Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2013

November 13, 2013

Management's Report

The accompanying unaudited interim condensed consolidated financial statements of **Chorus Aviation Inc.** (the "financial statements") are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada (“GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 (“CICA Handbook”) which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and 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 financial statements, and recommended their approval by the Board of Directors.

(signed)	“Joseph D. Randell” President and Chief Executive Officer	(signed)	“Richard Flynn” Chief Financial Officer

Unaudited Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)

	September 30, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	149,514	118,306
Restricted cash	3,320	6,017
Accounts receivable – trade and other	77,028	78,949
Spare parts, materials and supplies	45,221	38,149
Prepaid expenses and deposits	22,741	25,942
Total current assets	297,824	267,363
Property and equipment (note 4)	603,995	499,872
Goodwill	6,693	6,693
Deferred income tax (note 5)	—	2,099
Other assets	40,349	36,280
	948,861	812,307
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	218,206	205,588
Dividends payable (note 7)	9,191	18,602
Current portion of obligations under finance leases	3,180	2,875
Current portion of long-term debt (note 6)	29,847	20,281
Income tax payable	1,431	513
Total current liabilities	261,855	247,859
Obligations under finance leases	3,817	6,014
Long-term debt (note 6)	364,414	257,165
Convertible debentures	78,083	76,769
Deferred income tax (note 5)	20,348	—
Other long-term liabilities	50,017	92,385
	778,534	680,192
Equity	170,327	132,115
	948,861	812,307

Economic dependence (note 9)
Contingencies (note 12)
Subsequent event (note 13)

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

Unaudited Consolidated Statements of Changes in Equity

(expressed in thousands of Canadian dollars)

	Capital $	Deficit $	Contributed surplus $	Equity component of convertible debentures $	Total $
Balance - December 31, 2011	1,572	(918,832)	1,050,907	9,497	143,144
Net income for the period (note 3)	—	85,767	—	—	85,767
Other comprehensive loss for the period (net of tax) (note 3)	—	(39,375)	—	—	(39,375)
Comprehensive income for the period	—	46,392	—	—	46,392
Dividends	—	(55,806)	—	—	(55,806)
Shares released from stock-based compensation plans	2,056	—	(2,056)	—	—
Expense related to the stock-based compensation plans	—	—	1,841	—	1,841
Balance - September 30, 2012	3,628	(928,246)	1,050,692	9,497	135,571
Net income for the period	—	14,456	—	—	14,456
Other comprehensive loss for the period (net of tax)	—	77	—	—	77
Comprehensive income for the period	—	14,533	—	—	14,533
Dividends	—	(18,602)	—	—	(18,602)
Expense related to the stock-based compensation plans	—	—	613	—	613
Balance - December 31, 2012	3,628	(932,315)	1,051,305	9,497	132,115
Net income for the period	—	53,111	—	—	53,111
Other comprehensive gain for the period (net of tax)	—	25,644	—	—	25,644
Comprehensive income for the period	—	78,755	—	—	78,755
Dividends	—	(37,094)	—	—	(37,094)
Repurchase of shares under normal course issuer bid (note 7)	(108)	—	(3,898)	—	(4,006)
Share issuance for stock-based compensation plans (note 7)	1,566	—	(3,068)	—	(1,502)
Expense related to the stock-based compensation plans	—	—	2,059	—	2,059
Balance - September 30, 2013	5,086	(890,654)	1,046,398	9,497	170,327

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

chorus aviation inc.

Unaudited Consolidated Statements of Income

For the three and nine-month periods ended September 30, 2013 and 2012

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	$	$	$	$
Operating revenue (note 9)				
Passenger	430,571	433,921	1,251,236	1,292,881
Other	1,685	1,725	7,597	6,112
	432,256	435,646	1,258,833	1,298,993
Operating expenses (note 9)				
Salaries, wages and benefits (note 3)	102,165	105,895	311,424	312,364
Aircraft fuel	102,043	104,231	288,142	300,717
Depreciation and amortization	16,507	15,164	46,145	41,984
Food, beverage and supplies	4,765	4,254	13,542	14,300
Aircraft maintenance materials, supplies and services	39,115	40,251	114,181	119,306
Airport and navigation fees	51,979	52,887	150,250	155,647
Aircraft rent	22,143	23,985	67,273	77,309
Terminal handling services	24,190	24,352	83,065	84,443
Other	30,094	28,265	93,024	90,664
	393,001	399,284	1,167,046	1,196,734
Operating income	39,255	36,362	91,787	102,259
Non-operating income (expenses)				
Interest revenue	284	349	877	876
Interest expense	(5,026)	(4,706)	(16,542)	(13,172)
Gain on disposal of property and equipment	1,337	894	1,424	1,159
Foreign exchange gain (loss)	7,803	10,712	(10,244)	9,668
Other	—	—	750	—
	4,398	7,249	(23,735)	(1,469)
Income before income taxes	43,653	43,611	68,052	100,790
Income tax expense (note 5)				
Current income tax	(1,431)	—	(2,110)	—
Deferred income tax	(6,190)	(6,673)	(12,831)	(15,023)
	(7,621)	(6,673)	(14,941)	(15,023)
Net income for the periods	36,032	36,938	53,111	85,767
Earnings per share, basic	$0.29	$0.30	$0.43	$0.69
Earnings per share, diluted	$0.27	$0.28	$0.42	$0.65

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

chorus aviation inc.

Unaudited Consolidated Statements of Comprehensive Income

For the three and nine-month periods ended September 30, 2013 and 2012

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Net income for the periods	36,032	36,938	53,111	85,767
Other comprehensive gain (loss)				
Items that will not be subsequently reclassified to the statement of income				
Actuarial gain (loss) on employee benefit liabilities, net of tax expense (recovery) of $4,073 and $9,616 (2012 - ($4,034) and ($8,401)) (note 3)	10,576	(11,050)	25,644	(23,024)
Loss arising on revaluation of financial assets at fair value through other comprehensive loss	—	—	—	(16,351)
Comprehensive income	46,608	25,888	78,755	46,392

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

chorus aviation inc.

Unaudited Consolidated Statements of Cash Flows

For the three and nine-month periods ended September 30, 2013 and 2012

(expressed in thousands of Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Cash provided by (used in)				
Operating activities				
Net income for the periods	36,032	36,938	53,111	85,767
Charges (credits) to operations not involving cash				
Depreciation and amortization	16,507	15,164	46,145	41,984
Amortization of prepaid aircraft rent and related fees	602	613	1,733	1,715
Gain on disposal of property and equipment	(1,337)	(264)	(1,424)	(529)
Stock-based compensation	781	614	2,059	1,841
Unrealized foreign exchange (gain) loss on long-term debt and finance leases	(8,324)	(10,035)	10,771	(8,872)
Current income tax expense	1,431	—	2,110	—
Deferred income tax expense	6,190	6,673	12,831	15,023
Accretion of debt component of convertible debentures	445	418	1,314	1,236
Other	2,190	(331)	4,629	(1,081)
	54,517	49,790	133,279	137,084
Net changes in non-cash balances related to operations (note 8)	(4,481)	26,654	(3,553)	(2,909)
	50,036	76,444	129,726	134,175
Financing activities				
Repayment of obligations under finance leases	(760)	(672)	(2,196)	(1,974)
Long-term borrowings	2,218	6,300	123,186	120,766
Repayment of long-term borrowings	(6,741)	(3,293)	(16,920)	(9,060)
Increase in other assets	—	—	(5,930)	—
Repurchase of shares under normal course issuer bid	(1,441)	—	(4,006)	—
Dividends	(9,241)	(18,602)	(46,505)	(55,806)
	(15,965)	(16,267)	47,629	53,926
Investing activities				
Additions to property and equipment	(11,335)	(10,958)	(152,806)	(160,015)
Assets held for sale	—	(122)	—	(281)
Proceeds on disposal of property and equipment	3,875	264	3,962	529
Decrease in restricted cash	1	—	2,697	4,622
	(7,459)	(10,816)	(146,147)	(155,145)
Net change in cash and cash equivalents during the periods	26,612	49,361	31,208	32,956
Cash and cash equivalents – Beginning of periods	122,902	91,663	118,306	108,068
Cash and cash equivalents – End of periods	149,514	141,024	149,514	141,024
Cash payments of interest	7,313	5,589	12,495	13,062
Cash receipts of interest	279	332	948	834
Cash payments of tax	275	—	1,776	—
Cash and cash equivalents comprise:				
Cash	119,540	66,677	119,540	66,677
Term deposits and fixed income securities	29,974	24,986	29,974	24,986

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

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

1 General information

Chorus Aviation Inc. ("Chorus") was incorporated on September 27, 2010 under the laws of Canada. On November 18, 2010, Chorus incorporated Aviation General Partner Inc. to act as general partner for a newly formed partnership, Jazz Aviation LP (the "Partnership"). On January 5, 2011, substantially all of the assets of Jazz Air LP were transferred to the Partnership and the airline business previously carried on by Jazz Air LP is now carried on by the Partnership. On February 28, 2011, Chorus incorporated three wholly-owned subsidiaries under the Canada Business Corporations Act, as amended ("CBCA"); Chorus Leasing I Inc., Chorus Leasing II Inc., and Chorus Leasing III Inc. (collectively, the "Initial LeaseCos"). The Initial LeaseCos were established for the sole purpose of acquiring Q400 NextGen turboprop aircraft ("Q400 aircraft") and related equipment. On December 31, 2012, the Initial LeaseCos were reorganized (the "Reorganization") as follows: Chorus Leasing I Inc. and Chorus Leasing II Inc. amalgamated to form Chorus Leasing Amalco (2012) Inc. ("Amalco"), and Chorus Leasing III Inc. then acquired the assets and liabilities of Amalco in exchange for preferred shares.

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

References to Chorus in the following notes to the consolidated financial statements refer to, as the context may require, Chorus, its current and former subsidiaries (including, but not limited to, the Partnership, Aviation General Partner Inc., 7503695, and Chorus Leasing III Inc.) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries, or Chorus itself.

Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being Chorus' primary source of revenue, these entities currently provide significant services to Chorus. Chorus and Air Canada are parties to an amended and restated capacity purchase agreement, effective January 1, 2006, as amended by agreements (the "Rate Amending Agreements") dated July 6, 2009, August 6, 2012 and June 3, 2013 and amending agreements (the "CPA Amending Agreements") dated September 22, 2009, March 8, 2011 and June 6, 2013 (as amended, the "CPA"), under which Air Canada currently purchases the greater part of Chorus' fleet capacity on aircraft operated by Chorus (the "Covered Aircraft") at predetermined rates (the "Rates").

On April 13, 2012, Chorus announced that it had received notification from Thomas Cook of its intention to discontinue operating dedicated charter aircraft, branded as Thomas Cook Canada, due to market conditions. As a consequence, the remaining three years of the five-year Flight Services Agreement with Chorus were terminated effective April 30, 2012. Chorus had, prior to such termination, operated Boeing 757-200 aircraft on behalf of Thomas Cook to various sun destinations from Canadian gateways. Chorus and Thomas Cook reached a commercial settlement in respect of the termination of the Flight Services Agreement, the economic terms of which reflect the original and intended expiration of the agreement, and address the recovery of certain initial start-up costs and foregone revenues. In the second quarter of 2012, $9,000 was recorded in the financial statements of Chorus as revenue in respect of this settlement.

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

2 Basis of presentation

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

These financial statements have been authorized for issuance by the Board of Directors on November 13, 2013.

3 Significant accounting policies

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

New accounting standards adopted during the period

IFRS 10, Consolidated Financial Statements

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

IFRS 11, Joint Ventures

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

3 Significant accounting policies (continued)

IFRS 13, Fair Value measurement

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

Amendments to standards

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

IAS 19, *Employee Benefits*, has been amended effective for annual periods beginning on or after January 1, 2013. The revised standard requires immediate recognition of actuarial gains and losses in other comprehensive income, eliminating the previous options that were available. A number of other amendments have been made to recognition, measurement and classification. Chorus' accounting policy as at December 31, 2012 for recognition of actuarial gains and losses through other comprehensive income was consistent with the revisions contained in the standard. Chorus has retrospectively applied the amendments to IAS 19 and as a result has restated net income from the 2012 comparative period to be lower than originally reported under the historical standard. The decrease arose due to the projected rate of return on plan assets being higher than the discount rate, and results in the statement of income receiving an additional pre-tax charge of $302 for the three months ended September 30, 2012 ($906 for the nine months ended September 30, 2012) with an offsetting pre-tax reduction to other comprehensive income. The revised standard does not impact the balances of employee benefits in the statement of financial position or the total amount of comprehensive income for prior years.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the period ended September 30, 2013

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

4 Property and equipment

	Year ended December 31, 2012					Nine months ended September 30, 2013			
	Opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing / opening net book value $	Additions $	Disposals/ deposits applied $	Depreciation for the period $	Closing net book value $
Flight equipment	337,969	123,777	—	(32,799)	428,947	138,969	—	(27,963)	539,953
Major maintenance overhauls	14,545	11,267	—	(13,229)	12,583	15,945	—	(11,000)	17,528
Facilities	11,676	6,270	—	(683)	17,263	6,175	(2,538)	(648)	20,252
Equipment	10,219	4,181	—	(5,442)	8,958	4,821		(3,279)	10,500
Leaseholds	12,211	322	—	(1,795)	10,738	28	—	(1,158)	9,608
Flight equipment under finance leases	10,785	—	—	(2,797)	7,988	—	—	(2,097)	5,891
Deposits on aircraft/ engines	11,635	13,634	(11,874)	—	13,395	263	(13,395)	—	263
Total	409,040	159,451	(11,874)	(56,745)	499,872	166,201	(15,933)	(46,145)	603,995

	At December 31, 2012			At September 30, 2013		
	Cost $	Accumulated depreciation $	Net book value $	Cost $	Accumulated depreciation $	Net book value $
Flight equipment	537,041	(108,094)	428,947	671,432	(131,479)	539,953
Major maintenance overhauls	29,261	(16,678)	12,583	32,266	(14,738)	17,528
Facilities	22,378	(5,115)	17,263	24,811	(4,559)	20,252
Equipment	46,110	(37,152)	8,958	50,931	(40,431)	10,500
Leaseholds	26,847	(16,109)	10,738	26,875	(17,267)	9,608
Flight equipment under finance leases	22,951	(14,963)	7,988	22,951	(17,060)	5,891
Deposits on aircraft/engines	13,395	—	13,395	263	—	263
Total	697,983	(198,111)	499,872	829,529	(225,534)	603,995

Change in estimates

During the period ended September 30, 2013, Chorus reviewed the residual value of its owned aircraft and the estimated useful economic lives of these aircraft. As a result, the expected residual values of the Dash 8-100 and Dash 8-300 aircraft have been revised upwards. The effect of these changes on depreciation expense and related CPA revenue (excluding mark-up) for the three and nine months ended September 30, 2013 was approximately $1,000 and $4,100, respectively. The change in estimate is expected to reduce annual depreciation expense and related CPA revenue (excluding mark-up) by approximately $5,200 for 2013.

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

5 Income taxes

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

	Three months ended September 30,			
	2013	**2013**	**2012**	**2012**
	%	**$**	**%**	**$**
Income tax expense at the Canadian statutory tax rate	28.3	12,354	27.9	12,170
Recognition of previously unrecognized cumulative eligible capital related to:				
- current period	(6.0)	(2,604)	(6.3)	(2,746)
- prior period	—	—	(3.7)	(1,617)
Net impact of capital items (1)	(6.0)	(2,622)	(4.0)	(1,752)
Non-deductible expenses	1.2	493	1.4	619
Impact of tax rate changes and tax rate differential	—	—	—	—
Income tax expense	17.5	7,621	15.3	6,674

	Nine months ended September 30,			
	2013	**2013**	**2012**	**2012**
	%	**$**	**%**	**$**
Income tax expense at the Canadian statutory tax rate	27.3	18,578	27.4	27,597
Recognition of previously unrecognized cumulative eligible capital related to:				
- current period	(11.5)	(7,849)	(8.2)	(8,277)
- prior period	—	—	(4.8)	(4,850)
Net impact of capital items (1)	5.0	3,390	(1.3)	(1,364)
Non-deductible expenses	2.1	1,402	1.8	1,836
Impact of tax rate changes and tax rate differential	(0.9)	(580)	0.1	81
Income tax expense	22.0	14,941	15.0	15,023

(1) The impact of capital items is mainly related to the foreign exchange fluctuations on the long-term debt associated with the purchase of the Q400 aircraft, of which the impact of the non-deductible (non-taxable) portion of any unrealized loss (gain) is considered in the calculation of income tax expense at the end of each period. To the extent that a capital loss is recorded for accounting purposes, the benefit of the deductible portion of the loss is recognized only to the extent that it is probable that the loss will be utilized. Chorus does not have a plan in place to utilize the deductible portion of the balance of the foreign exchange losses, accordingly no deferred tax asset has been recognized related to the foreign exchange losses. As at September 30, 2013, less than 1% of the impact of the foreign exchange fluctuations have been realized through principal repayments.

In addition to the tax deductible amounts recognized as deferred tax assets in the financial statements, Chorus has other tax deductible amounts of approximately $518,763, as at September 30, 2013, related to cumulative eligible capital. In accordance with the initial recognition exemption, as outlined in IAS 12, the benefit of these deductible expenditures cannot be recognized in the financial statements until such time that those benefits can be applied to reduce current tax expense. During the three and nine months ended September 30, 2013, Chorus utilized a total of $9,548 ($2,604 tax effected) and $28,780 ($7,849 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income. During the three and nine months ended September 30, 2012, Chorus utilized a total of $15,470 ($4,363 tax effected) and $47,927 ($13,127 tax effected), respectively, of these previously unrecognized tax deductions to reduce its taxable income.

As at September 30, 2013, Chorus had $14,366 (December 31, 2012 - $9,594) of allowable capital losses that have not been recognized as a deferred tax asset, as Chorus has no current plan in place to utilize these losses.

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

6 Long-term debt

Long-term debt consists of the following:

	As at September 30, 2013 $	As at December 31, 2012 $
Term loans - purchased aircraft (1)	378,481	267,339
Term loans - purchased engines (2)	3,780	3,807
Term loan - Halifax facility (3)	12,000	6,300
	394,261	277,446
Less: Current portion	29,847	20,281
	364,414	257,165

(1) 21 individual term loans, repayable in semi-annual instalments, ranging from $855 to $1,046, bearing fixed interest at a weighted average rate of 3.386%, maturing between May 2023 and March 2025, each secured primarily by one Q400 aircraft and two PW150A engines. At September 30, 2013, the total Q400 aircraft financing payable in US dollars was US$367,350 (December 31, 2012 - US$268,710), and the net book value of property and equipment pledged as collateral under Q400 aircraft financing was $430,131 (December 31, 2012 - $308,953).

(2) Two individual term loans, repayable in quarterly instalments of $54, including fixed interest at a rate of 4.591%, maturing December 2024, each secured by one PW150A engine. At September 30, 2013, the total Q400 engine financing payable in US dollars was US$3,669 (December 31, 2012 - US$3,853) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $4,057 (December 31, 2012 - $4,722).

(3) Nova Scotia Jobs Fund loan, with a maximum contribution of $12,000, bearing interest at a fixed rate of 3.33% annually. Principal repayments of $1,000 are payable annually commencing on August 31, 2016. Maturing on August 31, 2027, the loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases. As of September 30, 2013, the amount drawn on the loan was $12,000 (December 31, 2012 - $6,300).

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.0303, which was the exchange rate in effect at the end of day closing September 30, 2013.

	$
No later than one year	29,847
Later than one year and no later than five years	132,974
Later than five years	231,440
	394,261

The terms and conditions of the Q400 aircraft and engine financing are consistent with those disclosed in note 18 of the 2012 annual consolidated financial statements of Chorus. As at September 30, 2013, Chorus is in compliance with all the required covenants.

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

7 Capital stock and dividends

Capital stock

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

Issued and outstanding:

	Number of Shares[1]	$
Shares reported in equity December 31, 2011	123,540,555	1,572
Shares released from the stock-based compensation plan [2]	474,916	2,056
Shares issued and outstanding December 31, 2012	124,015,471	3,628
Shares issued [3]	398,355	1,566
Shares repurchased[4]	(1,871,800)	(108)
Shares issued and outstanding September 30, 2013	122,542,026	5,086

1) References to Shares above are inclusive of Class A Variable Voting Shares and Class B Voting Shares. As at September 30, 2013, Chorus had 4,811,680 Class A Variable Voting Shares (December 31, 2012 - 15,472,846) and 117,730,736 Class B Voting Shares (December 31, 2012 - 108,542,625).
2) As Shares from the stock-based compensation plan vested, they were released from a trust into capital at the weighted average cost on date of grant.
3) On February 25, 2013 Chorus issued 398,355 Class B Voting Shares to satisfy the vesting of the stock-based compensation plans. The shares were issued at market price at closing on the day of issuance, net of the amount Chorus paid in withholding taxes on behalf of the employees.
4) On March 14, 2013, Chorus announced that it had received approval from the Toronto Stock Exchange to make a normal course issuer bid to purchase up to 11,093,612 Shares during the period March 18, 2013 to no later than March 17, 2014. From April 1 to September 30, 2013, Chorus repurchased and cancelled 1,871,800 Shares under its normal course issuer bid at an aggregate cost of $4,006. Share capital was reduced by $108 and the remaining $3,898 was accounted for as a reduction of contributed surplus.

Dividends

On May 9, 2013, Chorus reduced its quarterly dividend from $0.15 per share to $0.075 per share. Chorus declared $9,191 and $37,094 in dividends during each of the three and nine months ended September 30, 2013, respectively ($18,602 and $55,806 for the three and nine months ended September 30, 2012, respectively). Cash dividends paid during the three and nine months ended September 30, 2013 were $9,241 and $46,505, respectively ($18,602 and $55,806 for the three and nine months ended September 30, 2012, respectively).

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

8 Statement of cash flows - supplementary information

Net changes in non-cash balances related to operations:

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
(Increase) decrease in accounts receivable – trade and other	(1,394)	26,840	(3,389)	19,200
Increase in spare parts, materials and supplies	(293)	(1,441)	(7,072)	(873)
Decrease in prepaid expenses	2,296	1,070	3,201	15,164
Increase (decrease) in other assets	1,364	121	3,163	(6,333)
(Decrease) increase in accounts payable and accrued liabilities	(1,818)	5,387	9,925	990
Decrease in unearned revenue	—	—	—	(21,495)
Decrease in other long-term liabilities	(4,636)	(5,323)	(9,381)	(9,562)
	(4,481)	26,654	(3,553)	(2,909)

9 Economic dependence

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Operating revenue				
Air Canada	427,585	430,523	1,241,318	1,238,674
Operating expenses				
Air Canada	16,030	18,058	54,001	59,991
Air Canada Capital Ltd.	20,230	19,467	59,850	58,773

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

9 Economic dependence (continued)

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

	September 30, 2013 $	December 31, 2012 $
Accounts receivable		
Air Canada	61,871	58,495
Accounts payable and accrued liabilities		
Air Canada	76,012	65,816
Air Canada Capital Ltd.	11,368	7,336

2009 Benchmark Process

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

9 Economic dependence (continued)

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

At the commencement of the Arbitration hearings in June 2012, Air Canada amended its claim to seek a declaration that the Controllable Mark-Up be reduced to 9.48% rather than 9.54%, and that Chorus be required to repay Air Canada the amount of $24,400 and $24,700 in respect of payments made by Air Canada to Chorus in 2010 and 2011, respectively. In its amended Claim, Air Canada sought an order that Chorus be required to pay Air Canada those amounts, or such other amounts as the arbitration panel (the “Panel”) may determine, as well as any other amount necessary to account for the adjustment of Controllable Mark-Up for payments made by Air Canada to Chorus in 2012 and on a going-forward basis. Such adjustment for 2012 and the first nine months of 2013 was estimated to be approximately $25,000 and $20,000, respectively. The AC Claim also alleged that the formula for calculating the Compensating Mark-Up ought to be adjusted to take into account any reduction in the Controllable Mark-Up (the “Compensating Mark-Up Claim").

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

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

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

9 Economic dependence (continued)

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

The parties were unable to reach agreement on the calculation of certain of the Adjustments or on the Fleet Age Adjustment. As a result, the parties scheduled a further hearing with the Panel to occur in the last week of November 2012 to resolve the outstanding issues in dispute. That hearing was subsequently adjourned to the first week of April 2013 in order to provide the parties with additional time to put forward evidence on the issues which remain in dispute. The April 2013 hearing occurred, but the parties were unable to complete the evidence within the time available. As a result, further hearings were held in July 2013 and final written and oral arguments occurred in September 2013.

There remain substantive disputes between the parties with respect to the interpretation and application of the Award and its impact on the Controllable Mark-Up, including the impact of the Fleet Age Adjustment. Chorus' position is that, upon applying the CUCD methodology, along with the proper application of the Adjustments required by the Panel, other than the Fleet Age Adjustment, the Controllable Mark-Up should remain at 12.50% and that the Controllable Mark-Up should also remain at 12.50% after the application of any Fleet Age Adjustment.

Air Canada initially asserted to Chorus its view that the impact of the Adjustments required by the Panel would reduce the Controllable Mark-Up to 11.41%, absent any Fleet Age Adjustment. Based on the evidence presented by both Chorus and Air Canada in the April and July 2013 hearings, in the absence of a Fleet Age Adjustment, the Controllable Mark-Up of 12.50% currently in place pursuant to the CPA would not change as a result of the Arbitration.

In the initial set of hearings in 2012, Air Canada asserted that a Fleet Age Adjustment could not be reliably determined. As previously disclosed, it was only after the release of the Award that Air Canada first asserted that there should be a Fleet Age Adjustment and that such adjustment should be materially in its favour. Chorus has consistently argued that any Fleet Age Adjustment would operate in its favour due to its fleet being older than those of the Comparable Operators in the benchmark periods.

During the April and July 2013 hearings, Chorus and Air Canada each presented to the Panel several models and approaches for calculating the Fleet Age Adjustment. These models and approaches attempt to account for the effect of fleet age on the maintenance costs for airframes, components and, in certain instances, engines. If the Panel determines to apply a Fleet Age Adjustment to any or all of these three cost categories, by adopting any one of the positions put forward by Chorus, the current Controllable Mark-Up of 12.50% will not change as a result of the Arbitration (as the Controllable Mark-Up outcomes range from 12.62% to 16.03%).

9 Economic dependence (continued)

There is a wide variation in the outcomes of the models and approaches presented to the Panel by the parties, particularly when the models attempt to calculate and apply a Fleet Age Adjustment to engine maintenance costs. Based on one of its models, at the conclusion of the July hearings, Air Canada has further amended its amended claim to provide for a reduction of the Controllable Mark-Up to 7.11%. Under an award at that level which Chorus views as very unlikely, Chorus would be required to repay Air Canada $43,600 for 2010, $44,200 for 2011, and $45,400 for 2012 as well as any other amount necessary to account for the adjustment of Controllable Mark-Up for payments made by Air Canada to Chorus in 2013. Such adjustment for the first nine months of 2013 is estimated to be approximately $36,000. Also in this most recent amendment to its claim, Air Canada has asserted an alternative claim to provide for a reduction of the Controllable Mark-Up to 9.89%. Under an award at that level which Chorus views as very unlikely, Chorus would be required to repay Air Canada $21,100 for 2010, $21,400 for 2011, and $22,000 for 2012, as well as any other amount necessary to account for the adjustment of Controllable Mark-Up for payments made by Air Canada to Chorus in 2013. Such adjustment for the first nine months of 2013 is estimated to be approximately $18,000. Chorus asserts that the application of a Fleet Age Adjustment to all categories of maintenance costs, including engine maintenance costs, should result in a Controllable Mark-Up ranging from 12.62% to 16.03% with the result being that the current 12.50% Controllable Mark-Up would remain unchanged and no retroactive payments would be required if the Panel accepts any one of the approaches put forward by Chorus. As a result of these wide variations, it is not practicable to determine an estimate of the possible financial effect, if any, with sufficient reliability.

One of the primary drivers of the wide variation between the parties' respective positions is the sensitivity of the models to small changes in assumptions about engine maintenance costs. Chorus maintains that engine maintenance costs in any particular period are primarily affected not by age, but by the timing of events in the engine overhaul cycle, as well as management decisions whether to enter into fixed rate engine maintenance contracts. As a result, Chorus is of the view that engine maintenance costs should not be adjusted as part of the Fleet Age Adjustment. If engine maintenance costs are not adjusted, the result would be that the Controllable Mark-Up will remain at 12.50% regardless of whether the Panel selects the model put forward by Chorus or the model put forward by Air Canada for calculating and applying the Fleet Age Adjustment to the other categories of maintenance costs.

As of November 13, 2013, the final award from the Panel had not been received. Chorus remains confident in its position that the Controllable Mark-Up of 12.50% in the CPA should not change as a result of the Arbitration. Accordingly, no amounts have been recorded in the accounts of Chorus in 2010, 2011, 2012 or 2013 related to this claim as management has determined that it is not probable that the AC Claim will be successful.

10 Financial instruments and fair values

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

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

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

- Long-term debt

  At September 30, 2013, the fixed rate term loans had a fair value of $388,970 compared to a carrying value of $394,261. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- Convertible debentures

  At September 30, 2013, Chorus' convertible debentures had a fair value of $78,278 compared to a carrying value of $78,083. The debentures are listed on the Toronto Stock Exchange and the fair value was determined using the closing price on the last trading day of the period.

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

11 Capital management

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

Total capital as at September 30, 2013 and December 31, 2012 is calculated as follows:

	September 30, 2013 $	December 31, 2012 $
Cash and cash equivalents	(149,514)	(118,306)
Restricted cash	(3,320)	(6,017)
Restricted cash included in other assets	(6,014)	—
Finance leases (including current portion)	6,997	8,889
Long-term debt (including current portion)	394,261	277,446
Convertible debentures (excluding equity portion)	78,083	76,769
Equity	170,327	132,115
Total capital	490,820	370,896

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

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

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

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

11 Capital management (continued)

The following table reflects Chorus' adjusted net debt balances as at September 30, 2013 and as at December 31, 2012:

	September 30, 2013 $	December 31, 2012 $	Change $
Total long-term debt and finance leases	368,231	263,179	105,052
Current portion of long-term debt and finance leases	33,027	23,156	9,871
Convertible debentures	78,083	76,769	1,314
Total long-term debt and finance leases (including current portion) and convertible debentures	479,341	363,104	116,237
Less: Cash and cash equivalents	(149,514)	(118,306)	(31,208)
Net debt	329,827	244,798	85,029
Capitalized operating leases	80,184	163,044	(82,860)
Adjusted net debt	410,011	407,842	2,169

Adjusted net debt is a non-GAAP financial measure used by Chorus and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of the capital management by Chorus and provides management with a measure of its net indebtedness. Chorus includes capitalized operating leases which is a measure commonly used in the airline industry to ascribe a value to obligations under operating leases. Common industry practice is to multiply annualized aircraft rent by 7.5. This definition of capitalized operating leases is used by Chorus and may not be comparable to similar measures presented by other public companies. Aircraft rent was $90,047 for the twelve months ended September 30, 2013 and $100,100 for the twelve months ended December 31, 2012. The majority of Chorus' aircraft under operating leases are subleased from Air Canada, or its subsidiary, who hold the head lease or own the aircraft. Aircraft rent related to these aircraft of $79,357 for the twelve months ended September 30, 2013 and $78,344 for the twelve months ended December 31, 2012 has been removed from the calculation due to Air Canada's offsetting liability under the CPA for rental payments and return condition obligations. If these Air Canada operating leases were included in the above definition, adjusted net debt would be $1,005,180 and $995,421, respectively.

Chorus and Air Canada have been involved in a complex arbitration process regarding the 2009 Benchmark (see note 9 - Economic Dependence - 2009 Benchmark Process). Final arguments were presented by the parties in September 2013 and, as of November 13, 2013, the final award from the Panel had not been received. Chorus remains confident in its position that the Controllable Mark-up of 12.5% in the CPA should not change as a result of the Arbitration. Accordingly, no amounts have been recorded in the accounts of Chorus in 2010, 2011, 2012 or 2013 related to the AC Claim. Management has determined that it is not probable that the AC Claim will be successful, and it is not practicable to determine an estimate of the possible financial effect, if any, with sufficient reliability.

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

11 Capital management (continued)

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

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

In consideration of these factors, on May 9, 2013, Chorus reduced its quarterly dividend from $0.15 per share to $0.075 per share. This enables Chorus to retain additional cash of approximately $9,000 per quarter.

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

The Board of Directors will continue to assess the dividend payment on an ongoing basis in the context of capital management and Chorus' competitive position and industry outlook.

12 Contingencies

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

Chorus and Air Canada were unable to reach an agreement in 2010 on the results of the 2009 Benchmark. On February 2, 2011, Chorus and Air Canada agreed to proceed to binding arbitration in respect of the 2009 Benchmark. For further details, including amounts claimed by Air Canada, see note 9 - Economic Dependence.

12 Contingencies (continued)

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

Chorus enters into various operating agreements and real estate licenses or leases, which in some cases permit Chorus to use certain premises and/or operate at certain airports, and which in other cases lease space in Chorus' facilities to its tenants. It is common in such commercial license or lease transactions for the licensee or tenant to agree to indemnify the landlord for tort liabilities that arise out of or relate to its use or occupancy of the licensed or leased premises. In certain cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but generally excludes any liabilities caused by their gross negligence or willful misconduct. In addition, the licensee or tenant, as the case may be, typically indemnifies the landlord for any environmental liability that arises out of or relates to its use or occupancy of the leased or licensed premises.

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

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

13 Subsequent event

Chorus took delivery of two PW150A aircraft engines on October 9, 2013 and October 16, 2013. Chorus secured Export Development Canada ("EDC") financing for each of these engines. The term loans are repayable by Chorus to EDC in quarterly instalments of US$56 and US$55, respectively, mature in October 2025 and are each secured by one PW150A engine.