	-	-	-	-	4,324	4,324
Units held by stock based compensation plans (note 14(d))	829	-	-	(2,879)	-	-	(2,050)
Accretion related to the ongoing long-term incentive plan (note 14(d))	-	-	-	1,917	-	-	1,917
Net income for the year	-	92,638	-	-	-	-	92,638
Balance – December 31, 2009	1,035,280	112,740	(353,525)	6,438	(802)	4,324	804,455
Change in fair value during the year	-	-	-	-	802	-	802
Distributions	-	-	(73,776)	-	-		(73,776)
Shares (units) held by stock based compensation plans (note 14(d))	764	-	-	(637)	-	-	127
Accretion related to the ongoing long-term incentive plan (note 14(d))	-	-	-	2,202	-	-	2,202
Conversion of convertible debentures (note 11)	5,854	-	-	-	-	(303)	5,551
Issuance of shares (note 14(a))	4	-	-	-	-	-	4
Capital reduction pursuant to Arrangement (note 14(a))	(1,041,902)	-	-	1,041,902	-	-	-
Net income for the year	-	125,818	-	-	-	-	125,818
Balance – December 31, 2010	-	238,558	(427,301)	1,049,905	-	4,021	865,183

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

Consolidated Statements of Income

For the years ended December 31, 2010 and 2009

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

	2010 $	2009 $
Operating revenue (note 16)		
Passenger	1,479,584	1,468,484
Other	6,582	5,416
	1,486,166	1,473,900
Operating expenses (note 16)		
Salaries and wages	302,046	293,958
Benefits	59,034	50,547
Aircraft fuel	299,341	255,842
Depreciation and amortization of property and equipment	29,871	30,689
Amortization of Capacity Purchase Agreement (“CPA”) intangible asset	32,192	39,623
Food, beverage and supplies	13,890	13,097
Aircraft maintenance materials, supplies and services	158,018	163,677
Airport and navigation fees	193,233	192,039
Aircraft rent	115,602	135,680
Terminal handling services	107,524	101,984
Other	116,754	107,990
	1,427,505	1,385,126
Operating income	58,661	88,774
Non-operating income (expenses)		
Interest revenue	623	760
Interest expense	(9,066)	(8,607)
Gain on disposal of property and equipment	747	1,936
Foreign exchange loss	(417)	(1,142)
Unrealized gain on asset backed commercial paper (“ABCP”) (note 21)	-	650
	(8,113)	(6,403)
Income before future income taxes	50,548	82,371
Recovery of future income taxes (note 8)	75,270	10,267
Net income for the years	125,818	92,638
Earnings per share (unit), basic (note 14(c))	$1.03	$0.76
Earnings per share (unit), diluted (note 14(c))	$0.96	$0.75

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

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	2010 $	2009 $
Net income for the years	125,818	92,638
Other comprehensive income (loss)		
Change in fair value of derivatives designated as cash flow hedges	-	(293)
Reclassification of net realized losses on derivatives designated as cash flow hedges to income	802	2,677
Comprehensive income	126,620	95,022

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

chorus aviation inc.

Consolidated Statements of Cash Flows
For the years ended December 31, 2010 and 2009

(expressed in thousands of Canadian dollars)

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net income for the years	125,818	92,638
Charges (credits) to operations not involving cash		
Depreciation and amortization of property and equipment	29,871	30,689
Amortization of CPA intangible asset	32,192	39,623
Amortization of prepaid aircraft rent and related fees	1,895	1,929
Gain on disposal of property and equipment	(747)	(1,936)
Stock based compensation	2,202	1,917
Foreign exchange gain	(805)	(2,843)
Future income taxes	(75,270)	(10,267)
Accretion of debt component of convertible debentures	1,508	239
Unrealized gain on asset backed commercial paper	-	(650)
Other	(697)	(302)
Funding of stock based compensation plan, net of forfeitures	127	(2,050)
	116,094	148,987
Net changes in non-cash working capital balances related to operations (note 15)	(13,681)	(18,898)
	102,413	130,089
Financing activities		
Repayment of obligations under capital leases (note 9)	(2,639)	(2,669)
Repayment of long-term debt	(115,000)	-
Convertible debentures, net of deferred financing costs	(140)	82,265
Distributions	(79,919)	(106,940)
Issuance of shares	4	-
	(197,694)	(27,344)
Investing activities		
Additions to property and equipment	(11,899)	(13,417)
Purchase deposits on aircraft	(26,067)	-
Decrease in long-term receivables	-	419
Long-term investment	(16,351)	-
Proceeds on disposal of property and equipment	747	1,936
Increase in restricted cash	(8,812)	-
	(62,382)	(11,062)
Net change in cash and cash equivalents during the years	(157,663)	91,683
Cash and cash equivalents – Beginning of years	223,559	131,876
Cash and cash equivalents – End of years	65,896	223,559
Cash payments of interest	11,577	9,026
Cash receipts of interest	644	837
Cash and cash equivalents comprise:		
Cash	35,934	36,273
Term deposits and fixed income securities	29,962	187,286

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

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

1 Structure of the Corporation

Chorus Aviation Inc. ("Chorus" or the "Company") was incorporated on September 27, 2010 under the laws of Canada. The Company entered into an arrangement agreement dated October 4, 2010 with, among other parties, Jazz Air Income Fund (the "Fund"), pursuant to which the parties agreed to implement an arrangement under the Canada Business Corporations Act (the "Arrangement"). The Arrangement involved the exchange, on a one-for-one basis, of units of the Fund for common shares of Chorus. As a result of the Arrangement, the holders of units of the Fund became the shareholders of Chorus, which became the sole owner of all outstanding Fund units. The Fund was subsequently wound up into Chorus. The effective date of the Arrangement was December 31, 2010 (see note 3). As a condition precedent to the corporate reorganization which occurred on January 5, 2011 (see note 23), on November 18, 2010 Chorus incorporated Aviation General Partner Inc., to act as general partner for a newly formed partnership Jazz Aviation LP. Reference to Chorus, or the Company, in the following notes to the consolidated financial statements refers to, as the context may require, Chorus, or the Company, and its current and former subsidiaries (Jazz Air LP (the "Partnership"), Jazz Aviation LP, Jazz Air Holding GP Inc. ("Jazz GP"), Aviation General Partner Inc., and 7503695 Canada Inc. ("7503695")) collectively, Chorus and one or more of its current or former subsidiaries, one or more of Chorus' current or former subsidiaries, or Chorus itself.

The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6100, P.O. Box 50, Toronto, Ontario, M5X 1B8. Chorus has been established to acquire and hold, directly or indirectly, investments in the Partnership and its general partner Jazz GP, and such other investments as the Board of Directors (the "Directors") may determine. During the second quarter of 2010, Chorus incorporated a wholly-owned subsidiary, 7503695 to acquire and hold a direct investment in Latin American Regional Aviation Holding Corp. ("LARAH"). LARAH holds an indirect 75% equity interest in Pluna Líneas Aéreas Uruguayas S.A. ("Pluna") and an indirect 58.5% equity interest in Aerovip, a licensed Argentinean airline.

Chorus provides service to and from lower-density markets as well as higher-density markets at off-peak times throughout Canada and to and from certain destinations in the United States. Chorus forms an integral part of Air Canada's domestic and transborder market presence. Chorus and Air Canada are parties to an amended and restated capacity purchase agreement, effective January 1, 2006, as amended by a letter agreement (the "Rate Amending Agreement") dated July 28, 2009 and an amending agreement (the "CPA Amending Agreement") dated September 22, 2009 (as amended, the "CPA"), under which Air Canada currently purchases substantially all of Chorus' fleet capacity on aircraft operated by Chorus (the "Covered Aircraft"), at predetermined rates (the "Rates"). Chorus is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being the primary source of revenue, these entities currently provide significant services to Chorus. In addition, Air Canada and its subsidiaries provide a substantial portion of the aircraft financing for Chorus.

In November 2010, Chorus began to operate Boeing 757-200 aircraft on behalf of Thomas Cook Canada Inc. ("Thomas Cook") under a flight services agreement for the winter seasons to various destinations in the Caribbean, Mexico and Central America from four Canadian gateways – Toronto, Ottawa, Montreal and Halifax.

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. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months, thereby increasing the flying hour requirements of Air Canada. 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 (units) and per share (unit) amount)

2 Significant accounting policies

a) Basis of presentation

These consolidated financial statements are expressed in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

b) Principles of consolidation

These consolidated financial statements include the accounts of Chorus, 7503695, the consolidated accounts of the Partnership, Jazz GP, Aviation General Partner Inc., and Jazz Aviation LP. All inter-company and inter-entity balances and transactions are eliminated.

c) Variable Interest Entities

Chorus has adopted Accounting Guideline 15 ("AcG 15") – *Consolidation of Variable Interest Entities ("VIE")*. AcG 15 defines a VIE as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support from other parties, or where the equity investors lack the characteristic of a controlling financial interest, or that do not absorb the expected losses or receive the expected returns of the entity. VIEs are subject to consolidation by an entity if that entity is deemed the primary beneficiary of the VIE. The primary beneficiary is the party that is either exposed to a majority of the losses from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both.

Management has reviewed its ownership, contractual and financial interests in other entities and determined that, other than the consolidation of the consolidated accounts of the Partnership and stock based compensation plans referred to in note 2(g), this guideline does not impact the financial statements of Chorus.

d) Cash and cash equivalents

Cash and cash equivalents consist of current operating bank accounts, term deposits and fixed income securities with an original term to maturity of 90 days or less. The weighted average interest rate on investments as at December 31, 2010 is 0.92% (2009 – 0.32%).

e) Operating revenue

Under the CPA, Chorus is paid to provide services to Air Canada as explained in notes 1 and 16. The related fees payable by Air Canada are recognized in revenue as the capacity is provided. Incentive payments and margin adjustments as described in note 16 are recognized, respectively, as increases in and reductions of, passenger revenue based on management estimates during the year.

Revenue earned by Chorus under its flight services agreement with Thomas Cook and operation of charter flights is also included in passenger revenue and recognized when the service is provided. Maintenance, repair and overhaul ("MRO") operations and other sources of revenue such as third party ground handling services, are included in other revenue and are recognized when the service is provided.

2 Significant accounting policies (continued)

The CPA with Air Canada provides for a monthly payment for an amount per aircraft designed to reimburse Chorus for certain aircraft ownership costs. In accordance with Emerging Issues Committee No. 150, *Determining Whether an Arrangement Contains a Lease*, Chorus has concluded that a component of its revenue under the CPA is rental income since the CPA identifies the "right of use" of a specific type and number of aircraft over a stated period of time otherwise known as the Covered Aircraft. The amount deemed to be rental income is $145,295 for the year ended December 31, 2010 (2009 - $175,966). This amount was recorded in passenger revenue of Chorus' consolidated statements of income.

f) Employee future benefits

The significant policies related to employee future benefits, consistent with Section 3461, *"Employee Future Benefits"* of the CICA Handbook relating to Chorus' defined benefit pension plan for its pilots, the supplemental executive retirement plan for Chorus executives, and the Other Employee Future Benefits are as follows:

- The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. Obligations are attributed to the period beginning on the date the employee joins the plan and ending on the earlier of the date of termination, death or retirement.
- The cost of the Other Employee Future Benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation.
- The expected return on plan assets is based on the long-term expected rate of return on plan assets and the fair value of the plan assets. It is reasonably possible that management's estimate of the long-term rate of return may change as management continues to assess future investments and strategies and as a result of changes in financial markets.
- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. This period is currently 11 years for the pension plan and 11.25 years for the supplemental executive retirement plan.
- Cumulative unrecognized net actuarial gains and losses of the defined benefit pension plan and the supplemental executive retirement plan in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets at the beginning of the year are amortized over the average remaining service periods of active members expected to receive benefits under the plan (currently 11 years for the pension plan and 11.25 years for the supplemental executive retirement plan).
- The fiscal year-end date is December 31 and the measurement date of the plan's assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement. The obligations relating to Other Employee Future Benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).

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

2 Significant accounting policies (continued)

g) Stock based compensation

Ongoing long-term incentive plan

Under the terms of the Ongoing Long-term Incentive Plan ("Ongoing LTIP"), eligible employees are entitled to yearly Chorus share grants determined on the basis of a percentage of their annual base salary. The shares, which are held in a trust for the benefit of the eligible employees, vest at the end of a three year period (the "Performance Cycle"), commencing January 1 of the year in respect of which they are granted, subject to achieving targets, established by the board of directors, on behalf of Jazz GP, for the Performance Cycle. Chorus has the option to issue the shares from treasury or purchase them on the secondary market. If Chorus chooses to issue shares from treasury, the shares will be granted on a deferred basis. On the grant date, plan members will be credited with the deferred shares granted to them. Grantees are also entitled to receive additional deferred shares based on cash dividends that would have been received had the deferred shares been converted to Chorus shares at the time of issuance. Dividends declared by Chorus on any shares granted under this plan, may be invested in additional shares, which will vest concurrently and proportionately with the shares granted. Forfeited shares and accumulated dividends thereon accrue to Chorus. The trust is a VIE with respect to Chorus, and as such, it is consolidated with Chorus' financial statements. The fair value of the shares, which approximates their cost under this plan, is charged to earnings as compensation expense over the vesting period, with a corresponding increase to equity. Chorus' cost of the shares held is presented as a reduction of share capital. Estimated compensation costs relative to this plan are accrued on the basis of actual performance relative to targets.

h) Financial instruments

Financial instruments are classified as follows:

- Cash and cash equivalents, restricted cash and ABCP are classified as "Financial Assets Held for Trading". These financial assets are required to be marked-to-market through net income at each period end.
- Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. Allowances for doubtful accounts are established by management, on an account-by-account basis, based on, among other factors, prior experience and knowledge of the specific debtor and its assessment of the current economic environment.
- Chorus' investment in LARAH (note 6) has been classified as available for sale and measured at cost as there is no quoted price in an active market. Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income, except for investments in equity instruments that do not have a quoted market price in an active market which should be measured at cost.
- Accounts payable, distributions payable, credit facilities, and convertible debentures are classified as "Other Financial Liabilities". After their initial fair value measurement they are measured at amortized cost, net of transaction costs, using the effective interest rate method.

i) Hedges

Chorus applies hedge accounting to its interest rate swaps and treats them as cash flow hedges. These derivatives are marked-to-market at each period end and resulting gains/losses are recognized in comprehensive income to the extent the hedging relationship is effective. As at December 31, 2010, Chorus had no interest rate swaps.

2 Significant accounting policies (continued)

j) Property and equipment

Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Aircraft and flight equipment are depreciated over 20 to 30 years, with 5 - 20% estimated average residual values.

Buildings are depreciated over their useful lives not exceeding 40 years on a straight-line basis. An exception to this is where the useful life of the building is greater than the term of the land lease. In these circumstances, the building is depreciated over the life of the lease.

Depreciation on other property and equipment is provided on a straight-line basis from the date assets are placed in service, to their estimated residual values, over the following estimated useful lives:

Leaseholds	Over the term of the related lease
Ground and other equipment	5 years

Property under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments. Property and equipment under capital leases are depreciated to estimated residual value over the life of the lease.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be used is measured by comparing the net book value of the asset to the undiscounted future cash flows expected to be generated by the asset. An impairment is recognized to the extent that the carrying amount exceeds the fair value of the asset.

k) Transaction costs

Transaction costs that are incremental and directly attributable to the acquisition or issue of a financial asset or financial liability are recorded as follows:

- Held for trading – expensed as incurred;
- Loans and receivables, and other liabilities – included in the carrying value of the financial asset or financial liability and amortized over the expected life of the financial instrument using the effective interest method; and
- Available for sale – included in the underlying balance.

Transaction costs for operating leases are capitalized and amortized over the life of the lease on a straight-line basis.

l) Intangible assets

Intangible assets with finite lives are carried at their cost, net of amortization; while assets with indefinite lives are not amortized and are reviewed annually for impairment.

The CPA intangible asset has a finite life, is carried at cost and amortized over the initial term of ten years plus two five year renewal periods.

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

2 Significant accounting policies (continued)

m) Impairment of long-lived assets

Long-lived assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of long-lived assets, other than indefinite life intangibles, are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value is not recoverable from future expected cash flows, any loss is measured as the amount by which the asset's carrying value exceeds fair value and recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets.

Indefinite life assets are subject to annual impairment tests under GAAP, or when events or circumstances indicate a potential impairment. Any impairment would be recognized as an expense in the period of impairment.

n) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the balance sheet. Non-monetary assets, liabilities and other items recorded in income are translated at rates of exchange in effect at the date of the transaction. Foreign exchange losses of $417 for the year ended December 31, 2010 (2009 - $1,142) were included in other non-operating income/expense.

o) Aircraft lease payments

Total aircraft rentals under operating leases and the related lease inducements received and fees paid over the lease term are amortized to operating expense on a straight-line basis. Prepaid aircraft rentals and related fees are the difference between the straight-line aircraft rent and the payments stipulated under the lease agreements and legal and related transaction fees associated with the leases. Current and non-current unamortized lease inducements are included in accounts payable and accrued liabilities and other long-term liabilities, respectively.

p) Spare parts, materials and supplies

Spare parts, materials and supplies are valued at the lower of cost, determined on a first in, first out basis, and net realizable value. For the year ended December 31, 2010, the cost of inventories recognized as expense was $37,613 (2009 - $38,206). For the year ended December 31, 2010, inventory writedowns to net realizable value of $5,884 were recognized as an expense (2009 - $3,359).

q) Maintenance and repairs

Maintenance and repair costs are charged to operating expenses as incurred. Significant modification costs considered to be betterments are capitalized and amortized over the remaining service lives of the applicable assets.

Chorus uses the direct expense method of accounting for its airframe overhauls where the expense is recorded when the overhaul event occurs. Chorus has most of its aircraft engines under long-term engine service agreements that cover the scheduled and unscheduled repairs for the covered engines. Under the terms of the agreements, Chorus pays a set dollar amount per engine hour flown on a monthly basis and the third party vendor assumes the responsibility to repair the engines at no additional cost to Chorus, subject to certain specified exclusions. Maintenance costs under these contracts are recognized when a contractual obligation exists. For those engines not covered under a long-term engine service agreement, the overhaul events are expensed in the period when the event occurs. The costs of maintenance for airframe and avionics components, landing gear and normal recurring maintenance are expensed as incurred.

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

2 Significant accounting policies (continued)

r) Future income tax

Chorus uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

s) Earnings per share

Earnings per share are calculated on a weighted average number of shares outstanding basis. Shares held under the stock based compensation plans reduce the weighted average number of outstanding shares from the date they are contributed to the plan.

Diluted earnings per share are calculated using the "if converted" method. Under this method, the interest charges on convertible debentures are added back to the numerator, net of tax. The convertible debentures are considered to have been issued at the beginning of the period on time of issuance and the resulting weighted average dilutive shares are included in the denominator.

t) Dividends

Dividends payable by Chorus to its shareholders, which are determined at the discretion of the Directors, are recorded when declared.

Changes in accounting policies

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian Accounting Standards Board issued EIC Abstract 173, *"Credit Risk and Fair Value of Financial Assets and Financial Liabilities"*, which establishes guidance requiring an entity to consider its own credit risk as well as the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. This interpretation must be applied retrospectively without restatement of prior years. The adoption of this interpretation did not have a significant impact on Chorus' consolidated financial statements.

Financial Instruments

In June 2009, the AcSB issued amendments to Section 3862, *"Financial Instruments – Disclosures"*, to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses in measuring the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009. The additional disclosures are included in note 21.

Change in accounting estimate

In the fourth quarter of 2009, Chorus changed its estimate of the useful life of the CPA intangible asset to coincide with the extended term of the CPA provided under the CPA Amending Agreement. This change has been applied prospectively. The change had the effect of decreasing amortization by $2,477 for the year ended December 31, 2009, and $9,900 annually thereafter.

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

2 Significant accounting policies (continued)

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that Chorus will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011.

3 The Arrangement

On November 9, 2010, Unitholders of the Fund voted, and approved, the reorganization of the Fund, by way of a plan of arrangement under the Canada Business Corporations Act (the "CBCA"), into a corporation pursuant to an arrangement agreement dated October 4, 2010 between Chorus, 7503695, Jazz Air Trust and the Fund. The Arrangement was completed and effective December 31, 2010. The purpose of the Arrangement was to convert the Fund's income trust structure into a corporate structure.

The Arrangement resulted in Unitholders who were qualified Canadians, receiving Chorus Class B Voting Shares ("Voting Shares") on the basis of one Voting Share for each unit transferred. Unitholders who were not qualified Canadians received Class A Variable Voting Shares ("Variable Voting Shares") on the basis of one Variable Voting Share for each unit transferred. The shares are intended to provide the same voting rights and economic interests to holders that they had prior to the effective time of the Arrangement. The rights of holders of shares will also be governed by the CBCA.

As at December 31, 2010, the common shares issuable by Chorus consisted of an unlimited number of Variable Voting Shares and an unlimited number of Voting Shares. The two classes of common shares have equivalent rights as common shareholders except for voting rights. Holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Chorus exceeds 25% or, (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that, (i) the Variable Voting Shares as a class do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of Chorus, and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% of the votes that may be cast at such meeting.

Variable Voting Shares are to be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians within the meaning of the Canada Transportation Act. An issued and outstanding Variable Voting Share shall be converted into one Voting Share automatically and without any further act of Chorus or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the Canada Transportation Act.

Voting Shares are to be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share shall be converted into one Variable Voting Share automatically and without any further act of Chorus or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

The conversion was treated as a change in business form and was accounted for as a continuity of interest. As a result, the carrying amounts of assets and liabilities in the consolidated financial statements of the Fund immediately before the conversion are the same as the carrying values of Chorus immediately after the conversion. Chorus continues to operate the business of the Fund and there have been no substantive ownership changes. The comparative figures are those of the Fund. The stated capital of Chorus in respect of the common shares has been reduced by an amount of $1,041,902 and an amount equal to $1,041,902 has been transferred to contributed surplus and recorded accordingly.

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

3 The Arrangement (continued)

In connection with the Arrangement, Chorus assumed all of the covenants and obligations of the Fund under the indenture entered into with respect to the outstanding convertible debentures. Holders of convertible debentures will be entitled to receive shares, rather than units, on conversion of such convertible debentures after the effective date, on the same conversion basis as units were previously issuable on conversion thereof. All other terms and conditions of the convertible debenture indenture continue to apply.

4 Property and equipment

	As at December 31, 2010		
	Cost $	Accumulated amortization $	Net $
Flight equipment	174,118	41,406	132,712
Facilities	14,567	2,261	12,306
Equipment	31,323	18,754	12,569
Leaseholds	19,942	6,163	13,779
Assets under capital leases	23,201	9,545	13,656
	263,151	78,129	185,022
Deposits on aircraft	26,067	-	26,067
	289,218	78,129	211,089

	As at December 31, 2009		
	Cost $	Accumulated amortization $	Net $
Flight equipment	167,114	26,347	140,767
Facilities	14,294	1,625	12,669
Equipment	27,855	13,101	14,754
Leaseholds	32,473	14,172	18,301
Assets under capital leases	23,201	6,698	16,503
	264,937	61,943	202,994

Amortization expense related to property and equipment of $29,871 was recorded for the year ended December 31, 2010 (2009 - $30,526).

On April 30, 2010, Chorus signed a purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft regarding a firm order for 15 Q400 NextGen turboprop aircraft and options for 15 additional aircraft. Based on the list price for the Q400 NextGen aircraft, the firm order is valued at approximately US$454,000, and could increase to US$937,000, if the option to purchase an additional 15 aircraft is exercised. Subject to satisfaction of customary conditions, aircraft deliveries are scheduled to commence in May 2011. As required by the purchase agreement, Chorus made a lump sum predelivery payment during the second quarter of 2010. The purchase agreement with Bombardier requires on-going monthly predelivery payments in the aggregate amount of $34,658, until July 2011. As at December 31, 2010, Chorus has recorded $26,067 in property and equipment for these predelivery payments.

Chorus has received financing commitments from a third party lender for all firm orders covering up to 85% of the net purchase price.

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

5 Intangible assets

	As at December 31, 2010		
	Cost $	Accumulated amortization $	Net $
Indefinite life assets			
Jazz tradename	1,836	-	1,836
Operating license	4,600	-	4,600
Finite life asset			
CPA	783,184	139,333	643,851
	789,620	139,333	650,287

	As at December 31, 2009		
	Cost $	Accumulated amortization $	Net $
Indefinite life assets			
Jazz tradename	1,836	-	1,836
Operating license	4,600	-	4,600
Finite life asset			
CPA	783,184	107,141	676,043
	789,620	107,141	682,479

During the year ended December 31, 2010, Chorus recorded amortization expense of $32,192 (2009 - $39,623).

6 Long-term investment

On April 30, 2010, Chorus completed a $15,188 investment in LARAH in return for a 33.3% non-voting equity interest. LARAH holds an indirect 75% equity interest in Pluna and an indirect 58.5% equity interest in Aerovip, a licensed Argentinean airline. The remaining 25% equity interest in Pluna is held, indirectly, by the Government of Uruguay. Chorus has appointed one of the seven directors on the Pluna board of directors.

Chorus has classified the investment as available for sale, rather than an equity investment. Chorus does not have the ability to exercise significant influence over LARAH, and as a result, the investment is accounted for at cost.

Chorus' ability to realize a return on the investment is dependent on the occurrence of a liquidity event, such as an IPO or the sale of the business. LARAH and its subsidiaries are private companies with no quoted market price in an active market, therefore the investment was recorded at cost and no fair value has been disclosed. In addition, transaction costs of $1,163 directly attributable to the LARAH investment have been included in the cost of the investment. As at December 31, 2010, Chorus has recorded $16,351 (2009 - $nil) in long-term investments.

7 Other assets

	As at December 31,	
	2010 $	2009 $
Prepaid aircraft rent and related fees, net of accumulated amortization	24,891	25,362
Accrued pension benefit asset (note 19)	25,332	11,316
Asset backed commercial paper (note 21)	450	1,053
	50,673	37,731

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

8 Future income tax

Prior to the effective time of the Arrangement on December 31, 2010, the Fund, as a publicly traded income trust, qualified for special income tax treatment that permitted a tax deduction for distributions paid to Unitholders. For taxation purposes, the Fund was considered a specified investment flow-through ("SIFT") entity and was to become subject to tax commencing January 1, 2011. For accounting purposes, the Fund computed future income tax, based on temporary differences that were expected to reverse after 2010, at the tax rate expected to apply for those periods. The Fund was not subject to, and did not recognize, any current income taxes or future income tax assets or liabilities on temporary differences expected to reverse prior to 2011.

Effective December 31, 2010, following completion of the Arrangement and conversion to a corporate structure, Chorus becomes subject to tax on taxable income earned from that time.

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities at December 31, 2010, that are expected to reverse in the future, are presented below:

	As at December 31, 2010 $	2009 $
Future income tax assets		
Property and equipment – differences in net book value and undepreciated capital cost	13,067	7,862
Deferred lease inducements	10,173	10,282
Intangibles	40,537	37,703
Other	-	1,068
	63,777	56,915
Future income tax liabilities		
Other	1,801	-
Net future income tax asset before valuation allowance	61,976	56,915
Less: Valuation allowance [(a)]	-	70,209
Net future income tax asset (liability)	61,976	(13,294)

a) At December 31, 2010, Chorus re-assessed its future income tax asset and determined that it was more likely than not that the future assets would be realized, resulting in a change in the previously recorded valuation allowance to increase the future tax asset to the amount that is considered more likely than not to be realized.

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

8 Future income tax (continued)

Chorus' provision for income taxes is comprised as follows:

	As at December 31, 2010 %	$
Reconciliation of statutory tax rate:		
Income tax expense at the Canadian statutory tax rate	29.9	15,114
Adjusted for the effect of:		
Fund earnings distributed to Unitholders; therefore not subject to tax	(42.4)	(21,422)
Change in valuation allowance	(138.4)	(69,961)
Permanent differences – non-deductible expenses	6.1	3,092
Other	(4.1)	(2,093)
Income tax recovery, as reported in the consolidated statement of income and effective tax rate	(148.9)	(75,270)

9 Obligations under capital leases

Chorus has entered into capital leases related to aircraft and ground equipment. The obligations are as follows:

	2010 $	2009 $
Year ended December 31, 2010	-	4,147
2011	3,902	4,119
2012	3,571	3,772
2013	3,545	3,746
2014	3,545	3,746
2015	2,993	3,164
Total minimum lease payments	17,556	22,694
Less: Amount representing interest (at rates ranging from 8.755% to 9.450%)	3,265	4,916
Present value of net minimum capital lease payments	14,291	17,778
Less: Current portion	2,748	2,681
Obligations under capital leases	11,543	15,097

A significant portion of the lease payments is payable in US dollars. Interest of $1,421 (2009 - $1,815) relating to capital lease obligations has been included in aircraft rent.

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

10 Long-term debt

The credit facilities matured on February 1, 2010 and all amounts owing thereunder were repaid and the related security was released. As a result, excluding $8,812 in cash encumbered in support of issued letters of credit, which has been classified as the restricted cash, Chorus has all of its assets unencumbered and available to support future debt financing. At December 31, 2009, the net book value of property and equipment pledged as collateral under the credit facility was $186,491. Interest expense on the credit facility for the year ended December 31, 2010 was $583 (2009 - $7,415).

The following provides a breakdown of Chorus' outstanding credit facilities:

	Drawn at December 31, 2010 $	Drawn at December 31, 2009 $
Revolving term facility [(a)]	-	-
Term facility [(b)]	-	115,000
Prepaid interest [(c)]	-	(294)
	-	114,706
Less: Current portion	-	114,706
Total	-	-

(a) Bearing interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%.
(b) Bearing interest at rates ranging from Canadian prime rate and US base rate plus 1.75% to 2.75% and the bankers' acceptance rate and LIBOR plus 2.75% to 3.75%.
(c) Long-term debt is presented net of prepaid interest.

11 Convertible debentures

On October 22, 2009, Chorus announced that it had entered into an agreement to sell to a group of underwriters $75,000 principal amount of 9.50% convertible unsecured subordinated debentures (the "Debentures"). This transaction closed on November 12, 2009. Chorus granted the underwriters an option, exercisable in whole or in part at any time up until 30 days after the closing date, to purchase an additional $11,250 principal amount of Debentures, at the same price. This option was exercised on November 25, 2009. The total gross proceeds of the financing were $86,250. The net proceeds received by Chorus from the sale of Debentures were $82,265 after deduction of the underwriters' fee and the expenses of the offering. Proceeds from the offering are being used for working capital requirements and for general purposes of Chorus.

The Debentures bear interest at a rate of 9.50% per annum, payable semi-annually in arrears on June 30 and December 31 in each year commencing on June 30, 2010, and will mature on December 31, 2014 (the "Maturity Date"). The Debentures are convertible at the holder's option into shares of Chorus at any time prior to 5:00 pm (EST), on the earlier of the Maturity Date and the date fixed for redemption at a conversion price of $5.25 per unit (the "Conversion Price"). The Debentures are not redeemable on or before December 31, 2012, except on change of control or default. After December 31, 2012 and prior to December 31, 2013, the Debentures may be redeemed in whole or in part from time to time at Chorus' option at a price equal to their principal amount plus accrued interest, provided that the volume weighted average trading price for the shares is not less than 125% of the Conversion Price. On and after December 31, 2013 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at Chorus' option at a price equal to their principal amount plus accrued interest. Subject to regulatory approval, Chorus may satisfy its obligation to repay the principal amount of the Debentures on redemption or at maturity, in whole or in part, by delivering that number of shares equal to the amount due divided by 95% of the market price for the shares at that time, plus accrued interest in cash. The offering was made in all provinces and territories of Canada.

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

11 Convertible debentures (continued)

Upon issuance, the Debentures were separated into liability and equity components based on the respective estimated fair values at the date of issuance. The fair value of the liability component is estimated based on the present value of future interest and principal payments due under the terms of the Debentures using a discount rate for similar debt instruments without a conversion feature at the time of issuance. The value assigned to the equity component is the estimated fair value ascribed to the holder's option to convert. Interest expense on the Debenture is determined by applying an effective interest rate to the outstanding liability component. The difference between actual cash interest accrued and interest expense is accreted to the liability component.

The following table allocates the Debentures between debt and equity:

	Cost of borrowing	Debt $	Equity $	Total $
Convertible debentures	9.5%	81,717	4,533	86,250
Transaction costs		(3,776)	(209)	(3,985)
At issuance		77,941	4,324	82,265
Accretion expense		239	-	239
As at December 31, 2009		78,180	4,324	82,504
Transaction costs		(140)	-	(140)
Accretion expense		1,508	-	1,508
Conversions		(5,551)	(303)	(5,854)
As at December 31, 2010		73,997	4,021	78,018

Transaction costs are capitalized and offset with the debt and equity portions of the debentures and amortized over the life of the debentures using the effective interest rate.

On December 14, 2010, $6,040 of note principal with an amortized debt cost of $5,551 and equity value of $303 was converted into 1,150,476 units.

For the year ended December 31, 2010, the total interest expense was $9,716 (2009 - $1,267) which included interest accretion of $1,508 (2009 - $239).

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

12 Other long-term liabilities

	As at December 31, 2010 $	2009 $
Accrued other future employee benefits liability (note 19)	9,308	8,062
Deferred operating lease inducements, non-current portion	40,926	44,637
	50,234	52,699

13 Distributions

Distributions declared to Unitholders of the Fund for the period up to the date of conversion were as follows:

	2010		2009	
	Amount $	Amount per unit $	Amount $	Amount per unit $
January	6,143	0.05	10,296	0.0838
February	6,143	0.05	10,296	0.0838
March	6,143	0.05	10,296	0.0838
April	6,143	0.05	10,296	0.0838
May	6,143	0.05	10,296	0.0838
June	6,143	0.05	10,296	0.0838
July	6,143	0.05	10,296	0.0838
August	6,143	0.05	6,143	0.0500
September	6,143	0.05	6,143	0.0500
October	6,143	0.05	6,143	0.0500
November	6,143	0.05	6,143	0.0500
December	6,203	0.05	6,143	0.0500
	73,776	0.600	102,787	0.8366

As part of the Arrangement, the final cash distribution of $0.05 per unit for Unitholders of the Fund covering the period from December 1, 2010 to December 31, 2010 was paid by the Fund to the transfer agent (CIBC Mellon) for the benefit of Unitholders prior to December 31, 2010 and was distributed on January 10, 2011 to Unitholders of record at the close of business on December 31, 2010. As a result, there was a reduction of cash and no distribution payable by the Fund to Unitholders at December 31, 2010.

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

14 Capital stock

a) Capital stock

Authorized:
An unlimited number of Class A Variable Voting Shares; and
An unlimited number of Class B voting shares

Issued and outstanding:

	December 31, 2010 Number of Shares	$
Initial subscriptions		
Class A variable voting (note 3)	-	-
Class B voting (note 3)	1,025	4
Shares issued pursuant to the Arrangement		
Class A variable voting (note 3)	43,698,611	368,826
Class B voting (note 3)	80,315,835	677,884
	124,014,446	1,046,710
Shares held by stock-based compensation plans	(688,744)	(4,812)
	123,326,727	1,041,902
Capital reduction pursuant to the Arrangement(1)	(123,326,727)	(1,041,902)
Closing balance	0	0

(1) Pursuant to the Arrangement, share capital was reduced to $1 (not in thousands of dollars) for the Class A Variable Voting Shares and $1 (not in thousands of dollars) for the Class B Variable Voting Shares.

b) **Unitholders capital**

The following represents capital of Chorus prior to conversion into corporate form on December 31, 2010, at which time all outstanding units were exchanged for shares (see above).

	December 31, 2010 Number of units	$	December 31, 2009 Number of units	$
Issued for $10 each, net of issue costs of $3,826	25,000,000	246,174	25,000,000	246,174
Issued on February 9, 2007 for $8.55 each	638,223	5,457	638,223	5,457
Issued on March 14, 2007 for $8.03 each	50,000,000	401,500	50,000,000	401,500
Issued on March 30, 2007 for $8.21 each	47,226,920	387,733	47,226,920	387,733
Subtotal	122,865,143	1,040,864	122,865,143	1,040,864
Redemption of units tendered	(1,173)	(8)	(1,131)	(8)
Units issued on conversion of debentures	1,150,476	5,854	-	-
	124,014,446	1,046,710	122,864,012	1,040,856
Units held to fund stock based compensation plans	-	-	(869,668)	(5,576)
Subtotal	124,014,446	1,046,710	121,994,344	1,035,280
Fund units cancelled on December 31, 2010, under the Arrangement	(124,014,446)	(1,046,710)	-	-
Closing balance	-	-	121,994,344	1,035,280

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

14 Capital stock (continued)

c) Earnings per share

The following table provides a breakdown of the numerator and denominator used in the calculation of earnings per share and diluted earnings per share.

Numerator	2010 $	2009 $
Income	125,818	92,638
Interest expense on convertible debentures, net of tax	7,385	870
Diluted income	133,203	93,508

Denominator	2010	2009
Weighted average number of shares	122,206,203	121,976,518
Weighted average convertible debenture dilutive shares	16,371,835	2,250,489
Weighted average number of diluted shares	138,578,038	124,227,007

d) Stock-based compensation

The details of units held under stock based compensation plans discussed in note 2 are as follows:

	December 31, 2010		December 31, 2009	
	Initial LTIP	Ongoing LTIP	Initial LTIP[1]	Ongoing LTIP
Number of shares granted	-	995,892	638,223	995,892
Number of shares forfeited	-	(156,705)	(64,201)	(126,224)
	-	(839,187)	574,022	869,668
Number of shares vested	-	(150,443)	(574,022)	-
Number of shares outstanding, end of year	-	688,744	-	869,668
Weighted average remaining life (years)	-	0.64	-	1.27
Cost of shares purchased during the year[2]	-	$nil	-	$2,268
Weighted average fair value per share on date of grant	-	$6.99	-	$6.41
Compensation expense for the year	-	$2,202	-	$1,917

(1) All shares granted under the Initial LTIP were vested as at December 31, 2009.
(2) The cost of shares purchased under the Ongoing LTIP in 2008 and 2009 is not materially different from their fair value at the date they were granted. Commencing with the 2010 grant, units were granted notionally, rather than purchased on the open market at time of grant.

During the year ended 2010, Chorus notionally granted 557,519 units (2009 - 523,350 units were purchased on the secondary market) under the Ongoing LTIP.

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

15 Statement of cash flows – supplementary information

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

	Year ended December 31, 2010 $	2009 $
(Increase) decrease in accounts receivable – trade and other	(27,987)	12,574
Decrease in spare parts, materials and supplies	6,911	5,395
Increase in prepaid expenses	(6,009)	(7,004)
Increase in other assets	(13,889)	(11,444)
Increase (decrease) in accounts payable and accrued liabilities	29,758	(15,446)
Decrease in other long-term liabilities	(2,465)	(2,973)
	(13,681)	(18,898)

16 Economic dependence

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

	Year ended December 31, 2010 $	2009 $
Operating revenue		
Air Canada	1,453,634	1,462,532
Operating expenses		
Air Canada(1)	94,043	101,467
Air Canada Capital Ltd.	84,315	98,988

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

	As at December 31, 2010 $	2009 $
Accounts receivable		
Air Canada(1)	64,626	53,335
Accounts payable and accrued liabilities		
Air Canada(1)	66,328	59,048
Air Canada Capital Ltd.	10,697	8,422

(1) Includes amounts related to ACGHS Limited Partnership, now a division of Air Canada.

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

16 Economic dependence (continued)

Capacity Purchase Agreement

Chorus is party to the CPA with Air Canada, under which Air Canada purchases the capacity of certain specified aircraft operated by Chorus under the tradename of "Air Canada Jazz" on routes specified by Air Canada. Under this agreement, Chorus is required to provide Air Canada with the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance, and airport operations for such flights. Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada retains all revenue derived from the sale of seats to passengers and cargo services and pays Chorus for the capacity provided.

Chorus is paid fees, on a monthly basis, for the capacity provided. These fees consist of a number of variable components based on different metrics, including block hours flown, flight hours, cycles (number of take-offs and landings), number of passengers and number of aircraft covered by the CPA. The Rates for these metrics are fixed for annual periods and vary by aircraft type with current Rates in effect until December 31, 2011. In addition, Air Canada is required to reimburse Chorus for certain pass-through costs, including fuel, de-icing, navigation, landing and terminal fees, station provisioning costs, station termination costs, passenger liability insurance and certain employee relocation costs. As these costs are required to operate the aircraft provided under the CPA, the reimbursement of these costs are included in revenue.

The fees which are related to controllable costs are paid on the first day of each month based on estimates for that month. Such estimates are reconciled at the end of the month for actual amounts and true-up payments are made no later than the 30th day of the following month. Pass-through costs are reimbursed by Air Canada 30 days following the month in which they were incurred.

Pursuant to the terms of the CPA, Chorus and Air Canada agreed to re-set detailed Rates (subject to the terms of the contract) applicable to the period commencing on January 1, 2009 and ending on December 31, 2011. During the first quarter of 2009, Chorus reached an agreement with Air Canada regarding the establishment of new Rates for controllable costs that are payable by Air Canada under the CPA for the three-year period ending December 31, 2011. The new Rates were retroactive to January 1, 2009.

Chorus is also paid certain performance incentive payments on a quarterly basis related to on-time performance, controllable flight completion, baggage handling performance and other customer satisfaction criteria. Rates negotiated under the CPA were initially established to provide a mark-up of 16.72% on Chorus' controllable costs.

Amendments to the CPA

On July 28, 2009, Chorus and Air Canada agreed to amend the terms of the CPA in response to uncertainty in the airline industry and Air Canada's need to implement cost reduction initiatives. On September 22, 2009, Chorus and Air Canada executed the CPA Amending Agreement to document certain amendments to the CPA, including those amendments described below.

The CPA Amending Agreement extends the initial term of the CPA from December 31, 2015 to December 31, 2020 and provides greater certainty regarding the number of annual Block Hours to be scheduled for flying by Chorus. Block Hours are calculated by adding the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60 ("Block Hours"). Under the CPA Amending Agreement, Air Canada agreed to use reasonable commercial efforts to provide a minimum of 375,000 total annual Block Hours to Chorus, as measured by the sum of the twelve monthly schedules delivered by Air Canada to Chorus for a calendar year (the "Annual Delivered Block Hours"). In addition, Air Canada and Chorus agreed that the minimum average daily utilization per aircraft, measured in Block Hours, will not result in less than 339,000 annual Block Hours (the minimum average daily utilization guarantee or "MADUG"), notwithstanding the temporary reduction in the number of Covered Aircraft to 123 aircraft and the subsequent permanent reduction in the number of Covered Aircraft to 125, subject to Air Canada's one-time right to revise the MADUG in the circumstances described below.

16 Economic dependence (continued)

In addition to establishing the annual minimum number of Block Hours on which the MADUG is based, the CPA Amending Agreement provides Air Canada with the right to revise the MADUG effective in January 2016 in the event Air Canada's domestic market share for the twelve month period from October 1, 2014 to September 30, 2015 has decreased by a fixed percentage compared to its domestic market share for the twelve month period from August 1, 2008 to July 31, 2009. In the event of such a decrease, the CPA Amending Agreement requires that Air Canada and Chorus agree to a revised MADUG by November 17, 2015, failing which Air Canada shall have the right to unilaterally set a revised MADUG by sending Chorus notice by November 20, 2015. The CPA Amending Agreement provides Chorus with the right to send Air Canada notice by December 18, 2015 of its intention to either accept the revised MADUG or exercise its right to terminate the CPA as of December 31, 2016.

The CPA Amending Agreement also amended the Rates established for the rate period commencing January 1, 2009 and ending on December 31, 2011 (the "2009-2011 Rate Period"). The Rates previously negotiated provided a mark-up of 16.72% on Chorus' Controllable Costs. However, pursuant to the terms of the CPA Amending Agreement, Air Canada and Chorus agreed that the Controllable Mark-Up of 16.72% shall only apply as of and from January 1, 2009 through to July 31, 2009. Effective August 1, 2009, an agreed set of revised Rates became effective, under which Chorus applies a Controllable Mark-Up of 12.50% on Chorus' Controllable Costs.

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

The Controllable Mark-Up may also be reduced as a result of benchmarking Chorus' Controllable Costs to those of a group of comparable operators (the "Comparator Group") in 2010 and 2016. Chorus and Air Canada have begun the process of comparing and benchmarking Chorus' Controllable Costs to those of the Comparator Group for the 2009 calendar year (the "2009 Benchmark"). Pursuant to the terms of the CPA Amending Agreement, Chorus and Air Canada agreed to a second benchmarking in 2016 for the 2015 calendar year (the "2015 Benchmark"). If the 2009 Benchmark indicates that the percentage difference between Chorus' Controllable Costs and those of the Comparable Group has increased compared to the percentage difference for the twelve month period beginning July 1, 2006 and ending June 30, 2007, then the Controllable Mark-Up will be reduced 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 amount of the increase described above. If the 2015 Benchmark indicates that the percentage difference between Chorus' Controllable Costs and those of the Comparable Group has increased compared to the percentage difference determined during the 2009 benchmarking, 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 CPA Amending Agreement provides for amendments to the long range fleet plan, reflecting the agreement of Air Canada and Chorus to renew the fleet of Covered Aircraft. Air Canada and Chorus agreed that the fleet of Covered Aircraft shall be reduced from 133 aircraft to a guaranteed minimum number of 125 aircraft (the "Guaranteed Minimum Number of Covered Aircraft"). The reduction in Covered Aircraft to the Guaranteed Minimum Number of Covered Aircraft has commenced. The subleases for eight CRJ-200 and two CRJ-100 aircraft expired by April 30, 2010 and these aircraft have been removed from the Chorus fleet. As at December 31, 2010, nine of these CRJ aircraft were returned to the lessor, and one remained in the Chorus fleet pursuant to a new lease arrangement which was being used to operate charter flights. The return of these aircraft has temporarily reduced the fleet of Covered Aircraft to 123 aircraft.

Pursuant to the terms of the CPA Amending Agreement, Air Canada and Chorus also agreed, effective as of August 1, 2009, to treat the rent charged to Chorus for three of the CRJ-100 aircraft as a pass-through cost. Chorus and Air Canada have also agreed to a process for deploying up to eight CRJ-100 aircraft ("Swing Aircraft"). Air Canada may commence the use of such Swing Aircraft to operate scheduled flights in 2011, subject to agreed upon scheduling parameters, following the delivery of a third new turboprop aircraft to Chorus. The rent to be charged for the Swing Aircraft shall also be treated as a pass-through cost. All or some of these Swing Aircraft may be removed from Chorus' fleet by Air Canada. The Swing Aircraft in Chorus' fleet from time to time, if any, are in addition to the Guaranteed Minimum Number of Covered Aircraft.

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

16 Economic dependence (continued)

Margin adjustment

As a result of the CPA Amending Agreement, the controllable target margin has been reduced from 14.32% to 11.11% effective August 1, 2009. With respect to each calendar year after 2009, during the remaining term of the CPA, if the annual margin for flights provided under the CPA is greater than 11.11%, Chorus will pay Air Canada an amount equal to 50% of the dollar value of the margin exceeding 11.11%. Margin represents the total operating revenue from scheduled flights under the CPA less expenses incurred related to such flights, including employee profit sharing expenses; however, it excludes incentive and pass-through revenue. This margin adjustment for the year ended December 31, 2010 of $nil (2009 - $nil) is accounted for as a reduction of revenue.

Master Services Agreement

Under a master services agreement dated September 24, 2004, between Chorus and Air Canada, Air Canada provides certain services to Chorus for a fee. These services include insurance and corporate real estate services, environmental affairs services and legal services.

The master services agreement will continue in effect until the termination or expiration of the CPA, but individual services can be amended or terminated earlier in accordance with the terms of the master services agreement.

Other

Air Canada provides certain supplies from third parties, primarily fuel, to Chorus and subsequently collects payment from Chorus. As these transactions and balances merely represent a method of settlement for transactions in the normal course of business, they have not been separately disclosed. Air Canada ground handling services (formerly ACGHS Limited Partnership) a division of Air Canada provides ground handling services.

Substantially all of the trade receivable from Air Canada relates to outstanding balances under the CPA.

The balances in accounts payable and accrued liabilities are payable on normal trade terms and have arisen from the services provided by the applicable party.

17 Commitments

Chorus is committed to the following future minimum lease payments under operating leases for flight equipment and base facilities that have initial non-cancellable terms in excess of one year.

		As at December 31, 2010	
		Other third parties $	Air Canada and its subsidiaries $
Year ending December 31,	2011	19,910	85,201
	2012	10,372	79,554
	2013	8,946	77,767
	2014	8,482	77,410
	2015	7,627	75,396
	Thereafter	24,756	449,971

A significant portion of the lease payments is payable in US dollars.

Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd. or Air Canada with head lessors and subleased to Chorus. Future minimum lease payments that will arise under these leases are listed in the above table under the heading “Air Canada and its subsidiaries”.

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

18 Post-employment expenses

Chorus has recorded pension and other post-employment future benefit expenses for the year ended December 31, 2010 of $19,027 (2009 - $15,937).

19 Pension and other future employee benefits

Chorus maintains several registered defined contributions pension plans for eligible employees and a registered defined benefit plan for Pilots, which effective May 24, 2007, are consolidated in these financial statements. Chorus is the plan sponsor for these plans under the Pension Benefits Standard Act, 1985 (Canada). In addition, Chorus maintains an unregistered supplemental executive retirement plan which is partially funded for certain employees. Contributions to the supplementary pension plan started in December 2007. The registered and supplementary defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and the final average earnings for a specified period.

Chorus also maintains Other (non-pension) Employee Future Benefits. The Other Employee Future Benefits include medical and dental benefits provided to the employees on long-term disability and Workplace Safety Insurance Board ("WSIB"). These benefits cease to be provided when the employee reaches age 65. The sick leave gratuity benefits represent the payout of sick leave accruals upon or just prior to retirement for eligible employees. The self-insured WSIB benefits are in respect of self-insured benefits provided to Ontario employees.

The total expense for Chorus' defined contribution plans including two pension plans sponsored by an employee group and a union respectively, for which Chorus is obligated to make defined contributions only, for the year ended December 31, 2010 is $7,841, and for the year ended December 31, 2009 is $7,301.

Total cash payments made by Chorus in 2010 for registered pension plans were $26,543, which includes cash payments for the Registered Defined Benefit Plan of $18,895 (year December 31, 2009 - $21,408; $14,486 for the Registered Defined Benefit Plan). Total cash payments made in 2010 for the Other Employee Future Benefits were $1,237.

The most recent actuarial valuations of the defined pension benefit plans for funding purposes were as of January 1, 2010 and the next funding valuation will be as of January 1, 2011.

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

19 Pension and other future employee benefits (continued)

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

	Pension Benefits		Other Future Employee Benefits	
	2010 $	2009 $	2010 $	2009 $
Change in benefit obligation				
Benefit obligation, beginning of year	126,456	99,005	9,639	7,986
Current service cost	8,238	6,133	1,739	1,573
Interest cost	9,202	7,635	592	611
Plan participants' contributions	6,432	5,819	-	-
Benefits paid	(4,253)	(2,914)	(1,237)	(1,205)
Actuarial loss (gain)	25,313	10,778	2,497	674
Benefit obligation, end of year	171,388	126,456	13,230	9,639
Change in plan assets				
Fair market value of plan assets, beginning of year	127,721	92,243	-	-
Actual return on plan assets	12,138	15,293	-	-
Employer contribution	21,684	17,281	1,237	1,205
Plan participants' contributions	6,432	5,819	-	-
Benefits paid	(4,252)	(2,914)	(1,237)	(1,205)
Fair market value of plan assets, end of year	163,723	127,722	-	-
Funded status, end of year	(7,665)	1,266	(13,230)	(9,639)
Accrued contributions	1,035	-	-	-
Unamortized net actuarial loss	31,962	10,050	3,922	1,577
Accrued benefit asset (liability)	25,332(1)	11,316(1)	(9,308)(2)	(8,062)(2)

(1) The accrued benefit asset is included in other assets.
(2) The accrued benefit liability is included in other long-term liabilities.

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

19 Pension and other future employee benefits (continued)

Plan assets consist of the following:

	Pension Benefits	
	2010	2009
Canadian equity	35%	34%
Debt securities	35%	37%
International equity	24%	24%
Short-term and other	6%	5%
	100%	100%

The plan's assets are invested in a balanced fund and include no significant investment in Chorus, at the measurement date.

Weighted average assumptions used to determine the accrued benefit liability:

	Pension		Other Future Employee Benefits	
	2010	2009	2010	2009
Discount rate to determine accrued benefit obligations	5.70%	6.76%	4.85%	5.75%
Discount rate to determine the pension and benefit cost	6.80% - 6.90%	7.10%	6.80 - 6.90%	7.10%
Rate of compensation increase	5.00%	5.00%	2.50%	2.30%
Expected return on plan assets	3.75% - 6.50%	4.20 - 7.30%	n/a	n/a
Health care inflation – Select to determine accrued benefit obligation	n/a	n/a	6.60%	7.90%
Health care inflation – Select to determine pension and benefit cost	n/a	n/a	7.00%	6.50%

The health care inflation assumption was graded down in and after 2030 to 4.5% per annum

Chorus' net defined benefit pension plan and other future employee benefits expense is as follows:

	Pension		Other Future Employee Benefits	
	2010	2009	2010	2009
	$	$	$	$
Components of expense				
Current service cost (including provision for plan expenses)	8,238	6,133	1,739	1,573
Interest cost	9,202	7,635	592	611
Actual return on plan assets	(12,138)	(15,293)	-	-
Actuarial (gain) loss	25,313	10,778	2,497	674
Costs arising in the period	30,615	9,253	4,828	2,858
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	3,351	7,789	-	-
Actuarial (gain) loss	(25,263)	(10,682)	(2,345)	(582)
Net periodic pension and benefit cost recognized	8,703	6,360	2,483	2,276

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

20 Capital disclosures

Subsequent to its conversion to a corporation, Chorus continues to define and manage its capital structure in a manner consistent with previous methodology. Chorus' capital consists of cash, cash equivalents, restricted cash, long-term debt, convertible debentures and shareholders' equity (excluding accumulated other comprehensive income and the value of the CPA intangible asset).

The total capital is calculated as follows:

	December 31, 2010 $	2009 $
Cash and cash equivalents	(65,896)	(223,559)
Restricted cash	(8,812)	-
Long-term debt (current portion)	-	114,706
Convertible debentures	73,997	78,180
Shareholders' Equity	865,183	804,455
Value of CPA intangible asset and other comprehensive income	(643,851)	(675,241)
Total capital	220,621	98,541

Chorus' main objectives when managing capital are:

- to provide a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations;
- to ensure sufficient liquidity to pursue its growth strategy and undertake selective investment; and
- to provide a rewarding return on investment to its shareholders.

In managing its capital structure, Chorus monitors performance throughout the year having regard to anticipated cash dividends, working capital requirements and maintenance capital expenditures are funded from operations, available cash on deposit and, where applicable, bank borrowings (as at December 31, 2010, Chorus had no authorized and outstanding bank borrowings nor any external bank covenants). Chorus manages its capital structure and may make adjustments to it, in order to support its broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust its capital structure, Chorus may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, or issue new debt.

Chorus uses earnings before interest, taxes, depreciation and amortization ("EBITDA") as a measurement to monitor operating performance. Free cash flow is used as an indicator of financial performance. These measures, as presented, are not recognized for financial statement presentation purposes under Canadian GAAP, and do not have a standardized meaning. Therefore, they are not likely to be comparable to similar measures presented by other public entities.

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

20 Capital disclosures (continued)

The following table provides a reconciliation of EBITDA and Free Cash Flow of Chorus to operating income:

	Three months ended December 31, 2010 $	Three months ended December 31, 2009 $	Year ended December 31, 2010 $	Year ended December 31, 2009 $
Operating income	12,220	17,258	58,661	88,774
Depreciation and amortization(1)	15,433	16,003	62,063	70,312
EBITDA	27,653	33,261	120,724	159,086
EBITDA margin (%)(2)	7.0	9.5	8.1	10.8
EBITDA	27,653	33,261	120,724	159,086
Non-operating expenses	(1,259)	(2,111)	(8,113)	(6,403)
Maintenance capital expenditures(3)	(3,665)	(4,407)	(11,899)	(13,417)
Free Cash Flow	22,729	26,743	100,712	139,266
Distributions declared	18,489	18,429	73,776	102,787
Payout ratio – distributions declared / free cash flow %	81.3	68.9	73.3	73.8

(1) Includes depreciation and amortization of property and equipment and amortization of CPA Asset.
(2) EBITDA margin is calculated as EBITDA divided by operating revenues.
(3) Maintenance capital expenditures – represent expenditures incurred to sustain operations or Chorus' productive capacity

21 Financial instruments

Chorus' financial instruments consist of cash and cash equivalents, accounts receivable, ABCP, accounts payable and accrued liabilities, obligations under capital leases, long-term and convertible debentures, and its investment in LARAH.

Chorus, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary.

Interest rate risk

Investments included in Chorus' cash and cash equivalents earn interest at prevailing and fluctuating market rates, as Chorus' objective is to maintain these balances in highly liquid investments. As at December 31, 2010, Chorus' investments consisted of bankers acceptances and bankers deposit notes issued by two schedule 1 banks.

Chorus previously used interest rate swaps to hedge its exposure to changes in interest rates related to its credit facility. Total amounts outstanding under this facility were repaid in 2010; therefore, no interest rate swaps currently exist.

A 1% change in the interest rate would not have a significant impact on the net income of Chorus.

Credit risk

In accordance with its investment policy, Chorus invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 Banks and Schedule 2 Banks rated R-1 high, and commercial paper rated R-1 high. Chorus manages the credit risk on cash and cash equivalents by ensuring that the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. Given the disruption in the third party sponsored ABCP market, Chorus amended its investment policy during the third quarter of 2007 to prohibit investment in all third party and bank sponsored ABCP.

The amount of accounts receivable disclosed in Chorus' balance sheet as at December 31, 2010, ($87,031) is net of allowances for bad debts of $21, estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The total amount of receivable past due 90 days, but not considered impaired by management amounts to $3,700 as at December 31, 2010. Chorus continues to work with the entities from which it holds these past due receivables to recover the full amount outstanding. Approximately $64,626 of such receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada. Chorus does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Chorus' objective is to maintain sufficient liquidity to meet liabilities when due. Chorus monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. Letters of credit totalling approximately $8,812 (December 31, 2009 - $3,241) have been issued as security for groundhandling, charters and airport fee contracts, lease payments on rental space and aircraft, and certain employee benefits.

Chorus has a minority, non-voting interest in LARAH, which is a private company. Chorus has no control over the timing of a liquidity event (such as an IPO or permitted sale). There is a risk that Chorus will not be able to realize on its investment in LARAH within a reasonable time frame. Chorus has no commitment to make any further investment in LARAH.

21 Financial instruments (continued)

Currency risk

Chorus receives revenue and incurs expenses in US and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and in particular, obligations under capital leases, which are long-term and so are subject to larger unrealized gains or losses. Chorus mitigates its currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US dollar denominated assets was $40,066 and US denominated liabilities was $63,653 at December 31, 2010. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $235.

The investment in LARAH was made in US currency, therefore a decline in the value of the US exchange rate would create a foreign exchange loss on disposal of the asset. A 1¢ change in the US exchange rate would result in a foreign exchange gain or loss of $150 upon disposal of the investment.

Fair value of financial instruments

The carrying amounts reported in the balance sheet for accounts receivable, and accounts payable and accrued liabilities approximate fair values based on the immediate or short-term maturities of these financial instruments. Due to current market conditions and related increases in risk premiums on credit facilities, management estimated the fair value of the credit facilities at December 31, 2009 to be $115,000. The fair value of the convertible debentures is determined by adding the market premium at year end to the amortized cost base. Financial assets included in the balance sheet include ABCP with an estimated fair value of $450 (see below for discussion on determination of fair value of ABCP).

Carrying amounts and fair values

The fair values of financial assets and liabilities, together with the carrying amounts included in the consolidated balance sheets, are as follows:

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

21 Financial instruments (continued)

	December 31, 2010 Carrying Amount $	December 31, 2010 Fair Value $	December 31, 2009 Carrying Amount $	December 31, 2009 Fair Value $
Financial assets				
Held for trading, carried at fair value				
Cash and cash equivalents	65,896	65,896	223,559	223,559
Restricted cash	8,812	-	-	-
Asset backed commercial paper	450	450	1,053	1,053
Loans and receivables, carried at amortized cost				
Accounts receivable (1)	83,294	83,294	55,518	55,518
Financial liabilities				
Other financial liabilities, carried at amortized cost				
Accounts payable and accrued liabilities (includes current portion of obligations under capital leases) (1)	203,985	203,985	171,833	171,833
Distributions payable	-	-	6,143	6,143
Long-term debt	-	-	114,706	115,000
Obligations under capital leases	11,543	11,543	15,097	15,097
Convertible debentures	73,997	81,767	78,180	80,142

(1) Assets and liabilities, such as commodity taxes, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded.

(2) Long-term investments carried on the balance sheet, do not have a quoted price in an active market and are carried at historical cost. Impairment testing on long-term investments is done based on the policy for "impairment of long-lived assets", in note 2(m).

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

21 Financial instruments (continued)

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheet as at December 31, 2010, classified using the fair value hierarchy described above:

	Level 1 $	Level 2 $	Level 3 $
Financial assets			
Cash and cash equivalents	65,896	-	-
Restricted cash	8,812	-	-
Asset backed commercial paper	-	-	450(1)
Total	74,708	-	450(1)

(1) The ABCP classified as level three is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis. During the year ended December 31, 2010, a valuation gain / loss of $nil (2009 - gain of $650) was recorded.

22 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. The Directors 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 (units) and per share (unit) amount)

22 Contingencies (continued)

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 continues to be stayed. However, Porter has commenced the process to lift the stay of this counterclaim. Chorus maintains that Porter's counterclaim is without merit. If the stay is lifted, the counterclaim, will be vigorously contested by Chorus and Air Canada in court. If Chorus is not successful in defending the counterclaim, it could be subject to a material damages award.

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

Chorus 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 amount has been recorded in these financial statements with respect to the indemnification agreements.

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.

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

22 Contingencies (continued)

The maximum amount payable, if any, under the foregoing indemnities cannot be reasonably estimated. Chorus carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities).

23 Subsequent events

a) On January 5, 2011, upon receipt of certain regulatory approvals and third party consents, a reorganization of the Chorus corporate structure occurred, pursuant to which substantially all of the assets of Jazz Air LP were transferred to Jazz Aviation LP, a newly formed Ontario partnership, represented by its general partner, Aviation General Partner Inc. The airline business previously carried on by the Partnership is, effective January 5, 2011, carried on by Jazz Aviation LP. There was no substantive change in ownership; therefore, the reorganization will be accounted for as a continuity of interest. As such, the consolidated carrying values of the assets and liabilities will be the same immediately before the reorganization as after.

b) On February 3, 2011 Chorus and Air Canada agreed to proceed to binding arbitration for the 2009 benchmarking exercise contemplated in the CPA to assess if certain rates charged to Air Canada under the CPA should be adjusted downwards in the period from 2010 forward. It is anticipated the arbitration will cover the methodology of approach for benchmarking as Air Canada and Chorus have yet to agree on a common methodology to compare Chorus's Controllable Costs against the Comparator Group (and adjustments thereto to account for, among other things, fleet type and size and geographical deployment). Chorus is confident that the methodology it has proposed is both fair and appropriate and has concluded no adjustment will be required to the CPA rates billed to Air Canada in 2010 as a result of the benchmarking exercise, if it is adopted. There can be no assurance that the methodology Chorus has used to estimate the outcome of the benchmarking exercise will ultimately be the basis of conducting the benchmarking exercise as a result of the arbitration process. If Chorus' methodology is not consistent with any arbitration decision, operating results and financial condition may be negatively impacted.