chorus aviation inc.

Management's Discussion and Analysis

Three and six months ended
June 30, 2012

August 13, 2012

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1. HIGHLIGHTS

The financial and operating highlights for Chorus are as follows:

(unaudited)	Three months ended June 30, 2012 $	2011 $	Change %	Six months ended June 30, 2012 $	2011 $	Change %
Financial Performance Metrics						
Operating revenue ($000)	426,274	402,046	6.0	863,347	845,065	2.2
Operating expenses ($000)	389,710	378,086	3.1	796,846	799,532	(0.3)
Operating income ($000)	36,564	23,960	52.6	66,501	45,533	46.1
Non-operating income (expense) ($000)	(8,735)	(925)	844.3	(8,718)	(3,115)	179.9
Net income before income taxes ($000)	27,829	23,035	20.8	57,783	42,418	36.2
Net income for the period ($000)	22,867	16,895	35.3	49,271	31,551	56.2
EBITDA(1) ($000)	50,443	33,885	48.9	93,321	65,172	43.2
EBITDA margin(1) (%)	11.8	8.4	40.5	10.8	7.7	40.3
Cash and cash equivalents ($000)	91,663	73,151	25.3	91,663	73,151	25.3
Free Cash Flow(1) ($000)	38,714	23,257	66.5	71,641	48,366	48.1
Payout ratio(1) (%)	48.0	80.0	(40.0)	51.9	76.9	(32.5)
Adjusted net income(1) ($000)	27,403	16,240	68.7	50,434	30,564	65.0
Net income per Share, basic ($)	0.18	0.14	28.6	0.39	0.26	50.0
Net income per Share, diluted ($)	0.18	0.13	38.5	0.38	0.25	52.0
Operating Statistics						
Departures	70,506	69,556	1.4	137,995	137,134	0.6
Block Hours	97,961	96,679	1.3	198,012	197,331	0.3
Billable Block Hours	98,342	97,632	0.7	202,459	201,938	0.3
Available Seat Miles (ASM) (000's)	1,532,914	1,460,612	5.0	3,398,769	3,338,656	1.8
Cost per Available Seat Mile (CASM) (¢)	25.42	25.89	(1.8)	23.45	23.95	(2.1)
CASM, excluding aircraft fuel (¢)	19.03	18.83	1.1	17.66	17.54	0.7
Full-time equivalent (FTE) employees (end of period)	4,670	4,760	(1.9)	4,670	4,760	(1.9)
Number of Operating Aircraft (end of period)	132	129	2.3	132	129	2.3

(1) This is a non-GAAP measurement. Refer to Section 6 – Performance Indicators.

2. INTRODUCTION

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

References to Chorus or the Company in this MD&A refer to, as the context may require, Chorus and its predecessor, the Fund, and their current and former subsidiaries (the Partnership, the Trust, Jazz Air LP, Jazz Air Holding GP Inc., Aviation General Partner Inc., 7503695 Canada Inc. and the LeaseCos) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries or Chorus itself.

The following MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements of Chorus and the notes therein for the three and six months ended June 30, 2012, the audited consolidated financial statements of Chorus for the year ended December 31, 2011, the annual MD&A dated February 20, 2012, and Chorus’ Annual Information Form dated March 30, 2012. The consolidated financial statements have been prepared in accordance with GAAP. This MD&A is prepared as of August 13, 2012.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 19 – Risk Factors.

Except where the context otherwise requires, all amounts are stated in thousands of Canadian dollars.

Caution regarding forward-looking information

Forward-looking statements are included in this MD&A. These forward-looking statements are identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to the Partnership’s relationship with Air Canada, risks relating to the airline industry, energy prices, general industry, market, credit, and economic conditions, competition, insurance issues and costs, supply issues, war, terrorist attacks, epidemic diseases, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, secure financing, employee relations, labour negotiations or disputes, restructuring, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, dilution of Chorus Shareholders, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout this MD&A. The forward-looking statements contained in this discussion represent Chorus' expectations as of August 13, 2012, and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

3. OVERVIEW

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., the LeaseCos and other investments that it may acquire from time to time. Chorus operates the largest regional airline, and the second largest airline, in Canada after Air Canada, based on fleet size. Chorus provides a significant part of Air Canada's domestic and transborder network. Chorus and Air Canada are parties to the Capacity Purchase Agreement ("CPA"), under which Air Canada currently purchases the greater part of Chorus' fleet capacity at pre-determined rates. Under the CPA, Chorus provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada, and to and from certain destinations in the United States. As at June 30, 2012, Chorus operated scheduled passenger service on behalf of Air Canada with approximately 861 departures per weekday to 56 destinations in Canada and 28 destinations in the United States, using 125 Covered Aircraft. Chorus and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and provide valuable traffic feed to Air Canada's mainline routes.

Under the CPA, Chorus operates flights on behalf of Air Canada under the "Air Canada Express" tradename, formerly "Air Canada Jazz". Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft. Chorus is paid fees based on certain variables, including Block Hours flown, flight hours, cycles (number of take-offs and landings) and passengers carried, in addition to certain variable and fixed aircraft ownership rates. Chorus is also entitled to repayment of certain pass-through costs, including fuel, navigation, landing and terminal fees and certain other costs. Chorus is also eligible to receive incentive payments each quarter for successfully achieving certain performance levels related to on-time performance, controllable flight completion, baggage handling performance and overall customer satisfaction. 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 is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to Section 19 - Risk Factors).

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, $9.0 million was recorded in the financial statements of Chorus as revenue in respect of this settlement.

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

During the second quarter, in accordance with the terms of the CPA, Chorus and Air Canada agreed on detailed rates applicable to the period commencing on January 1, 2012 and ending on December 31, 2014. The new rates are retroactive to January 1, 2012. Chorus and Air Canada have reconciled amounts already recorded in 2012 to these new rates. As a result, Chorus recorded additional CPA operating revenue of $1.8 million related to the three months ended March 31, 2012 in the second quarter.

Delivery of the final three firm Q400 aircraft was completed during the second quarter of 2012. On May 14, 2012, June 14, 2012 and June 28, 2012, Chorus received its thirteenth, fourteenth and fifteenth aircraft, respectively, from Bombardier. Chorus drew EDC financing for all of these aircraft. The fourteenth and fifteenth aircraft were used by Chorus as operational spares until their respective scheduled service dates of July 1 and August 1, 2012. As at June 30, 2012, ten CRJ100 aircraft had been returned to the lessor and removed from the fleet of Covered Aircraft.

On April 30, 2010, Chorus purchased a 33% non-voting interest in Latin American Regional Aviation Holding Corporation ("LARAH"). LARAH held an indirect 75% equity interest in Pluna Líneas Aéreas Uruguayas S.A. ("Pluna"). The remaining 25% equity interest in Pluna was held, indirectly, by the Government of Uruguay. In the second quarter of 2012 it was announced that Pluna was in financial difficulty and that the Uruguayan government had taken control of the airline, allowing it to continue operating. All of the shares in Pluna held indirectly by LARAH, including the portion indirectly owned by Chorus, were placed in trust with the Montevideo Stock Exchange in return for certain conditions and indemnities from the Uruguayan government. As a result, Chorus recorded a write-down of $16.4 million to the fair value of the investment (through other comprehensive loss), as there is no indication that the LARAH shares hold any current value and there can be no assurances that a successful recapitalization of Pluna will result in Chorus holding an ownership stake in the resulting entity. Subsequent to June 30, 2012, Pluna announced that it had ceased operations indefinitely.

During the second quarter, Chorus completed the sale of Q400 spare parts to a third party for proceeds of $12.0 million. These parts had previously been recorded as assets held for sale, with a carrying value of $12.0 million. Subsequent to June 30, 2012, the remaining Q400 spare parts, which had been recorded as assets held for sale, were sold to a third party.

On June 29, 2012, pursuant to its Q400 aircraft purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft Chorus exercised six of 15 options to acquire additional Q400 aircraft. The agreement was conditional on Chorus making a pre-delivery lump sum payment of $13.4 million, securing financing from a third party lender to exercise the six options, and reaching an agreement with Air Canada to amend the terms of the CPA to reflect the additional six aircraft. The pre-delivery payment was made during the second quarter and the remaining conditions were satisfied subsequent to June 30, 2012, as described below. Based on the list price for the Q400 aircraft, these options are valued at approximately US$189.0 million. Subject to satisfaction of customary conditions, the six Q400 aircraft will be delivered at a rate of two aircraft per month in each of February, March and April 2013.

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

On July 11, 2012, Chorus and Air Canada agreed to amend the CPA to support the continued fleet renewal program in connection with the acquisition of the six additional Q400 aircraft and the removal of nine CRJ aircraft from the Chorus fleet. Pursuant to this agreement, Covered Aircraft will be reduced from 125 to 122 aircraft, effective February 2013, at which time the annual minimum capacity guarantee of 339,000 Block Hours will be reduced to approximately 331,000 Block Hours to reflect the new number of Covered Aircraft. This agreement does not change the Mark-Up on the Controllable Costs structure or Mark-Up rates, but establishes certain new metrics. The Compensating Mark-Up will now be applied based on the range between the new annual minimum targeted Block Hours of approximately 367,000 and the revised annual minimum capacity guarantee of approximately 331,000 Block Hours. The difference between the annual minimum capacity guarantee and the annual minimum targeted Block Hours remains at 36,000 Block Hours. This agreement also resolves one of the issues raised in the 2009 Benchmark Arbitration with reference to how the Compensating Mark-Up formula will be applied.

On July 12, 2012, Chorus announced that it will consolidate its heavy maintenance activity. Chorus will reduce its four heavy maintenance lines (two in London, Ontario and two in Halifax, Nova Scotia) to three larger lines to be based in Halifax. The transition is expected to be completed by summer 2013.

On July 16, 2012, Chorus announced that it is expanding its operations and facilities in Halifax, Nova Scotia . To facilitate this expansion, Chorus has entered into an agreement to purchase an existing building and will be making modifications to its existing Halifax hangar and building. To achieve this, the Province of Nova Scotia (the "Province") has agreed to provide Chorus with a $12.0 million, interest-bearing, repayable loan. The Province's financial assistance will also consist of a $2.5 million forgivable loan (which will be forgiven if certain employment targets are achieved) and a $2.0 million employee grant to recruit, train and develop new-employees or to upgrade current employees' skills.

The majority of Chorus' employees are unionized. The current collective bargaining agreements for dispatch employees represented by the Canadian Air Line Dispatchers Association ("CALDA"), maintenance and engineering employees represented by the Canadian Auto Workers ("CAW") and crew schedulers (also represented by CAW) expired at the end of June 2012. The terms and conditions of these agreements remain in force while Chorus and each respective union continues to negotiate new collective agreements in accordance with the timelines and provisions of the Canada Labour Code.

4. SECOND QUARTER ANALYSIS

The following table compares the results of operations of Chorus for the three months ended June 30, 2012 to the three months ended June 30, 2011.

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2012 $	Three months ended June 30, 2011 $	Change $	Change %
Operating revenue	426,274	402,046	24,228	6.0
Operating expenses				
Salaries, wages and benefits	100,728	97,932	2,796	2.9
Aircraft fuel	97,930	103,044	(5,114)	(5.0)
Depreciation and amortization	13,879	9,925	3,954	39.8
Food, beverage and supplies	4,457	2,541	1,916	75.4
Aircraft maintenance materials, supplies and service	39,487	37,158	2,329	6.3
Airport and navigation fees	50,319	48,344	1,975	4.1
Aircraft rent	25,053	25,400	(347)	(1.4)
Terminal handling services	25,015	24,324	691	2.8
Other	32,842	29,418	3,424	11.6
Total operating expenses	389,710	378,086	11,624	3.1
Operating income	36,564	23,960	12,604	52.6
Non-operating income (expenses)				
Net interest expense	(4,182)	(2,045)	(2,137)	104.5
Gain on disposal of property and equipment	206	195	11	5.6
Foreign exchange (loss) gain	(4,759)	378	(5,137)	(1,359.0)
Gain on Asset Backed Commercial Paper ("ABCP")	-	547	(547)	(100.0)
	(8,735)	(925)	(7,810)	844.3
Net income before deferred income taxes	27,829	23,035	4,794	20.8
Deferred income tax expense	(4,962)	(6,140)	1,178	(19.2)
Net income for the periods	22,867	16,895	5,972	35.3

Operating Revenue

Operating revenue increased from $402.0 million to $426.3 million, representing an increase of $24.2 million or 6.0%. Passenger revenue, excluding pass-through costs, increased by $25.7 million or 10.8% primarily as a result of $9.0 million related to the early termination of the Thomas Cook Flight Services Agreement (refer to Section 3 – Overview), rate increases made pursuant to the CPA, an adjustment of $1.8 million related to the new rates which were retroactive to January 1, 2012 (refer to Section 3 – Overview), a higher US dollar exchange rate, and a $1.4 million increase in incentives earned under the CPA with Air Canada; offset by a $1.9 million or 1.2% decrease in pass-through costs from $161.1 million to $159.2 million, which included $5.3 million related to fuel. Other revenue increased by $0.3 million.

Operating Expenses

Operating expenses increased from $378.1 million to $389.7 million, an increase of $11.6 million or 3.1%. Controllable Costs increased by $13.5 million, or 6.2%; offset by a decrease in pass-through costs of $1.9 million. Controllable operating expenses are impacted by the changes in the fleet ownership structure for the Q400 aircraft. CRJ100 aircraft, previously under operating leases, are being replaced by owned Q400 aircraft, whose ownership costs are comprised of depreciation under operating expenses, and interest under non-operating expenses. The Q400 aircraft lease revenue under the CPA is captured under operating revenue and is designed to provide compensation to Chorus for both depreciation and interest expense. As interest expense is shown below the operating margin, operating income has increased by a similar amount on a quarter over quarter basis.

- Salaries, wages and benefits increased by $2.8 million as a result of wage and scale increases under new collective agreements, increased Block Hours, and increased pension expense resulting from a revised actuarial valuation; offset by a reduction in the number of FTE's.

- Aircraft fuel costs decreased by $5.1 million. As of November 1, 2011, Chorus no longer processes or records fuel for Thomas Cook, which resulted in a decrease in fuel costs related to flights operated on behalf of Thomas Cook. In the second quarter of 2011, $2.7 million was recorded as pass-through revenue and cost related to the Thomas Cook flight program. CPA fuel costs decreased by $2.4 million, primarily attributable to a decrease in the price of fuel and a decrease in fuel usage.

- Depreciation and amortization expense increased by $4.0 million, of which $3.0 million related to the purchase of Q400 aircraft, with the balance due to increased major maintenance overhauls and increased capital expenditures on aircraft rotable parts and other equipment; offset by certain assets reaching full amortization.

- Aircraft maintenance expense increased by $2.3 million as a result of increased Block Hours of $0.4 million, the effect of the increase in the US dollar exchange rate on certain material purchases of $1.3 million, and increased other maintenance costs of $2.6 million; offset by a decrease in engine maintenance activity due to the return of CRJ aircraft of $2.0 million.

- Airport and navigational fees increased by $2.0 million, primarily as a result of the Q400 aircraft, and a general rate increase related to increased departures and changes in aircraft deployment; offset by the removal of CRJ aircraft.

- Aircraft rent decreased by $0.3 million primarily as a result of the return of CRJ aircraft of $1.4 million; offset by a higher US dollar exchange rate of $1.1 million.

- Terminal handling costs increased by $0.7 million due to changes in aircraft deployment, an increase in deicing costs and a rate increase related to increased departures.

- Other expenses increased by $3.4 million primarily due to increased general overhead expenses (crew expenses increased due to increased activity, rates and training expenses) and professional fees mostly attributable to the Arbitration.

Non-Operating Income (Expenses)

Non-operating expense increased by $7.8 million. This change was primarily attributable to a foreign exchange loss of $4.8 million (of which $4.5 million was related to an unrealized foreign exchange loss on long-term debt and finance leases) arising as a result of the change in value of the Canadian dollar relative to the US dollar and increased interest expense related to Q400 aircraft financing of $2.1 million.

5. YEAR-TO-DATE ANALYSIS

The following table compares the results of operations of Chorus for the six months ended June 30, 2012 to the six months ended June 30, 2011.

(unaudited) (expressed in thousands of Canadian dollars)	Six months ended June 30, 2012 $	Six months ended June 30, 2011 $	Change $	Change %
Operating revenue	863,347	845,065	18,282	2.2
Operating expenses				
Salaries, wages and benefits	205,865	199,349	6,516	3.3
Aircraft fuel	196,486	213,916	(17,430)	(8.1)
Depreciation and amortization	26,820	19,639	7,181	36.6
Food, beverage and supplies	10,046	8,119	1,927	23.7
Aircraft maintenance materials, supplies and service	79,055	80,903	(1,848)	(2.3)
Airport and navigation fees	102,760	98,558	4,202	4.3
Aircraft rent	53,324	54,291	(967)	(1.8)
Terminal handling services	60,091	63,817	(3,726)	(5.8)
Other	62,399	60,940	1,459	2.4
Total operating expenses	796,846	799,532	(2,686)	(0.3)
Operating income	66,501	45,533	20,968	46.1
Non-operating income (expenses)				
Net interest expense	(7,939)	(4,126)	(3,813)	92.4
Gain on disposal of property and equipment	265	334	(69)	(20.7)
Foreign exchange (loss) gain	(1,044)	130	(1,174)	(903.1)
Gain on Asset Backed Commercial Paper (“ABCP”)	-	547	(547)	100.0
	(8,718)	(3,115)	(5,603)	179.9
Net income before deferred income taxes	57,783	42,418	15,365	36.2
Deferred income tax expense	(8,512)	(10,867)	2,355	(21.7)
Net income for the periods	49,271	31,551	17,720	56.2

Operating Revenue

Operating revenue increased from $845.1 million to $863.3 million, representing an increase of $18.2 million or 2.2%. Passenger revenue, excluding pass-through costs, increased by $32.9 million or 6.7% primarily as a result of $9.0 million related to the early termination of the Thomas Cook Flight Services Agreement (refer to Section 3 – Overview), rate increases made pursuant to the CPA, an adjustment of $1.8 million related to the new rates which were retroactive to January 1, 2012 (refer to Section 3 – Overview), a higher US dollar exchange rate, and a $3.3 million increase in incentives earned under the CPA with Air Canada; offset by a $15.5 million or 4.4% decrease in pass-through costs from $351.4 million to $335.9 million, which included $17.9 million related to fuel. Other revenue increased by $0.9 million.

Operating Expenses

Operating expenses decreased from $799.5 million to $796.8 million, a decrease of $2.7 million or 0.3%. Pass-through costs decreased by $15.5 million; offset by an increase in Controllable Costs of $12.8 million or 2.9%. Controllable operating expenses are impacted by the changes in the fleet ownership structure for the Q400 aircraft. CRJ100 aircraft, previously under operating leases, are being replaced by owned Q400 aircraft, whose ownership costs are comprised of depreciation under operating expenses, and interest under non-operating expenses. The Q400 aircraft lease revenue under the CPA is captured under operating revenue and is designed to provide compensation to Chorus for both depreciation and interest expense. As interest expense is shown below the operating margin, operating income has increased by a similar amount on a period over period basis.

- Salaries, wages and benefits increased by $6.5 million as a result of wage and scale increases under new collective agreements, increased Block Hours, increased pension expense resulting from a revised actuarial valuation and increased incentive compensation expense; offset by a reduction in the number of FTE's.

- Aircraft fuel costs decreased by $17.4 million. As of November 1, 2011, Chorus no longer processes or records fuel for Thomas Cook, which resulted in a decrease in fuel costs related to flights operated on behalf of Thomas Cook. In the first six months of 2011, $25.1 million was recorded as pass-through revenue and cost related to the Thomas Cook flight program. CPA fuel costs increased by $7.7 million, primarily attributable to an increase in the price of fuel; offset by a decrease in fuel usage.

- Depreciation and amortization expense increased by $7.2 million, of which $5.8 million related to the purchase of Q400 aircraft, with the balance due to increased major maintenance overhauls and increased capital expenditures on aircraft rotable parts and other equipment; offset by certain assets reaching full amortization.

- Aircraft maintenance expense decreased by $1.8 million as a result of a decrease in engine maintenance activity due to the return of CRJ aircraft of $6.5 million; offset by increased Block Hours of $0.4 million, increased other maintenance costs of $2.6 million, and an increase in the US dollar exchange rate on certain material purchases of $1.7 million.

- Airport and navigational fees increased by $4.2 million, primarily as a result of the Q400 aircraft and a rate increase resulting from a change in the airport user fee structure; offset by a general rate decrease related to changes in aircraft deployment and the removal of CRJ aircraft.

- Aircraft rent decreased by $1.0 million primarily as a result of the return of CRJ aircraft of $2.4 million; offset by a higher US dollar exchange rate of $1.4 million.

- Terminal handling costs decreased by $3.7 million due to changes in aircraft deployment, a decrease in deicing costs and a rate increase related to increased departures.

- Other expenses increased by $1.5 million primarily due to increased general overhead expenses and professional fees mostly attributable to the Arbitration.

Non-Operating Income (Expenses)

Non-operating expense increased by $5.6 million. This change was attributable to a foreign exchange loss of $1.0 million (of which $1.2 million was related to an unrealized foreign exchange loss on long-term debt and finance leases) arising as a result of the change in value of the Canadian dollar relative to the US dollar and increased interest expense related to Q400 aircraft financing of $3.8 million.

6. PERFORMANCE INDICATORS

Chorus uses certain non-GAAP financial measures, described below, to evaluate operating performance and in making decisions relating to dividends to Shareholders. These measures are not recognized for financial statement presentation under GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDA

EBITDA (earnings before interest, taxes, depreciation, amortization and obsolescence) is a non-GAAP financial measure commonly used throughout all industries to view operating results before interest expense, interest income, depreciation and amortization, gains and losses on property and equipment and other non-operating income and expenses. Management believes EBITDA assists investors in comparing Chorus' performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and non-operating factors such as historical cost. EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements.

Free Cash Flow

Prior to Chorus' conversion from an income fund structure, distributable cash was a key performance indicator used by management to evaluate the ongoing performance of the Fund. Distributable cash is not a measure which is commonly utilized in respect of a public corporation. Management believes, however, that it is a term with which its Shareholders are familiar, and has calculated Free Cash Flow as a proxy for previously reported distributable income. Free Cash Flow is defined as EBITDA less non-operating expenses, Maintenance Capital Expenditures to sustain the operation, and adjusted for any unrealized foreign exchange gain or loss on long-term debt and finance leases and any unusual non-operating one-time items. Other capital expenditures incurred to facilitate growth of the business are excluded from the calculation.

The following table provides a reconciliation of Free Cash Flow to EBITDA:

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2012 $	 2011 $	Six months ended June 30, 2012 $	 2011 $
Operating income	36,564	23,960	66,501	45,533
Depreciation and amortization	10,425	7,064	20,487	13,986
Major maintenance overhauls	3,454	2,861	6,333	5,653
Total depreciation and amortization	13,879	9,925	26,820	19,639
EBITDA	50,443	33,885	93,321	65,172
EBITDA margin (%)(1)	11.8	8.4	10.8	7.7
EBITDA	50,443	33,885	93,321	65,172
Non-operating expenses(2)	(4,199)	(1,580)	(7,555)	(4,102)
	46,244	32,305	85,766	61,070
Capital expenditures, excluding Q400 aircraft purchases	(4,310)	(3,616)	(7,460)	(4,791)
Capitalized major maintenance overhauls	(3,220)	(5,432)	(6,665)	(7,913)
Maintenance Capital Expenditures(3)	(7,530)	(9,048)	(14,125)	(12,704)
Free Cash Flow	38,714	23,257	71,641	48,366
Dividends declared	18,602	18,602	37,204	37,204
Payout ratio – Dividends declared / Free Cash Flow (%)	48.0	80.0	51.9	76.9

(1) EBITDA margin is calculated as EBITDA divided by operating revenues.
(2) Excludes $4.5 million loss and $1.2 million loss for the three and six months ended June 30, 2012, respectively, related to unrealized foreign exchange loss on long-term debt and finance leases (2011 - $0.7 million gain and $1.0 million gain, respectively on unrealized foreign exchange).
(3) Excludes all capital expenditures related to the purchase of the Q400 aircraft, as these are not treated as Maintenance Capital Expenditures (refer to Section 10 – Liquidity and Capital Resources, Maintenance Capital Expenditures).

Due to the nature of the underlying associated revenue stream provided by the CPA, the unrealized foreign exchange gains or losses on long-term debt and finance leases will not affect future cash flows. As such, Chorus has excluded the unrealized portion of foreign exchange gains or losses on long-term debt and finance leases from the Free Cash Flow calculation.

The lower payout ratio for the three and six months ended June 30, 2012 is primarily attributable to Chorus' increased EBITDA in respect of this period. EBITDA increased due to the one-time early termination settlement with Thomas Cook and the Q400 aircraft ownership structure. Leasing revenue earned under the CPA for the Q400 aircraft is included in operating income and ownership costs (interest and depreciation) associated with the Q400 aircraft on a consolidated basis are added back to the calculation. While the Free Cash Flow calculation does include the related interest expense on the Q400 aircraft, it does not include a deduction for principal long-term debt repayments. These are captured in the financing section of the consolidated statement of cash flows.

The following table provides a reconciliation of cash flows from operating activities to Free Cash Flow:

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2012 $	 2011 $	Six months ended June 30, 2012 $	 2011 $
Cash flows from operating activities	11,787	29,219	45,693	58,619
Maintenance Capital Expenditures, net of gain on disposal	(7,324)	(8,853)	(13,860)	(12,370)
Change in non-cash operating working capital	35,445	3,523	42,205	3,626
Amortization of prepaid aircraft rent and related fees	(564)	(480)	(1,102)	(958)
Stock-based compensation	(613)	(586)	(1,227)	(1,171)
Accretion of debt component of convertible debentures	(412)	(389)	(818)	(772)
Other	395	823	750	1,392
Free Cash Flow	38,714	23,257	71,641	48,366

Adjusted Net Income

Adjusted net income is calculated by adjusting net income by the amount of any unrealized foreign exchange gains and losses on long-term debt and finance leases. This adjustment more clearly reflects earnings from an operating perspective.

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2012 $	 2011 $	 Change %	Six months ended June 30, 2012 $	 2011 $	 Change %
Net income for the periods	22,867	16,895	35.3	49,271	31,551	56.2
Unrealized foreign exchange loss (gain)	4,536	(655)	792.5	1,163	(987)	217.8
Adjusted net income	27,403	16,240	68.7	50,434	30,564	65.0
Adjusted net income per Share – basic	0.22	0.13	69.2	0.41	0.25	64.0
Adjusted net income per Share – diluted	0.21	0.13	61.5	0.39	0.25	56.0

7. FLEET

As at June 30, 2012, Chorus' operating fleet was made up of 132 operating aircraft, of which 53 were regional jets and 79 were turboprop aircraft.

The following table lists Chorus' operating fleet as at June 30, 2012:

(unaudited)	Number of Operating Aircraft as at June 30, 2012	Average Age of Operating Aircraft	Owned	Finance Lease	Operating Lease	Number of Operating Aircraft as at June 30, 2011
Canadair Regional Jet CRJ100	11	16.8	-	-	11	22
Canadair Regional Jet CRJ200	26	10.0	-	-	26	26
Canadair Regional Jet CRJ705	16	6.9	-	-	16	16
De Havilland DHC-8-300	28	21.9	19	7	2	28
De Havilland DHC-8-100	36	24.2	29	-	7	36
Bombardier Q400[(1) (2)]	15	0.5	14	-	1	1
Total Operating Aircraft	132	15.7	62	7	63	129

(1) Pursuant to an agreement between Air Canada and Chorus dated June 13, 2012, on June 17, 2012, Chorus began operating an additional Q400 aircraft which is subleased from Sky Regional. Chorus expects to operate this aircraft until mid-September 2012.
(2) Excludes one Q400 aircraft delivered on June 28, 2012.

Chorus operates two Dash-8-100, two Dash-8-300, and one CRJ200 aircraft for charter purposes.

8. QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results and major operating statistics of Chorus for the previous eight quarters.

(unaudited)	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Operating revenue ($000)	426,274	437,073	407,742	411,660	402,046	443,019	392,675	379,109
Operating expenses ($000)	389,710	407,136	382,422	380,566	378,086	421,446	374,604	352,133
Operating income ($000)	36,564	29,937	25,320	31,094	23,960	21,573	18,071	26,976
Total non-operating income (expense) ($000)	(8,735)	17	2,656	(12,564)	(925)	(2,190)	(10,174)	3,191
Deferred income tax expense ($000)	(4,962)	(3,550)	(5,302)	(4,620)	(6,140)	(4,727)	(19,779)	(4)
Net income (loss) ($000)	22,867	26,404	22,674	13,910	16,895	14,656	(11,882)	30,163
Adjusted net income (loss)(1) ($000)	27,403	23,031	19,553	21,535	16,240	14,324	(12,360)	29,635
Billable Block Hours	98,342	104,117	97,108	102,431	97,632	104,306	98,817	99,390
Available Seat Miles (000's)	1,532,914	1,865,855	1,459,392	1,487,874	1,460,612	1,878,044	1,497,201	1,425,130
Cost per Available Seat Mile (CASM) (¢)	25.42	21.82	26.20	25.58	25.89	22.44	25.02	24.71
CASM, excluding fuel (¢)	19.03	16.54	19.75	18.68	18.83	16.54	19.38	19.26
EBITDA(1) ($000)	50,443	42,878	37,960	42,954	33,885	31,287	28,343	37,361
Free Cash Flow(1) ($000)	38,714	32,927	29,375	29,101	23,257	25,109	20,498	29,782
Free Cash Flow(1) per Share ($)	0.31	0.27	0.24	0.24	0.19	0.21	0.17	0.25
Dividends / distributions declared per Share ($)	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Net income (loss) per Share, basic ($)	0.18	0.21	0.18	0.11	0.14	0.12	(0.10)	0.25
Net income (loss) per Share, diluted ($)	0.18	0.20	0.18	0.11	0.13	0.12	(0.10)	0.20
Adjusted net income (loss) per Share, basic(1) ($)	0.22	0.19	0.16	0.17	0.13	0.12	(0.10)	0.24

(1) This is a non-GAAP measurement. Refer to Section 6 – Performance Indicators.

9. PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2012 to 2016:

(unaudited) (expressed in thousands of Canadian dollars)	2012 $	2013 $	2014 $	2015 $	2016 $
Defined benefit pension plans, current service	17,000	17,100	17,600	17,900	18,300
Defined benefit pension plans, past service	15,700	9,700	9,700	9,700	9,700
Defined contribution pension plans	9,300	9,700	10,100	10,300	10,400
Projected pension funding obligations	42,000	36,500	37,400	37,900	38,400

The estimated pension funding obligations shown in the above table are in respect of the defined benefit and defined contribution pension plans sponsored by Chorus. Defined benefit pension plans include the Chorus pilots' registered defined benefit pension plan as well as an unregistered defined benefit supplemental executive retirement plan that Chorus sponsors for eligible employees. Defined contribution pension plans include a number of defined contribution pension arrangements that Chorus contributes to for its eligible employees.

The funding requirements for the Chorus pilots' registered pension plan are based on the January 1, 2012 actuarial valuation for that plan and an estimate of the pilot payroll over the projection period. The defined benefit current service cost has decreased from previous guidance as a result of the going concern discount rate increasing by 75 basis points to 5.75% in the January 1, 2012 valuation. The estimated funding requirements for the supplemental executive retirement plan are based on a funding policy adopted by Chorus and the January 1, 2012 actuarial valuation for that plan.

The January 1, 2012 actuarial valuation for the Chorus pilot's registered plan applies a smoothed value of the plan assets which amortizes investment gains and losses over a five year period with a cap on the smoothed value of assets at 110% of market value of assets.

Changes in the economic conditions, mainly the investment returns generated by the plan assets and changes in interest rates, will impact the financial position of these plans and, hence, future required contributions. These projections are updated annually, or more frequently, as required (refer to Section 2 – Introduction, "Caution regarding forward-looking information").

10. LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At June 30, 2012, Chorus had $91.7 million in cash and cash equivalents and $6.0 million of restricted cash, for a total of $97.7 million. Chorus expects to generate sufficient cash flow to fund dividends (which are declared at the discretion of the Board of Directors), planned Maintenance Capital Expenditures, long-term debt repayments, and interest costs under its convertible debentures (refer to Section 2 – Introduction, "Caution regarding forward-looking information").

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended June 30, 2012 $	 2011 $	Six months ended June 30, 2012 $	 2011 $
Cash provided by operating activities	11,787	29,219	45,693	58,619
Cash provided by financing activities	33,764	17,771	70,193	17,100
Cash used in investing activities	(64,072)	(62,286)	(132,291)	(68,464)
Net change in cash and cash equivalents during the periods	(18,521)	(15,296)	(16,405)	7,255
Cash and cash equivalents – Beginning of periods	110,184	88,447	108,068	65,896
Cash and cash equivalents – End of periods	91,663	73,151	91,663	73,151

Operating activities

Chorus continued to generate positive cash flows from operations of $11.8 million and $45.7 million, respectively, for the three and six months ended June 30, 2012, compared to $29.2 million and $58.6 million, respectively, for the same periods in 2011. The decrease for the three and six months ended June 30, 2012, was attributable to an increase in accounts receivable, an increase in other assets and a decrease in accounts payable; offset by higher net income.

Financing activities

Cash provided by financing activities for the three and six months ended June 30, 2012 included proceeds received from long-term borrowings of $56.8 million and $114.5 million, respectively (refer to discussion below), dividends to Shareholders of $18.6 million and $37.2 million, respectively, a repayment of obligations under finance leases of $0.7 million and $1.3 million, respectively, and a repayment of long-term borrowings of $3.8 million and $5.8 million, respectively.

Cash provided by financing activities for the three and six months ended June 30, 2011 included proceeds received from long-term borrowings of $37.0 million, net of dividends paid to Shareholders of $18.6 million and a repayment of obligations under finance leases of $0.7 million and $1.3 million, respectively.

Investing activities

Investing activities for the three and six months ended June 30, 2012 included capital expenditures of $81.3 million and $149.1 million, respectively, assets held for sale of $12.0 million and $11.9 million, respectively, and a decrease in restricted cash relating to letters of credit of $5.0 million and $4.6 million, respectively. Capital expenditures consisted of major maintenance overhauls, the purchase of aircraft spare parts, other purchases necessary to support ongoing operations and the acquisition of Q400 aircraft.

Investing activities for the three and six months ended June 30, 2011 included capital expenditures of $52.6 million and $59.5 million, respectively, assets held for resale of $12.4 million and $12.4 million, respectively, and a $2.5 million and $3.2 million, respectively, decrease in restricted cash relating to letters of credit. Capital expenditures consisted of major maintenance overhauls, the purchase of aircraft rotable parts, other purchases necessary to support ongoing operations and the acquisition of two Q400 aircraft.

Contractual obligations and other commitments

Please refer to Chorus' annual MD&A dated February 20, 2012 for information regarding Chorus' contractual obligations and other commitments. There have been no material changes to debt and lease obligations during the three and six months ended June 30, 2012, except as outlined below.

Long-term debt

Chorus has 15 separate loan agreements with Export Development Canada ("EDC") ("Q400 financing"), which provide committed financing for the majority of the purchase price of each of the 15 related Q400 aircraft deliveries. Each loan has a maturity of 12 years and bears interest at a fixed rate. At June 30, 2012, the net book value of property and equipment pledged as collateral under Q400 financing was $317.3 million.

Long-term debt consists of the following:

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

(1) At June 30, 2012, the total Q400 financing payable in US dollars was US$278.0 million.

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

(in thousands of dollars)	$
No later than one year	19,613
Later than one year and no later than five years	87,880
Later than five years	175,529
	283,022

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

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

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

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

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

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

Jazz is in compliance with both of these continuous covenants.

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

Maintenance Capital Expenditures

Maintenance Capital Expenditures represent expenditures incurred to sustain operations or Chorus' productive capacity. Chorus separates its capital expenditures into three categories: leasehold improvements (includes improvements made to leased aircraft), aircraft-related (includes aircraft, aircraft related communication, equipment and tooling, aircraft rotable parts and engines, and major maintenance overhaul expenditures), and facilities and owned buildings.

For the three and six months ended June 30, 2012, Maintenance Capital Expenditures were \$7.5 million and \$14.1 million, respectively (2011 - \$9.0 million and \$12.7 million, respectively), which included \$3.2 million and \$6.7 million, respectively, for capitalization of major maintenance overhauls, and \$4.3 million and \$7.5 million, respectively, for ongoing fleet modification programs, ongoing landing gear and spare parts replacements for the DHC-8-100, DHC-8-300 and Q400 fleet, facility improvements, and technological upgrades to foster process improvements. Management has revised its Maintenance Capital Expenditures for the year ended December 31, 2012 to be \$40.0 million (refer to Section 2 – Introduction, "Caution regarding forward-looking information"). The revision includes \$10.0 million related to the purchase of a new building and modifications to its existing Halifax hangar and building (refer to Section 3 – Overview).

Shares

At August 9, 2012, the issued and outstanding common Shares of Chorus, along with common Shares potentially issuable, pursuant to convertible debentures, were as follows:

Number of Shares

(unaudited)	August 9, 2012	December 31, 2011
Issued and outstanding common Shares		
Class A variable voting Shares	18,762,923	13,173,264
Class B voting Shares	105,252,548	110,842,207
Total issued and outstanding common Shares	124,015,471	124,015,471
Common Shares potentially issuable		
Convertible debentures[1]	15,278,095	15,278,095
Total outstanding and potentially issuable common Shares	139,293,566	139,293,566

(1) Assuming all outstanding convertible debentures are exercised.

11. OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Chorus' off-balance sheet arrangements is disclosed in Section 10 of Chorus' annual MD&A dated February 20, 2012. There have been no material changes to Chorus' off-balance sheet arrangements from what was disclosed at that time.

12. RELATED PARTY TRANSACTIONS

As at June 30, 2012, Chorus had no transactions with related parties as defined in the CICA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Chorus 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. Please refer to Chorus' annual MD&A dated February 20, 2012 for further discussion on interest rate risk, credit risk, liquidity risk and currency risk.

14. ECONOMIC DEPENDENCE

For a detailed description of the CPA with Air Canada, please refer to Section 13 of Chorus' Annual MD&A dated February 20, 2012.

Please see below for a discussion of the 2009 Benchmark process.

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

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 seeks 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 seeks 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 claims that, if the Controllable Mark-Up is reduced from 12.50% to 9.54%, Chorus would be required to repay Air Canada the amount of $26.0 million in respect of payments made by Air Canada to Chorus in 2010. At the commencement of the Arbitration in June 2012, Air Canada amended its claim, such that it now seeks a declaration that the Controllable Mark-Up be reduced to 9.48% rather than 9.54%, and that Chorus be required to repay Air Canada the amount of $24.4 million and $24.7 million in respect of payments made by Air Canada to Chorus in 2010 and 2011, respectively. Air Canada seeks an order that Chorus be required to pay Air Canada those amounts, or such other amounts as the arbitration panel may determine, as well as any other amount necessary to account for the adjustment of Controllable Mark-Up for payments made by Air Canada to Chorus in 2011 and on a going-forward basis. 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 asserts 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 shall be on a "cost per available seat mile" or "CASM" basis. Chorus further asserts that, if a CASM methodology is applied with the appropriate normalizations and adjustments, no adjustment to the Controllable Mark-Up will be required as a result of the 2009 Benchmark. As a result, Chorus is not required to repay Air Canada any amounts in respect of payments made in 2010 or 2011 and its Controllable Mark-Up will remain at 12.50% going forward until at least the 2015 Benchmark. In the alternative, Chorus asserts that, even if the arbitration panel were to accept that CASM was not an appropriate methodology, the CUCD methodology proposed by Air Canada in the AC Claim is not an "alternate market recognized benchmark" as contemplated by the CPA. In the further alternative, the Chorus Claim asserts that, even if CUCD were to be found to be an "alternate 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. However, during the Arbitration, Chorus and Air Canada resolved the Compensating Mark-Up Claim in the manner described in Section 3 - Overview. The Compensating Mark-Up Claim was therefore removed as a dispute to be determined by the arbitration panel. The hearing of the arbitration occurred in June 2012. Subsequent to the hearing, the parties exchanged written submissions and then reply submissions. A decision is expected from the arbitration panel by late September 2012.

Although Chorus believes that the methodology it has proposed is both fair and reasonable and consistent with the relevant provisions of the CPA, there can be no assurances that the methodology Chorus has proposed will ultimately be the basis of conducting the 2009 Benchmark exercise as a result of the arbitration process. If Chorus' methodology is not consistent with any arbitration decision, operating results, financial condition and liquidity may be materially negatively impacted by any resulting reduction in the Controllable Mark-Up.

No amounts have been recorded in the accounts of Chorus in 2010, 2011 or 2012 related to this claim as management has determined that it is not probable that the AC claim will be successful, and it is not practicable to determine an estimate of the possible financial effect, if any, with sufficient reliability.

15. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to Section 2 – Introduction, "Caution regarding forward-looking information"). The significant accounting policies of Chorus are described in note 3 of the December 31, 2011 consolidated financial statements of Chorus. Information regarding Chorus' critical accounting estimates is disclosed in Section 14 of Chorus' annual MD&A dated February 20, 2012. See discussion below for changes regarding critical accounting estimates for the three and six months ended June 30, 2012.

Operating Revenue

During the second quarter, in accordance with the terms of the CPA, Chorus and Air Canada agreed on detailed rates applicable to the period commencing on January 1, 2012 and ending on December 31, 2014. The new rates are retroactive to January 1, 2012. Chorus and Air Canada have reconciled amounts already recorded in 2012 to these new rates. As a result, Chorus recorded additional CPA operating revenue of $1.8 million related to the three months ended March 31, 2012 in the second quarter.

16. ACCOUNTING POLICIES

Refer to section 15 of Chorus' Annual MD&A dated February 20, 2012 for information on new accounting standards and amendments not yet effective.

New accounting standard adopted during the quarter

IFRS 9, Financial Instruments

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

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

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

17. CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

Chorus' disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to the disclosure committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of Chorus' financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Chorus' annual 2011 MD&A dated February 20, 2012, contains a statement that the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have concluded that Chorus' disclosure controls and procedures, and internal control over financial reporting, are effective based upon an evaluation of these controls and procedures conducted at December 31, 2011.

Jazz filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators upon filing of Chorus' 2011 annual filings. In those filings, the CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of Chorus' disclosure controls and procedures and the design and effectiveness of internal control over financial reporting. The CEO and CFO also certified the appropriateness of the financial disclosures in Chorus' interim filings with the Canadian Securities Administrators. In those interim filings, the CEO and CFO also certified the design of Chorus' disclosure controls and procedures and the design of internal control over financial reporting.

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of Chorus' financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There has been no change in Chorus' internal control over financial reporting that occurred during the second quarter of fiscal 2012 that has materially affected, or is reasonably likely to materially affect, Chorus' or the Partnership's internal control over financial reporting.

The Audit, Finance and Risk Committee of the board of directors of Chorus reviewed this MD&A, and the unaudited interim condensed consolidated financial statements of Chorus for June 30, 2012, and Chorus' board of directors approved these documents prior to their release.

18. OUTLOOK

The discussion that follows represents forward-looking information (refer to Section 2 – Introduction, "Caution regarding forward-looking information").

Based upon the 2012 schedule planning assumptions received from Air Canada, and Billable Block hours for the six months ended June 30, 2012, Chorus anticipates billing between 395,000 and 405,000 Block Hours for the year ending December 31, 2012.

19. RISK FACTORS

For a detailed description of the possible risk factors associated with Air Canada, Chorus, the industry, the structure of Chorus, current legal proceedings and convertible debentures, including description of the 2009 Benchmark Arbitration (refer to Section 14 – Economic Dependence for further discussion) refer to the Section entitled "Risk Factors" in the Chorus Aviation Inc., 2011 Annual MD&A dated February 20, 2012, Chorus' Annual Information Form dated March 30, 2012 and MD&A dated May 14, 2012 for the three months ended March 31, 2012.

20. ADDITIONAL INFORMATION

Additional information relating to Chorus, including Chorus' Annual Information Form is available on SEDAR at www.sedar.com or on Chorus' website at www.chorusaviation.ca, under Investors.

21. GLOSSARY OF TERMS

"**7503695**" means 7503695 Canada Inc., a corporation incorporated under the Canada Business Corporations Act on April 14, 2010;

"**ABCP**" means asset backed commercial paper;

"**Arbitration**" means the binding arbitration process between Chorus and Air Canada related to the 2009 Benchmark;

"**Available Seat Mile (ASMs)**" means a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the number of miles flown;

"**Aviation GP**" means Aviation General Partner Inc., a corporation incorporated under the Ontario Business Corporations Act on November 18, 2010 to act as the general partner of Jazz Aviation LP;

"**Billable Block Hours**" mean actual Block Hours flown, Block Hours related to weather and air traffic control cancellations, and commercial cancellations and commercial ferry flights;

"**Block Hours**" mean 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;

"**CBCA**" means the Canada Business Corporations Act, as amended;

"**Chorus**" references herein to Chorus or the Company in this MD&A refer to, as the context may require, Chorus Aviation Inc. and its predecessor, the Fund and their current and former subsidiaries (the Partnership, the Trust, Jazz Air LP, Jazz Air Holding GP Inc., Aviation General Partner Inc., 7503695 Canada Inc. and the LeaseCos) collectively, Chorus and one or more of its current and former subsidiaries, one or more of Chorus' current and former subsidiaries or Chorus itself;

"**CICA Handbook**" means the handbook of the Canadian Institute of Chartered Accountants;

"**Controllable Costs**" mean for any period, all costs and expenses incurred and paid by Chorus other than Pass-through costs;

"**Controllable Mark-Up**" has the meaning given in the CPA;

"**Cost per Available Seat Mile**" or "**CASM**" means the operating expense per Available Seat Mile;

"**Covered Aircraft**" means Chorus' aircraft subject to the CPA;

"**CPA**" means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and the Partnership, as amended by the Rate Amending Agreement and the CPA Amending Agreement, and as may be further amended;

"**CPA Amending Agreement**" means the agreement to amend the CPA between the Partnership and Air Canada dated September 22, 2009;

"**CPA Asset**" means the intangible asset consisting of Chorus' rights under the CPA;

"**Debentures**" mean the $86.25 million principal amount of 9.50% convertible unsecured subordinated debentures of Chorus due December 31, 2014;

"**EDC**" means Export Development Canada;

"**Flight Hours**" has the meaning given in the CPA;

"**Flight Services Agreement**" means the contractual flying agreement between Thomas Cook and Chorus;

"**FTE**" means full-time equivalents in respect of employee staffing levels;

"**Fund**" means Jazz Air Income Fund;

"**GAAP**" means generally accepted accounting principles in Canada after the adoption of IFRS;

"**Guaranteed Minimum Number of Covered Aircraft**" has the meaning given in the CPA;

"**IASB**" means the International Accounting Standards Board;

"**IFRS**" means International Financial Reporting Standards;

"**Jazz**" means Jazz Aviation LP, together with its general partner, Aviation GP, and their respective subsidiaries and predecessors; and, in particular, reference to Jazz in respect of a time period prior to October 1, 2004 are references to the business of Jazz as carried on by Jazz Air Inc., which was liquidated on September 30, 2004, and references to Jazz in respect of the time period from October 1, 2004 until February 1, 2006 are references to the business of Jazz as carried on by Jazz Air Limited Partnership, and references to Jazz in respect of the time period from February 2, 2006 to January 5, 2011 are references to the business of Jazz as carried on by Jazz Air LP, unless the context requires otherwise;

"**Jazz Air LP**" means Jazz Air LP, a limited partnership established under the laws of the Province of Québec on September 12, 2005, which carried on the regional airline business from February 2, 2006 until January 5, 2011;

"**LARAH**" means Latin American Regional Aviation Holding Corporation;

"**LeaseCos**" means Chorus Leasing I Inc., Chorus Leasing II Inc., and Chorus Leasing III Inc., collectively;

"**Maintenance Capital Expenditures**" represent expenditures incurred to sustain operations or Chorus' productive capacity;

"**Management**" means management personnel of Chorus;

"**MD&A**" means Chorus' management's discussion and analysis of financial condition and results of operations;

"**Operating Aircraft**" means Covered Aircraft under the CPA plus charter aircraft, plus Thomas Cook aircraft, less new aircraft deliveries which have not yet entered commercial service;

"**Partnership Agreements**" mean those contracts signed by Jazz for contract flying;

"**Pass-through costs**" mean those costs that are reimbursed under Partnership Agreements;

"**Pass-through revenue**" means operating revenue derived from costs that are reimbursed under Partnership Agreements;

"**Pluna**" means Pluna Líneas Aéreas Uruguayas S.A;

"**Q400 aircraft**" means Q400 NextGen turboprop aircraft;

"**Rate Amending Agreement**" means the agreement to amend and re-set the rates between the Partnership and Air Canada dated July 28, 2009;

"**Shareholders**" mean holders of Shares;

"**Shares**" mean common shares of Chorus Aviation Inc.;

"**The Partnership**" means Jazz Aviation LP, a limited partnership established under the laws of the Province of Ontario;

"**Thomas Cook**" means Thomas Cook Canada Inc.;

"**Trust**" means Jazz Air Trust;

"**Unit Costs**" has the meaning given in the CPA;

"**Unitholders**" mean holders of the Units;

"**Units**" or "**Fund Units**" mean units of the Fund;

"**Variable Voting Shares**" mean Class A common Variable Voting Shares of Chorus; and

"**Voting Shares**" mean Class B Common Voting Shares of Chorus.