chorus
aviation inc.

2015
Management's Discussion and Analysis of Results of Operations and Financial Condition

February 18, 2016

TABLE OF CONTENTS

1 OVERVIEW

The financial and operating highlights for Chorus are as follows:

	Three months ended December 31,			Year ended December 31,		
	2015[1]	2014	Change	2015[1]	2014	Change
Operating revenue ($000)	357,368	401,298	(43,930)	1,544,681	1,666,291	(121,610)
Operating expenses ($000)	310,907	368,314	(57,407)	1,395,184	1,528,390	(133,206)
Operating income ($000)	46,461	32,984	13,477	149,497	137,901	11,596
Net income for the period ($000)	12,512	11,338	1,174	25,487	64,710	(39,223)
Adjusted EBITDA[2] ($000)	64,108	49,823	14,285	209,242	203,958	5,284
Adjusted EBITDA,[2] excluding other items ($000)	65,686	51,148	14,538	228,275	215,900	12,375
Adjusted net income[2] ($000)	32,137	23,697	8,440	96,335	95,232	1,103
Adjusted net income,[2] excluding other items ($000)	33,715	25,022	8,693	115,368	107,174	8,194
Net income per Share, basic ($)	0.10	0.09	0.01	0.21	0.53	(0.32)
Adjusted net income per Share, basic[2] ($)	0.26	0.20	0.06	0.79	0.78	0.01
Adjusted net income,[2] excluding other items per Share - basic ($)	0.28	0.21	0.07	0.95	0.88	0.07

1) As Chorus acquired Voyageur on May 1, 2015, the results of operations include revenue and expenses of Voyageur since that date (refer to Section 4 - The Chorus Business).
2) This is a non-GAAP measurement. Refer to Section 20 – Non-GAAP Financial Measures.

Chorus achieved significant milestones in 2015.

Highlights:

- Established an amended and restated CPA with Air Canada effective January 1, 2015 extending the CPA term to December 31, 2025.
- Reached collective agreements with Jazz pilots, flight attendants and dispatchers until the end of the CPA term.
- Acquired all of the outstanding shares of 519222 Ontario Limited, a holding company that owned Voyageur Airways Limited and its related companies.
- Announced that an agreement had been reached with Air Canada to add ten incremental aircraft to the CPA fleet.
- Acquired six new Q400s using EDC financing for each.
- Increased Chorus' monthly dividend payment effective with the March 2015 dividend.

Operating income for the three months ended December 31, 2015, compared to the same period 2014, increased by $13.5 million. This increase was driven by a $6.3 million contribution from the Voyageur operation while aircraft leasing operations under the CPA contributed an additional $5.2 million as a result of the addition of new Q400s in the fourth quarter and a change in the US dollar exchange rate. The remaining net increase of $2.0 million in operating income was primarily attributable to more labour and maintenance costs being capitalized on owned aircraft for major maintenance overhauls and other reductions. These increases in operating income were offset by higher stock-based compensation and the absence in this quarter of the Compensating Mark-Up.

The $14.3 million increase in Adjusted EBITDA resulted from the operating income increase previously described and a quarter-over-quarter net $0.8 million increase in depreciation and amortization expense. The increase in depreciation and amortization expense was primarily related to the purchase of additional aircraft during 2015 which accounted for $1.0 million, a $3.3 million increase in depreciation and amortization attributable to Voyageur, new finance leases accounted for a $0.3 million increase and major maintenance overhauls accounted for $0.5 million. These increases were offset by a change in the estimated economic useful lives and residual values of certain owned aircraft and flight equipment made in the first quarter of 2015 which accounted for $4.3 million.

Operating income for the year ended December 31, 2015, compared to the year ended December 2014, increased by $11.6 million. The addition of Voyageur contributed $8.5 million, while aircraft leasing operations under the CPA contributed an additional $11.8 million mainly due to a change in the US dollar exchange rate. The remaining offsetting net decrease of $8.6 million in operating income was mostly attributable to a $13.5 million one-time payment as part of the newly ratified collective agreements with ALPA and CFAU, the absence in 2015 of the Compensating Mark-Up and higher stock-based compensation. These increases in operating income were offset by lower employee separation program costs and more labour and maintenance costs being capitalized on owned aircraft for major maintenance overhauls.

The $5.3 million increase in Adjusted EBITDA resulted from the operating income increase previously described and a year-over-year net $6.3 million decrease in depreciation and amortization expense. The decrease in depreciation and amortization expense was mostly related to a change in the estimated economic useful lives and residual values of certain owned aircraft and flight equipment made in the first quarter of 2015 of $15.5 million and other depreciation reductions of $1.2 million. These decreases were offset by increased depreciation and amortization expense related to the purchase of additional aircraft during 2015 for $1.0 million, increased major maintenance overhauls of $0.4 million, new finance leases accounted for a $0.3 million increase and a $8.7 million increase was attributable to Voyageur.

2 CAPACITY PURCHASE AGREEMENT

On February 2, 2015, Chorus announced that all terms and conditions had been met to establish an amended and restated CPA with Air Canada effective January 1, 2015 (referred to herein as the "January 1, 2015 Amendment") extending the CPA term to December 31, 2025.

Prior to the January 1, 2015 Amendment, Chorus was paid rates which were negotiated and set every three calendar years based on Chorus' projected Controllable Costs for the relevant three-year period, using certain variables including Block Hours, Flight Hours, aircraft, cycles and passengers carried. Chorus was also paid certain variable and fixed aircraft ownership rates and fixed rates. The rates set for each three-year period were not guaranteed to be the same as actual Controllable Costs incurred by Chorus in providing the Scheduled Flights during that period. Once set, for CPA billing purposes, Chorus applied a mark-up (and the Compensating Mark-Up when applicable) to the rates. Chorus was also entitled to repayment of certain Pass-Through Costs, including fuel, airport and navigation fees, landing and terminal fees and certain other costs. In addition, Chorus was eligible to receive incentive payments each quarter if it achieved certain performance levels related to controllable on-time performance, controllable flight completion, PAWOBS and overall customer satisfaction.

Chorus incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

Under the January 1, 2015 Amendment, many costs that were formerly Controllable Costs have become Pass-Through Costs; however, Chorus will continue to be entitled to be paid rates, based on Controllable Costs, using the same variables as in prior years such as Block Hours, Flight Hours, cycles and passengers carried as well as certain variable and fixed aircraft ownership rates and fixed rates. With the exception of flight crew costs, aircraft rent, and depreciation and amortization on aircraft and parts, the rates for Controllable Costs are now set annually. Controllable Costs now consist of fewer costs than prior to January 1, 2015 and include costs such as non-crew salaries and wages, general overhead and aircraft maintenance, materials and supplies (for further detail please consult the detailed CPA cost categorization chart found below).

Under the January 1, 2015 Amendment, Air Canada provides Chorus with projected annual Block Hours, Flight Hours, cycles and passengers estimated to be carried in advance of each calendar year during the term. The associated Controllable Costs are determined by Chorus and are paid by Air Canada to Chorus for the Controllable Costs through mutually agreed rates. The rate-setting process is staggered throughout the year and conducted on a rolling basis.

It is expected that annual rate setting related to Controllable Costs will decrease Chorus' cost risk as the annual rate re-set ensures those costs are reviewed in a timely manner and the corresponding rates reflect the realities of the current environment. With such visibility the accuracy of the rates is better assured in the event there are significant changes in the operation and/or the operating environment.

Pilot and flight attendant crew rates have been set for the term of the CPA to December 31, 2025 and reflect projected crew unit costs for this period. Chorus has negotiated collective agreements with its crews for the term of the January 1, 2015 Amendment which support the projected crew unit costs agreed to with Air Canada. The crew rates are adjusted if the number of Block Hours scheduled, the flow of Jazz pilots to Air Canada, and/or if the efficiency of the crew schedules delivered by Air Canada are outside certain agreed thresholds. In addition, regulatory changes that impact crew unit costs result in adjustments to the crew rates.

Pass-Through Costs are passed through to Air Canada and are fully reimbursed. These include costs such as airport and navigation fees and terminal handling fees. Services provided by Air Canada are provided at no cost to Chorus. These include Air Canada ground handling and facilities leased from Air Canada and, effective November 1, 2015, aircraft fuel (for further detail please consult the CPA cost categorization chart found below).

Under the January 1, 2015 Amendment, Chorus' compensation changed from a mark-up on Controllable Costs to fixed fees. The mark-up and Compensating Mark-up concepts have been eliminated. As well, the requirement for benchmarking based on Chorus' costs in 2015 and the margin adjustment provisions contained in the CPA prior to the January 1, 2015 Amendment are no longer applicable.

Chorus is now compensated by the more industry standard approach of fixed fees. There are two fixed fees which establish the minimum level of compensation for the balance of the term of the CPA:

1) Fixed Margin per Covered Aircraft
2) Infrastructure Fee per Covered Aircraft

The Fixed Margin per Covered Aircraft does not vary regardless of network size, complexity or hours flown. The Infrastructure Fee per Covered Aircraft compensates for the additional services Chorus provides in support of Air Canada's regional flying network such as airport operations. The word "rates" for purposes of discussion relating to the January 1, 2015 Amendment does not include the Fixed Margin per Covered Aircraft or the Infrastructure Fee per Covered Aircraft.

Combined, these fixed fees based on the Covered Aircraft were set at approximately $109.7 million for 2015, and once all incremental aircraft (refer to discussion in Section 4 - The Chorus Business) are received the fixed fees increase to approximately $111.7 million per year until the year 2020. From the years 2021 to 2025 these fees are also fixed but at a lower annual amount. Chorus anticipates that this decrease will be partially offset by additional margin contribution from aircraft leasing under the CPA.

Jazz Leasing Inc., a subsidiary of Chorus, leases owned Q400s and engines into the Jazz operation under the CPA. Under this arrangement, Chorus earns aircraft leasing revenue under the CPA from Q400s and Q400 engines. For the year ended December 31, 2015, Chorus earned aircraft leasing revenue of $68.8 million. Annually these aircraft and engines currently generate a cash margin (after consideration of debt servicing charges) of approximately 20%.

The new Q400s being added to the Covered Aircraft fleet in 2016 are anticipated to accrue incremental cash margins comparable to those being earned on Chorus' current fleet of Q400s. As well, the movement of 19 Dash 8-300s to market lease rates post ESP events, are anticipated to accrue incremental cash margin to Chorus going forward (refer to Section 3 - Introduction, "Caution regarding forward-looking information").

Performance incentives will continue to be available, under the January 1, 2015 Amendment, for achieving established performance targets for the same categories identified under the CPA prior to the January 1, 2015 Amendment. The maximum annual available incentive for the years 2015 to 2020 is $23.4 million and $12.2 million for the years 2021 to 2025.

In addition to lowering Chorus' risk profile, Chorus believes that the January 1, 2015 Amendment:

- Provides long-term predictable compensation levels that are anticipated to support the current dividend paid to Shareholders.
- Aligns the interests of Chorus and Air Canada and strengthens their relationship.
- Promotes Chorus' market competitiveness through cost reduction initiatives such as the modernization of its fleet and the ability to flow Jazz senior pilots to Air Canada.
- Secures long-term market competitive labour agreements with Jazz pilots, flight attendants and dispatchers.
- Reduces reliance on the Fixed Margin and Infrastructure Fee per Covered Aircraft and replaces it with growth in cash margin from aircraft leasing under the CPA.
- Secures a solid foundation from which to grow and diversify Chorus' group of companies.

The following table summarizes changes between the January 1, 2015 Amendment terms and the CPA terms in effect to the end of 2014 in cost categorizations in Controllable Costs (used to establish rates) and Pass-Through Costs and costs that will be directly borne by Air Canada.

chorus aviation inc.

Changes to the CPA Cost Categorization & Rate Periods by Operating Expense & Detailed Description								
CPA Cost Categorization	**CPA Prior to 2015**				**January 1, 2015 Amendment**			
	Controllable Cost	Pass-Through Cost	Cost no longer billed to Chorus	Rate Periods	Controllable Cost	Pass-Through Cost	Cost no longer billed to Chorus	Rate Periods
Salaries, wages and benefits								
- Crew wages & benefits	X			3 years	X			11 years[1]
- All others	X			3 years	X			Annually[2]
Aircraft fuel								
- All costs		X		NA			X[5]	NA
Depreciation and amortization								
- All costs	X			3 years	X			3 years
Food, beverage and supplies								
- Costs from Air Canada							X[3]	
- Costs from third parties	X			3 years		X[3]		NA
Aircraft maintenance, materials and supplies								
- All costs	X			3 years	X			Annually
Airport and navigation fees		X		NA		X		NA
Aircraft rent								
- Chorus Q400 leased through CPA	X			Lease term	X			Lease term
- Third party operating leases	X			3 years	X			3 years
- Air Canada & subsidiary leases to Chorus	X			3 years	X			3 years
Terminal handling services								
- Ground handling services from Air Canada	X			3 years			X[3]	NA
- Ground handling from third parties	X			3 years		X[3]		NA
- De-icing services from Air Canada		X		NA			X[3]	NA
- All others	X			3 years	X			Annually
Other								
- Aircraft parking	X			3 years		X[3]		NA
- Interrupted trips & baggage delivery	X			3 years		X[3]		NA
- Station supplies for processing passengers	X			3 years		X[3]		NA
- Third party facilities	X			3 years		X[4]		NA
- Air Canada facilities	X			3 years			X[3]	NA
- All others	X			3 years	X			Annually

(1) Adjusted for schedule efficiency, Block Hours, regulatory changes and pilot flow.
(2) Reset annually, subject to certain conditions.
(3) These costs transitioned in the first quarter of 2015.
(4) These costs transitioned in the second quarter of 2015.
(5) Fuel transition occurred on November 1, 2015.

The following table outlines the impact of these contractual changes in the different operating expense line items.

(expressed in thousands of Canadian dollars)	Three months ended Dec, 31, 2015 Contractual variances $	=	Contractual variance: 2014 Controllable Costs no longer billed $	2014 Pass-Through Costs no longer billed $	2014 Controllable Costs moved to Pass-Through Costs $	Year ended Dec. 31, 2015 Contractual variances $	=	Contractual variance: 2014 Controllable Costs no longer billed $	2014 Pass-Through Costs no longer billed $	2014 Controllable Costs moved to Pass-Through Costs $
Expenses										
Aircraft fuel	(49,921)		—	(49,921)	—	(49,921)		—	(49,921)	—
Food, beverage and supplies	(472)		(472)	—	—	(1,688)		(1,688)	—	—
Terminal handling services	(13,889)		(10,959)	(2,930)	—	(55,594)		(45,939)	(9,655)	—
Other	(2,669)		(1,960)	(709)	—	(10,599)		(7,740)	(2,859)	—
Total contractual variances	(66,951)		(13,391)	(53,560)	—	(117,802)		(55,367)	(62,435)	—
Summary										
Controllable Costs	(24,330)		(13,391)	—	(10,939)	(100,876)		(55,367)	—	(45,509)
Pass-Through Costs	(42,621)		—	(53,560)	10,939	(16,926)		—	(62,435)	45,509
Total contractual variances	(66,951)		(13,391)	(53,560)	—	(117,802)		(55,367)	(62,435)	—

3 INTRODUCTION

In this MD&A, references to Chorus or the Company refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to Jazz Aviation LP ("Jazz").

This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2015 and 2014. All financial information has been prepared in accordance with GAAP, as set out in the CPA Canada Handbook, except for any financial information specifically denoted otherwise. Except as otherwise noted or where the context may otherwise require, this MD&A is prepared as of February 18, 2016.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 21 – Risk Factors.

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

Caution regarding forward-looking information

Certain information in this MD&A may contain statements which are forward-looking statements. 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 Chorus’ relationship with Air Canada, risks relating to the airline industry and including the international operation of airlines in developing countries and areas of unrest, airline leasing, energy prices, general industry, market, credit, and economic conditions, (including a severe and prolonged economic downturn which could result in reduced payments under the CPA), competition, insurance issues and costs, supply issues, war, terrorist attacks, aircraft incidents, epidemic diseases, environmental factors, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, the ability of Chorus to secure financing, the ability of Chorus to renew and/or replace existing contracts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate, pending and future litigation and actions by third parties. For a discussion of certain risks, please refer to Section 21 - Risk Factors. Examples of forward-looking information in this MD&A include the description of incremental cash margins anticipated to accrue with respect to the additional Q400s and 19 Dash 8-300s in Section 2 - Capacity Purchase Agreement, the description of deferred cash payments to be made in connection with the acquisition of Voyageur in Section 4 - The Chorus Business, projections for Chorus' pension funding obligations from 2016 to 2020 in Section 10 - Pension Plans, projection contraction obligations and other commitments in Section 11 - Liquidity and Capital Resources, the discussion of the rates payable pursuant to the CPA in Section 15 - Critical Accounting Estimates, and the 2016 outlook discussion in Section 18 - 2016 Outlook. The forward-looking statements contained in this discussion represent Chorus’ expectations as of February 18, 2016 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.

4 THE CHORUS BUSINESS

Chorus is a holding company incorporated on September 27, 2010 pursuant to the *Canada Business Corporations Act,* with various aviation interests. Chorus' key strategies are:

- Cost control (cost savings initiatives) and sustainable cost reduction and efficiencies under the CPA with Air Canada.
- Diversification and growth of Adjusted EBITDA by leveraging Chorus’ aviation expertise.
- Enhance Shareholder value through improved liquidity and payment of dividends.

In Canada, Jazz operates the largest regional airline and the third largest airline, based on passengers carried. Through Jazz's operations, Chorus provides a significant part of Air Canada’s domestic and transborder regional network. Jazz and Air Canada are parties to the CPA under which Air Canada purchases the majority of Jazz’s fleet capacity at pre-determined rates. Under the CPA, Jazz 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 December 31, 2015, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 711 departures per weekday to 56 destinations in Canada and 18 destinations in the United States, using 116 Covered

Aircraft. Jazz 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.

Jazz operates the CPA flights on behalf of Air Canada under the "Air Canada Express" brand. 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 (refer to Section 21 - Risk Factors).

Jazz is economically and commercially dependent on Air Canada and one of its subsidiaries as, in addition to being Chorus' primary source of revenue, these entities currently provide services and aircraft to Jazz (refer to Section 14 - Economic Dependence). Jazz 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 21 - Risk Factors).

On January 30, 2015, Chorus announced that Jazz's pilots, represented by ALPA, had ratified the tentative agreement reached on January 13, 2015. The term of this collective agreement is 11 years expiring on December 31, 2025. The ratification of this new collective agreement was a condition to establishing the January 1, 2015 Amendment.

In connection with the January 1, 2015 Amendment, Chorus exercised its nine remaining options to purchase new Q400s under its purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft ("Bombardier"), and amended that purchase agreement to add firm orders for four additional Q400s and options for up to ten additional Q400s.

Chorus has also entered into an agreement with Bombardier to be the launch customer for the Dash 8-300 ESP. The ESP is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). This agreement covers a minimum of 19 aircraft and the ESP is anticipated to begin in early 2017.

On May 1, 2015, Chorus acquired all of the outstanding shares of 519222 Ontario Limited, a holding company that owned Voyageur Airways and its related companies. Headquartered in North Bay, Ontario, Voyageur Airways is a Transport Canada approved air operator, and an integrated provider of specialized aviation services, including contract flying operations both internationally and domestically. Voyageur also provides specialized engineering and maintenance services primarily for regional aircraft. The total consideration for the acquisition is expected to approximate $85.3 million consisting of cash in the amount of $47.0 million paid at closing, and cash of $31.4 million payable over three years which has been recorded at the fair value on the date of acquisition of $29.5 million and 1,457,194 Voting Shares of Chorus valued at $8.8 million, being the fair value of the shares on the date of acquisition issued at closing to the vendor. The portion of the purchase price payable over three years includes contingent consideration in the gross amount of $2.0 million, provided certain performance targets are met in the 24 months following closing and a gross working capital adjustment estimated to be $4.4 million. The remainder of the gross consideration is payable over 36 months from closing and does not bear interest. As a result an amount of $2.0 million, determined to represent the fair value of the interest savings has been recorded as a reduction to the purchase price, calculated as imputed interest. Transaction costs totaling approximately $3.0 million have been incurred during 2014 and 2015 in connection with the acquisition and are included in other expenses. Chorus uses the acquisition method to account for business combinations. As such, the results of operations include revenue and expenses of Voyageur since May 1, 2015.

On June 3, 2015, Chorus announced that Jazz's dispatchers, represented by CALDA, had ratified the tentative agreement reached on May 27, 2015. The term of the agreement expires on December 31, 2025.

On September 23, 2015, Chorus announced that Jazz's flight attendants, represented by CFAU, had ratified the tentative agreement reached on August 27, 2015. The term of the agreement expires on December 31, 2025.

On September 28, 2015, Chorus announced that an agreement had been reached with Air Canada to add ten incremental aircraft to the CPA fleet. These aircraft will be operated under the Air Canada Express brand. On February 18, 2016, Chorus received the first of five 78-seat Q400s. The remaining four 78-seat Q400s and five 75-seat CRJ705s are anticipated to be delivered in 2016 and early 2017, respectively, and will operate as Covered Aircraft until 2025. It is anticipated that the addition of these larger gauge aircraft will reduce Unit Costs and increase Chorus' market competitiveness. The five incremental Q400s will be acquired by Air Canada under operating leases and will be subleased to Jazz for CPA operations. Sourcing for the CRJ705s has not yet been finalized.

During 2015 pursuant to its purchase agreement with Bombardier Inc. for Q400s, Chorus took delivery of six new Q400s and financed each of those acquisitions with EDC Financing (refer to Section 11 - Liquidity and Capital Resources).

In addition, Chorus purchased the following aircraft in 2015: five Dash 8-100s previously leased from Air Canada Capital Ltd.; two Dash 8-300s and five CRJ200s previously leased from third parties; and one King Air 200 purchased from a third party.

On January 1, 2016, 519222 Ontario Limited and its subsidiaries were re-organized into three entities. Voyageur Aviation Corp. became the parent company for the group and provides common support services to its subsidiaries. Voyageur Aviation Corp. was created by the amalgamation of 519222 Ontario Limited, Hangar 6 Inc. and Voyageur Airport Services Inc. Voyageur Airways is a Transport Canada approved air operator with international and domestic contract flying operations. Voyageur Aerotech is a Transport Canada approved aircraft maintenance organization with advanced aircraft engineering and maintenance capabilities.

On January 28, 2016, Chorus announced that a new tentative agreement had been reached with its maintenance and engineering employees represented by Unifor. The agreement is subject to a ratification vote by union members.

5 FOURTH QUARTER ANALYSIS

Revenue

	Three months ended December 31,		
	2015	**2014**	**Change**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**
Controllable Revenue	201,957	215,191	(13,234)
Aircraft leasing revenue under the CPA	19,881	14,649	5,232
Fixed Margin and Infrastructure Fee per Covered Aircraft	27,417	—	27,417
Mark-up, including Compensating Mark-Up	—	28,390	(28,390)
Incentive revenue	5,642	5,746	(104)
CPA Pass-Through Revenue	84,688	133,413	(48,725)
Charter and other contract flying revenue	9,970	1,227	8,743
Passenger revenue	349,555	398,616	(49,061)
Other revenue	7,813	2,682	5,131
	357,368	401,298	(43,930)

Operating revenue decreased from $401.3 million to $357.4 million, representing a decrease of $43.9 million or 10.9%. For CPA contractual variances refer to the table in Section 2- Capacity Purchase Agreement

Controllable Revenue

Controllable Revenue decreased by $13.2 million or 6.1%. Certain items provided to Chorus by Air Canada, such as ground handling at major hubs and facilities have been removed from Controllable Revenue. Other items, such as third party ground handling services and catering and commissary, have been re-classified as Pass-Through Costs and removed from Controllable Revenue. The Controllable Revenue reduction related to these changes was $24.3 million. As well, rate decreases under the CPA resulted in a $1.3 million decrease in the quarter and decreased CPA Billable Block Hours accounted for a $0.1 million decline in Controllable Revenue. These decreases were offset by a change in the US dollar exchange rate which resulted in a $12.5 million increase in the quarter.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $5.2 million. The increase was related to a change in the US dollar exchange rate of $2.6 million and additional Q400s added in the fourth quarter of 2015 of $2.6 million. Aircraft leasing revenue under the CPA is generated from the Q400s and Q400 engines owned by Jazz Leasing Inc. and leased to Jazz. The Q400s leasing revenue under the CPA is reflected in revenue, and is designed to provide compensation to Chorus based on market lease rates.

Fixed Margin and Infrastructure Fee per Covered Aircraft and mark-up, including Compensating Mark-Up

Under the CPA, as amended by the January 1, 2015 Amendment, Chorus' compensation changed from a mark-up on Controllable Cost rates to a fixed fee arrangement. The mark-up and Compensating Mark-Up concepts have been eliminated. Based on the fleet plan agreed to as of the January 1, 2015 Amendment, compensation for 2015 was contractually set at $109.7 million annually, or $27.4 million quarterly.

In 2014, the Compensating Mark-Up formula contained in the CPA was applied and the Controllable Mark-Up was increased to compensate Chorus for reduced operating margin and increased Unit Costs resulting from the reduced Block Hours. As a result, Chorus recorded $1.2 million in Compensating Mark-Up in the fourth quarter of 2014 as an increase in operating revenue.

Incentive revenue

Incentives earned under the CPA decreased $0.1 million or 1.8%. For the three months ended December 31, 2015, Chorus earned $5.6 million (2014 - $5.7 million) in performance incentives, or 96.7% (2014 - 96.5%) of the maximum available under the CPA as amended by the January 1, 2015 Amendment.

CPA Pass-Through Revenue

Pass-Through Revenue decreased by $48.7 million or 36.5%, from $133.4 million to $84.7 million. Compensation for aircraft fuel (effective November 1, 2015), deicing and certain other costs provided to Chorus by Air Canada are no longer billed. Other costs, such as third party ground handling services and catering and commissary, have been re-classified to Pass-Through Costs and removed from Controllable Costs. These changes decreased Pass-Through Revenue by $42.6 million. In addition a decline in jet fuel prices prior to the transition on November 1, 2015 decreased Pass-Through Revenue by $7.9 million. These decreases were offset by a change in the US dollar exchange rate which resulted in a $1.5 million increase in the quarter.

Charter and other contract flying revenue

Charter and other contract flying revenue increased by $8.7 million. New contract revenue from the Voyageur operation accounted for $9.4 million; offset by decreased Jazz charter revenue of $0.7 million.

Other revenue

Other revenue increased by $5.1 million primarily related to new revenue from the Voyageur operation, which includes leasing and maintenance repair and overhaul.

Expenses

	Three months ended December 31,		
	2015	2014	Change
(expressed in thousands of Canadian dollars)	$	$	$
Operating expenses			
Salaries, wages and benefits	107,199	99,231	7,968
Aircraft fuel	22,782	79,945	(57,163)
Depreciation and amortization	17,647	16,839	808
Food, beverage and supplies	2,977	4,249	(1,272)
Aircraft maintenance materials, supplies and services	43,420	45,023	(1,603)
Airport and navigation fees	43,543	41,490	2,053
Aircraft rent	25,391	23,816	1,575
Terminal handling services	14,045	28,984	(14,939)
Other	33,903	28,737	5,166
	310,907	368,314	(57,407)

Operating expenses decreased from $368.3 million to $310.9 million, a decrease of $57.4 million. Under the CPA as amended by the January 1, 2015 Amendment, certain items provided to Chorus by Air Canada, such as ground handling services, facilities, deicing and effective November 1, 2015 aircraft fuel are no longer billed. These costs were $nil in the period compared to $67.0 million for the same period last year. Additional information regarding operating expenses is provided below. For CPA contractual variances refer to the table in Section 2 - Capacity Purchase Agreement

Salaries, wages and benefits

	Three months ended December 31,		
	2015	2014	Change
(expressed in thousands of Canadian dollars)	$	$	$
Adjusted salaries, wages and benefits	105,766	96,712	9,054
Stock-based compensation	2,777	2,468	309
Employee separation program costs	1,578	1,325	253
Capitalized major maintenance overhaul labour	(2,922)	(1,274)	(1,648)
	107,199	99,231	7,968

Salaries, wages and benefits increased by $8.0 million from $99.2 million to $107.2 million. Adjusted salaries, wages and benefits increased $9.1 million primarily as a result of the Voyageur operation and increased pension costs. Stock-based compensation increased primarily as a result of fluctuations in Chorus' share price. Employee separation program costs paid during the quarter were $1.6 million compared to $1.3 million in the same period of 2014. Salaries and wages were also affected by more labour costs being capitalized on owned aircraft for major maintenance overhauls of $1.6 million, on a period-over-period comparison.

Aircraft fuel

Aircraft fuel cost decreased by $57.2 million from $79.9 million to $22.8 million. Costs for aircraft fuel provided to Chorus by Air Canada are no longer billed effective November 1, 2015. These Air Canada costs were $nil in November and December compared to $49.9 million for the same period in 2014. The remaining decrease was primarily attributable to a decline in jet fuel prices for the month of October which accounted for approximately $7.9 million. These decreases were offset by increases related to the Voyageur operation of $0.6 million.

Depreciation and amortization

Depreciation and amortization expense increased by $0.8 million from $16.8 million to $17.6 million. Depreciation expenses related to Voyageur were $3.3 million and the purchase of additional aircraft during 2015 accounted for $1.0 million. As well, depreciation associated with capitalized major maintenance overhauls increased depreciation expense by $0.5 million and new finance leases accounted for $0.3 million. During the three months ended March 31, 2015, Chorus reviewed the estimated useful economic lives and residual values of certain owned aircraft and flight equipment. As a result, the expected estimated useful lives of these assets have been extended. The change in estimate reduced depreciation expense by approximately $4.3 million in the quarter.

Food, beverage and supplies

Food, beverage and supplies decreased by $1.3 million from $4.2 million to $3.0 million. Costs for certain services provided to Chorus by Air Canada are no longer billed. These Air Canada costs were $nil in the period compared to $0.5 million for the same period last year. Chorus negotiated new contracts in late 2014 for catering and commissary services which resulted in decreased costs of $0.5 million. The remaining difference resulted from decreased activity.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense decreased by $1.6 million from $45.0 million to $43.4 million. The Voyageur operation accounted for a $3.3 million decrease (includes $6.1 million related to the return of previously expensed maintenance reserve deposits associated with the purchase of five CRJ200s which were previously under operating lease by Voyageur). In addition, other maintenance costs decreased by $4.3 million and more maintenance costs being capitalized as a result of increased major maintenance overhauls accounted for a $1.1 million decrease. These decreases were offset by a change in the US dollar exchange rate on certain maintenance material purchases which accounted for a $5.5 million increase and increased engine overhauls which accounted for $1.6 million.

Airport and navigation fees

Airport and navigation fees increased by $2.1 million from $41.5 million to $43.5 million. The increase related to rate changes as a result of changes in aircraft deployment and rate increases at certain airports.

Aircraft rent

Aircraft rent increased by $1.6 million from $23.8 million to $25.4 million. The increase was mainly due to a change in the US dollar exchange rate and the Voyageur operation. These increases were offset by the return of four CRJ200s in the quarter.

Terminal handling services

Terminal handling costs decreased by $14.9 million from $29.0 million to $14.0 million. Costs for certain services provided to Chorus by Air Canada, such as ground handling and deicing at major hubs are no longer billed. These Air Canada costs were $nil in the period compared to $13.9 million for the same period last year. In addition, deicing costs decreased by $0.6 million and decreased flying activity accounted for $0.4 million.

Other

Other expenses increased by $5.2 million from $28.7 million to $33.9 million. The increase was due to increased costs from the Voyageur operation of $3.5 million, increased crew costs related to training and travel of $2.4 million, and general overhead increases of $2.0 million. Costs for certain services provided to Chorus by Air Canada, such as facilities at major hubs are no longer billed. These Air Canada costs were $nil in the period compared to $2.7 million for the same period last year.

Non-operating income (expenses)

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2015 $	2014 $	Change $
Non-operating income (expenses)			
Net interest expense	(4,442)	(3,058)	(1,384)
Gain on disposal of property and equipment	4	42	(38)
Foreign exchange loss	(18,617)	(10,564)	(8,053)
Other	258	—	258
	(22,797)	(13,580)	(9,217)

Non-operating expenses increased by $9.2 million from $13.6 million to $22.8 million.

Net interest expense increased by $1.4 million. Interest expense related to long-term debt increased by $0.9 million due to a change in the US dollar exchange rate and $0.3 million related to interest on consideration payable.

The weakening of the Canadian dollar for the three months ended December 31, 2015 contributed to a foreign exchange loss of $18.6 million, compared to a foreign exchange loss of $10.6 million in the previous year. The US dollar exchange rate at December 31, 2015 was $1.3840 while the US dollar exchange rate at September 30, 2015 was $1.3345. The US dollar exchange rate at December 31, 2014 was $1.1601 while the US dollar exchange rate at September 30, 2014 was $1.1200. These rates are based on the closing day rate from the Bank of Canada.

6 YEAR-TO-DATE ANALYSIS

Revenue

(expressed in thousands of Canadian dollars)	Year ended December 31, 2015 $	2014 $	Change $
Controllable Revenue	805,886	867,149	(61,263)
Aircraft leasing under the CPA	68,750	56,944	11,806
Fixed Margin and Infrastructure Fee per Covered Aircraft	109,657	—	109,657
Mark-up, including Compensating Mark-Up	—	116,958	(116,958)
Incentive revenue	21,704	22,583	(879)
CPA Pass-Through Revenue	476,666	582,121	(105,455)
Charter and other contract flying revenue	34,702	7,961	26,741
Passenger revenue	1,517,365	1,653,716	(136,351)
Other revenue	27,316	12,575	14,741
	1,544,681	1,666,291	(121,610)

Operating revenue decreased from $1,666.3 million to $1,544.7 million, representing a decrease of $121.6 million or 7.3%. For CPA contractual variances, refer to the table in Section 2 - Capacity Purchase Agreement

Controllable Revenue

Controllable Revenue decreased by $61.3 million or 7.1%. Certain items provided to Chorus by Air Canada, such as ground handling at major hubs and facilities, have been removed from Controllable Revenue. Other items, such as third party ground handling services and catering and commissary, have been re-classified as Pass-Through Costs. The Controllable Revenue reduction related to these changes was $100.9 million. In addition, decreased Billable Block Hours accounted for a $5.4 million reduction in Controllable Revenue. These decreases were offset by a change in the US dollar exchange rate which resulted in a $43.8 million increase in the year and rate increases under the CPA accounted for approximately $1.2 million.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $11.8 million. This increase was related to a change in the US dollar exchange rate of $9.2 million and additional Q400s added in the fourth quarter of 2015 of $2.6 million. Aircraft leasing revenue under the CPA is generated from the Q400s and Q400 engines owned by Jazz Leasing Inc. and leased to Jazz. The Q400s leasing revenue under the CPA is reflected in revenue, and is designed to provide compensation to Chorus based on market lease rates.

Fixed Margin and Infrastructure Fee per Covered Aircraft and mark-up, including Compensating Mark-Up

Under the CPA, as amended by the January 1, 2015 Amendment, Chorus' compensation changed from a mark-up on Controllable Cost rates to a fixed fee arrangement. The mark-up and Compensating Mark-Up concepts have been eliminated. Based on the fleet plan agreed to as of the January 1, 2015 Amendment, compensation for 2015 was contractually set at $109.7 million annually, or $27.4 million quarterly.

In 2014, the Compensating Mark-Up formula contained in the CPA was applied and the Controllable Mark-Up was increased to compensate Chorus for reduced operating margin and increased Unit Costs resulting from the reduced

Block Hours. As a result, Chorus recorded $5.0 million in Compensating Mark-Up in 2014 as an increase in operating revenue.

Incentive revenue

Incentives earned under the CPA decreased $0.9 million or 3.9%. For the year ended December 31, 2015, Chorus earned $21.7 million (2014 - $22.6 million) in performance incentives, or 93.0% (2014 - 92.9%) of the maximum available under the CPA as amended by the January 1, 2015 Amendment.

CPA Pass-Through Revenue

Pass-Through Revenue decreased by $105.5 million or 18.1%, from $582.1 million to $476.7 million. Compensation for aircraft fuel (effective November 1, 2015), deicing and certain other costs provided to Chorus by Air Canada are no longer billed. Other costs, such as third party ground handling services and catering and commissary, have been re-classified to Pass-Through Costs and removed from Controllable Costs. These changes decreased Pass-Through Revenue by $16.9 million. In addition, a decline in jet fuel prices, prior to the transition on November 1, 2015, decreased Pass-Through Revenue by $92.1 million. These decreases were offset by a change in the US dollar exchange which rate resulted in a $7.9 million increase in the year.

Charter and other contract flying revenue

Charter and other contract flying revenue increased $26.7 million. New contract flying revenue from the Voyageur operation accounted for $29.6 million; offset by decreased Jazz charter revenue of $2.8 million.

Other revenue

Other revenue increased by $14.7 million primarily related to new revenue from the Voyageur operation which includes leasing and maintenance repair and overhaul.

Expenses

	Year ended December 31,		
	2015	2014	Change
(expressed in thousands of Canadian dollars)	$	$	$
Operating expenses			
Salaries, wages and benefits	435,521	410,401	25,120
Aircraft fuel	228,557	372,345	(143,788)
Depreciation and amortization	59,745	66,057	(6,312)
Food, beverage and supplies	12,082	17,692	(5,610)
Aircraft maintenance materials, supplies and services	197,258	169,288	27,970
Airport and navigation fees	174,371	168,550	5,821
Aircraft rent	103,308	93,350	9,958
Terminal handling services	57,018	109,184	(52,166)
Other	127,324	121,523	5,801
	1,395,184	1,528,390	(133,206)

Operating expenses decreased from $1,528.4 million to $1,395.2 million, a decrease of $133.2 million or 8.7%. Under the CPA, as amended by the January 1, 2015 Amendment, certain items provided to Chorus by Air Canada, such as ground handling services, facilities, deicing and effective November 1, 2015 aircraft fuel are no longer billed. These

Air Canada costs were $nil in the period compared to $117.8 million for the same period last year. Additional information regarding operating expenses is provided below. For CPA contractual variances, refer to the table in Section 2 - Capacity Purchase Agreement

Salaries, wages and benefits

	Year ended December 31,		
(expressed in thousands of Canadian dollars)	2015 $	2014 $	Change $
Adjusted salaries, wages and benefits	417,121	397,165	19,956
One-time signing bonuses	13,500	—	13,500
Stock-based compensation	12,368	8,929	3,439
Employee separation program costs	3,454	11,942	(8,488)
Capitalized major maintenance overhaul labour	(10,922)	(7,635)	(3,287)
	435,521	410,401	25,120

Salaries, wages and benefits increased by $25.1 million from $410.4 million to $435.5 million. Adjusted salaries, wages and benefits increased by $20.0 million as a result of the Voyageur operation and increased pension costs. As part of the newly ratified collective agreements with ALPA and CFAU, Chorus incurred a $13.5 million one-time payment in 2015. Stock-based compensation increased primarily as a result of Chorus' increased share price. Employee separation program costs paid during the year were $3.5 million compared to $11.9 million from the same period of 2014. Salaries and wages were also affected by more labour costs being capitalized on owned aircraft for major maintenance overhauls of $3.3 million on a year-over-year comparison.

Aircraft fuel

Aircraft fuel costs decreased by $143.8 million from $372.3 million to $228.6 million. Effective November 1, 2015, costs for aircraft fuel provided to Chorus by Air Canada are no longer billed. These Air Canada costs were $nil in November and December compared to $49.9 million for the same period last year. The remaining decrease was primarily attributable to a decline in jet fuel prices which accounted for approximately $92.1 million, and a decrease in the volume of fuel consumed due to decreased CPA Block Hours, which accounted for $3.4 million. These decreases were offset by increases related to the Voyageur operation of $1.6 million.

Depreciation and amortization

Depreciation and amortization expense decreased by $6.3 million from $66.1 million to $59.7 million. During the three months ended March 31, 2015, Chorus reviewed the estimated useful economic lives and residual values of certain owned aircraft and flight equipment. As a result, the expected estimated useful lives of these assets have been extended. The change in estimate reduced depreciation expense for the year ended December 31, 2015 by approximately $15.5 million, compared to 2014. In addition, other depreciation reductions accounted for $1.2 million. These decreases were offset by increased depreciation related to the Voyageur operation of $8.7 million, the purchase of additional aircraft in 2015 for $1.0 million and new finance leases of $0.3 million. Also, depreciation associated with capitalized major maintenance overhauls increased depreciation expense by $0.4 million.

Food, beverage and supplies

Food, beverage and supplies decreased by $5.6 million from $17.7 million to $12.1 million. Certain food services provided to Chorus by Air Canada are no longer billed. These Air Canada costs were $nil for the year ended December 31, 2015 compared to $1.7 million in 2014. Chorus negotiated new contracts in late 2014 for catering and commissary services which resulted in decreased costs of $2.9 million. The remaining difference resulted from decreased activity.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense increased by $28.0 million from $169.3 million to $197.3 million. A change in the US dollar exchange rate on certain maintenance material purchases accounted for a $22.7 million increase, increased engine overhauls accounted for $6.9 million and the Voyageur operation accounted for $3.5 million (includes $6.1 million related to the return of previously expensed maintenance reserve deposits associated with the purchase of five CRJ200s which were previously under operating lease by Voyageur). These increases were offset by decreased Block Hours which accounted for $1.2 million, more maintenance costs being capitalized as a result of increased major maintenance overhauls accounted for a $3.1 million decrease and other maintenance costs accounted for $0.8 million.

Airport and navigation fees

Airport and navigation fees increased by $5.8 million from $168.6 million to $174.4 million. The increase related to rate changes as a result of changes in aircraft deployment and rate increases at certain airports.

Aircraft rent

Aircraft rent increased by $10.0 million from $93.4 million to $103.3 million. The increase was mainly due to a change in the US dollar exchange rate and increased costs related to the Voyageur operation. These increases were offset by the return of five CRJ200s in 2015.

Terminal handling services

Terminal handling costs decreased by $52.2 million from $109.2 million to $57.0 million. Ground handling and deicing provided to Chorus by Air Canada at the major hubs, are no longer billed. These Air Canada costs were $nil for the year ended December 31, 2015 compared to $55.6 million in 2014. Also, decreased flying activity accounted for $1.3 million. These decreases were offset by increased deicing costs of $0.7 million and increased rates as a result of changes in aircraft deployment of $1.1 million. In addition, the outsourcing of passenger handling services resulted in an increase of $2.9 million.

Other

Other expenses increased by $5.8 million from $121.5 million to $127.3 million. The increase was due to increased costs from the Voyageur operation of $9.6 million and increased crew costs related to training and travel of $5.5 million, and general overhead increases of $1.3 million. Offsetting these increases were costs for certain services provided to Chorus by Air Canada that are no longer billed. These Air Canada costs were $nil for the year ended December 31, 2015 compared to $10.6 million in 2014.

Non-operating income (expenses)

	Year ended December 31,		
(expressed in thousands of Canadian dollars)	2015 $	2014 $	Change $
Non-operating income (expenses)			
Net interest expense	(15,014)	(15,748)	734
Gain on disposal of property and equipment	186	249	(63)
Foreign exchange loss	(74,336)	(28,384)	(45,952)
Other	758	500	258
	(88,406)	(43,383)	(45,023)

Non-operating expense increased by $45.0 million from $43.4 million to $88.4 million.

In 2014, Chorus redeemed all of the Debentures, which accounted for a decrease in interest expense of $3.2 million for the year ended December 31, 2015. Interest expense related to long-term debt increased by $1.4 million related to a change in the US dollar exchange rate for the year ended December 31, 2015. In addition, interest expense increased by $0.7 million related to interest on consideration payable.

The weakening of the Canadian dollar for the year ended December 31, 2015 contributed to a foreign exchange loss of $74.3 million, compared to a foreign exchange loss of $28.4 million in the previous year. The US dollar exchange rate at December 31, 2015 was $1.3840 while the US dollar exchange rate at December 31, 2014 was $1.1601. The US dollar exchange rate at December 31, 2014 was $1.1601 while the US dollar exchange rate at December 31, 2013 was $1.0636. These rates are based on the closing day rate from the Bank of Canada.

7 FLEET

The following table provides the total number of aircraft in Chorus' fleet as at December 31, 2015 and December 31, 2014.

Aircraft	December 31, 2014	2015 Fleet Changes		December 31, 2015
		Additions	Removals	
Regional Jets				
CRJ200s	26	7	(5)	28
CRJ705s	16	—	—	16
Turboprop Aircraft				
King Air 100s	—	2	—	2
King Air 200s	—	1	—	1
Dash 7-100s	—	2	—	2
Dash 8-100s	34	—	—	34
Dash 8-300s	28	6	—	34
Q400s	21	6	—	27
	125	24	(5)	144

As at December 31, 2015, Chorus' fleet included 116 Covered Aircraft under the CPA (excludes the new Q400 acquired on December 31, 2015 as this aircraft was not in operation as at December 31, 2015), 17 aircraft operated by Voyageur Airways and five aircraft utilized for Jazz charter services.

On January 15, 2016, Chorus returned a CRJ200 to the lessor. A further CRJ200 was returned on January 29, 2016. These two aircraft are included in the table above.

8 SUMMARY OF FINANCIAL RESULTS

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

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Chorus								
Total revenue ($000)	357,368	412,157	400,055	375,101	401,298	432,576	417,836	414,581
Net income (loss) ($000)	12,512	6,320	31,411	(24,756)	11,338	11,252	36,498	5,622
Adjusted net income(1) ($000)	32,137	31,443	23,834	8,921	23,697	29,004	22,197	20,334
Adjusted net income(1), excluding other items ($000)	33,715	35,199	25,454	21,000	25,022	32,281	26,698	23,173
Adjusted EBITDA(1) ($000)	64,108	65,079	52,064	27,991	49,823	56,153	50,663	47,319
Adjusted EBITDA(1), excluding other items ($000)	65,686	68,835	53,684	40,070	51,148	59,430	55,164	50,158
Net income (loss) per Share, basic ($)	0.10	0.05	0.26	(0.21)	0.09	0.09	0.30	0.05
Net income (loss) per Share, diluted ($)	0.10	0.05	0.25	(0.21)	0.09	0.09	0.29	0.05
Adjusted net income(1) per Share, basic ($)	0.26	0.26	0.20	0.07	0.20	0.24	0.18	0.17
Adjusted net income(1), excluding other items per Share - basic ($)	0.28	0.29	0.21	0.17	0.21	0.27	0.22	0.19
FTE employees (end of period)(2)	4,445	4,473	4,467	4,132	4,130	4,216	4,320	4,344
Number of Aircraft (end of period)(3)	144	143	141	125	125	125	125	125
Jazz								
Departures	61,650	68,842	65,190	59,983	62,535	68,532	65,539	61,912
Block Hours	87,617	97,135	90,362	85,691	87,957	96,168	91,032	89,088
Billable Block Hours	89,365	98,209	91,559	89,104	89,674	96,776	91,770	92,643
Number of Covered Aircraft (end of period)	116	120	120	122	122	122	122	122

(1) This is a non-GAAP measurement. Refer to Section 20 – Non-GAAP Financial Measures.
(2) Includes FTEs for Voyageur Airways as follows: Q4 2015 - 266; Q3 2015 - 273 and Q2 2015 - 283.
(3) In Q4, Q3 and Q2 2015, number includes 17 aircraft for Voyageur Airways and five aircraft for Jazz charter.

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, principally as a result of the high number of leisure travelers and their preference for travel during the summer months. The operations of Voyageur are not generally affected by seasonality. Seasonality also has little effect on the other lines of business operated by Chorus. The Company 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.

9 SELECTED ANNUAL INFORMATION

The following table provides selected annual information for Chorus for the years 2013 through to 2015.

	Year ended December 31,		
(expressed in thousands of Canadian dollars, except per Share amounts)	2015 $	2014 $	2013 $
Revenue	1,544,681	1,666,291	1,672,060
Operating income	149,497	137,901	124,262
Net income	25,487	64,710	61,866
Cash	32,677	114,578	159,901
Total assets	1,107,339	903,343	976,925
Total long-term liabilities	730,294	508,363	454,842
Dividends declared	57,814	54,454	50,880
Cash provided by operating activities	138,914	202,769	160,617
Per Share			
Operating income	1.23	1.14	1.01
Net income, basic	0.21	0.53	0.50
Net income, diluted	0.20	0.52	0.50
Dividends declared	0.48	0.45	0.41

2015 Compared to 2014

The 2015 results compared to the 2014 results are discussed throughout this MD&A.

Revenue decreased mainly as a result of changes related to the January 1, 2015 Amendment. Certain items provided to Chorus by Air Canada, such as ground handling at major hubs, facilities and effective November 1, 2015 aircraft fuel, are no longer billed and as such, they have been removed from revenue. As well, a reduction in Billable Block Hours contributed to a decrease. These decreases were partially offset by increased revenue related to the Voyageur operation.

Operating income increased mainly as a result of the Voyageur operation and increased leasing revenue under the CPA primarily related to a change in the foreign exchange rate. These increases were offset by a one-time payment as part of the newly ratified collective agreements with ALPA and CFAU.

Net income decreased primarily related to a foreign exchange loss due to a change in the foreign exchange rate.

Cash decreased primarily as a result of the acquisition of Voyageur on May 1, 2015, the purchase of aircraft (see next paragraph for further detail) and deposits made for new Q400s and the ESP.

Total assets increased as a result of the Voyageur acquisition as well as the purchase of aircraft (which consisted of five Dash 8-100s, two Dash 8-300s, one King Air 200, five CRJ200s and six Q400s). This increase was offset by decreased cash as discussed above.

Total long-term liabilities increased as a result of the Voyageur acquisition, new long-term borrowing related to the acquisition of Q400s, new finance leases and a change in the foreign exchange rate on long-term debt.

2014 Compared to 2013

Revenue decreased as a result of a reduction in Billable Block Hours and Pass-Through Revenue. These decreases were offset by rate increases pursuant to the CPA, a change in the US dollar exchange rate, increased aircraft leasing under the CPA, and increased CPA compensation. These increases in revenue were the main factors contributing to the rise in operating income and net income.

Cash decreased as a result of the redemption of the Debentures, deposits made for additional Q400s, and the repurchase of Shares under the normal course issuer bid ("NCIB"). These decreases were offset by positive cash flows from operations.

At December 31, 2014, the pilot defined benefit pension plan was in a liability position versus an asset position at December 31, 2013. This was primarily as a result of a decrease in the applicable discount rate.

Total assets decreased as a result of decreased cash, decreased accounts receivable and decreased other assets, which reflects the change in the pilot defined benefit pension plan.

Total long-term liabilities increased as a result of the change mentioned above regarding the pilot defined benefit pension plan.

10 PENSION PLANS

Projected pension funding obligations

The table below provides projections for Chorus' pension funding obligations from 2016 to 2020:

(expressed in thousands of Canadian dollars)	2016 $	2017 $	2018 $	2019 $	2020 $
Defined benefit pension plans, current service	27,000	24,300	21,000	18,000	16,900
Defined benefit pension plan, past service	9,200	9,200	9,200	9,200	9,200
Defined contribution pension plans	12,300	12,000	13,200	14,100	14,800
Projected pension funding obligations	48,500	45,500	43,400	41,300	40,900

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 Jazz pilots' registered defined benefit pension plan ("Pilot DB Plan") as well as an unregistered defined benefit supplemental executive retirement plan ("SERP DB 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 Pilot DB Plan are based on the January 1, 2015 financial position of the plan for funding purposes and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the SERP DB Plan are based on a funding policy adopted by Chorus and the January 1, 2015 financial position of the plan for funding purposes.

The solvency deficiency for the Pilot DB Plan as at January 1, 2015 was $50.3 million. The January 1, 2015 financial position of the Pilot DB Plan for funding purposes applies an average of the solvency ratio over a three year period. The actual funding obligation for 2016 will be determined based on the January 1, 2016 valuation which will be completed in the first half of 2016. Several factors may impact required contributions, including regulatory developments, assumptions and methods used and changes in the economic conditions, the return on fund assets and changes in interest rates. There can be no assurance that required contributions will be in line with preliminary estimates provided. These funding projections are updated annually.

The foregoing contains forward-looking information and actual pension funding obligations may vary. These projections are based on certain assumptions including actuarial determinations, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees, and are subject to certain risks including changes in economic conditions, investment returns generated by the plan assets and interest rates, each of which may impact the financial position of the pension plans sponsored by Chorus and future required contributions. Please refer to Section 3 - Introduction, “Caution regarding forward-looking information”, Section 15 - Critical Accounting Estimates, and Section 21 - Risk Factors for further risks related to this forward-looking information. The current estimated pension funding obligations differ from previous estimates as a result of, among other things, the factors listed above.

11 LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At December 31, 2015, Chorus had $32.7 million in cash and $1.8 million of restricted cash (letters of credit), for a total of $34.5 million, a decrease of $83.3 million from December 31, 2014. This decrease is primarily attributable to the net cash consideration of $45.5 million ($47.0 million used at closing, net of $1.5 million available at Voyageur covering the performance obligation assumed on acquisition related to the deferred revenue recognized on certain contracts) used in connection with the acquisition of Voyageur on May 1, 2015, deposits made for additional Q400s and the ESP of $26.2 million, and the purchase of additional aircraft of $40.6 million.

Chorus' current liquidity needs are primarily related to meeting obligations associated with the following: planned capital expenditures, including acquisitions for purposes of business diversification, ongoing operations, covenants in aircraft and engine financing agreements, repayment and interest costs related to long-term debt and generating sufficient cash flow to fund dividends (which are declared at the discretion of the Board of Directors).

The airline business is capital intensive and highly sensitive to uncertain external circumstances (refer to Section 3 - Introduction, "Caution regarding forward-looking information" and Section 21 - Risk Factors). As a result, 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.

Cash balances are monitored daily and fluctuations are primarily tied to the CPA payment schedule. The CPA payment schedule allows for a gradual draw-down of cash throughout the month and funds are refreshed in two payment tranches. The January 1, 2015 Amendment resulted in some expenses moving to Pass-Through Costs that were previously Controllable Costs and some costs now being borne by Air Canada. As a result, there was an impact on timing of payments by Air Canada. Controllable Revenue is still paid in advance on the first business day of the month. Pass-Through Revenue is now paid on the 23rd of the month or the business day prior, if the 23rd is a non-business day. Revenue associated with fuel has been eliminated with Air Canada now paying for all CPA fuel directly. The reconciliation of Controllable Revenue continues to be paid on the 30th of the month or the business day prior, if the 30th is a non-business day. This payment timing means that Chorus typically has its highest cash balances at the beginning of the month and the lowest cash balance is the end of the month. Fuel was transitioned to Air Canada on November 1, 2015. This change does not adversely impact Chorus' cash flow and minimum cash positions.

Sources and uses of cash

The following table provides information on Chorus' cash flows for the three months and year ended December 31, 2015 and December 31, 2014.

	Three months ended December 31,			Year ended December 31,		
	2015	2014	Change	2015	2014	Change
(expressed in thousands of Canadian dollars)	$	$	$	$	$	$
Sources of Cash:						
Cash provided by operating activities before net changes in non-cash balances related to operations	57,711	49,161	8,550	183,744	196,259	(12,515)
Net changes in non-cash balances related to operations	—	—	—	—	6,510	(6,510)
Restricted cash related to aircraft financing	—	—	—	7,192	—	7,192
Long-term borrowings	119,054	—	119,054	142,779	—	142,779
Other	1,255	85	1,170	1,634	292	1,342
Total sources	**178,020**	**49,246**	**128,774**	**335,349**	**203,061**	**132,288**
Uses of Cash:						
Net changes in non-cash balances related to operations	(25,212)	(1,239)	(23,973)	(44,830)	—	(44,830)
Repayment of long-term debt and obligations under finance leases	(12,186)	(8,860)	(3,326)	(43,635)	(33,100)	(10,535)
Redemption of convertible debentures	—	—	—	—	(80,201)	80,201
Repurchase of Shares under normal course issuer bid	—	(1,015)	1,015	—	(9,372)	9,372
Dividends	(14,667)	(13,537)	(1,130)	(57,432)	(63,731)	6,299
Business acquisition, net of cash acquired	—	—	—	(45,474)	—	(45,474)
Additions to property and equipment	(144,997)	(45,823)	(99,174)	(230,941)	(65,545)	(165,396)
Total usage	**(197,062)**	**(70,474)**	**(126,588)**	**(422,312)**	**(251,949)**	**(170,363)**
Effect of foreign exchange on cash	**1,314**	**295**	**1,019**	**5,062**	**3,565**	**1,497**
Net change in cash during the periods	**(17,728)**	**(20,933)**	**3,205**	**(81,901)**	**(45,323)**	**(36,578)**
Cash – Beginning of periods	**50,405**	**135,511**	**(85,106)**	**114,578**	**159,901**	**(45,323)**
Cash – End of periods	**32,677**	**114,578**	**(81,901)**	**32,677**	**114,578**	**(81,901)**

Sources of cash

Sources of cash for the three months ended December 31, 2015 were $178.0 million, an increase of $128.8 million. The increase was mainly the result of long-term borrowings related to the acquisition of Q400s and a higher cash flow from operating activities.

Sources of cash for the year ended December 31, 2015 were $335.3 million, an increase of $132.3 million. The increase was mainly the result of long-term borrowings related to the acquisition of Q400s and the return of restricted cash for the release of security related to Q400 financing.

Uses of cash

Uses of cash for the three months ended December 31, 2015 was $197.1 million, an increase of $126.6 million. Capital expenditures were $145.0 million, compared to $45.8 million in the same period of 2014. The increase related to the purchase of aircraft (which consisted of four Dash 8-100s, five CRJ 200s and five Q400s), increased major maintenance overhauls and increased expenditures for ongoing spare part replacements for the fleet, equipment and leasehold improvements. Refer to the table below, entitled capital expenditures, for further detail. Additional uses of cash consisted of negative changes in non-cash working capital and increased payments of $3.3 million related to long-term debt and obligations under finance leases. In the fourth quarter of 2014, Chorus repurchased Shares under the NCIB in the amount of $1.0 million. There was no active NCIB as at December 31, 2015.

Uses of cash for the year ended December 31, 2015 was $422.3 million, an increase of $170.4 million. On May 1, 2015, Chorus acquired Voyageur for net cash consideration of $45.5 million. For the year ended December 31, 2015 there were capital expenditures of $230.9 million, compared to $65.5 million in 2014. The increase was related to the purchase of aircraft (which consisted of five Dash 8-100s, two Dash 8-300s, one King Air 200, five CRJ200s and six Q400s), deposits made for additional aircraft, increased major maintenance overhauls and increased expenditures for ongoing spare part replacements for the fleet, equipment and leasehold improvements. Refer to the table below, entitled capital expenditures, for further details. Additional uses of cash consisted of negative changes in non-cash working capital and increased payments of $10.5 million related to long-term debt and obligations under finance leases. In 2014, Chorus redeemed Debentures in the amount of $80.2 million and repurchased Shares under the NCIB of $9.4 million. Neither of these occurred during the year ended December 31, 2015.

Contractual obligations and other commitments

The table below summarizes Chorus' principal and interest cash debt repayments, consideration payable payments and future minimum lease payments under operating leases for flight equipment and base facilities for the years 2016 through to 2020 and thereafter.

(expressed in thousands of Canadian dollars)	Payments Due by Period						
	Total $	2016 $	2017 $	2018 $	2019 $	2020 $	After 5 years $
Long-term debt	689,075	74,190	74,157	74,124	74,091	74,057	318,456
Finance leases(1)	21,015	6,062	5,681	3,322	3,322	2,628	—
Consideration payable	31,439	12,439	13,000	6,000	—	—	—
Operating leases(1)							
Air Canada and its subsidiary(2)	532,791	84,982	75,428	71,504	71,504	71,504	157,869
Other	62,279	12,295	10,362	9,868	9,334	8,008	12,412
	1,336,599	189,968	178,628	164,818	158,251	156,197	488,737

(1) A significant portion of lease payments are payable in US dollars and have been converted using a foreign exchange rate of $1.3840.

(2) Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd., or Air Canada with head lessors, and subleased to Chorus. These leases are included in the above table under the heading "Air Canada and its subsidiary". For further discussion, refer to Section 14 - Economic Dependence.

The foregoing contains forward-looking information and actual contractual obligations and other commitments may vary. These projections are based on certain assumptions including foreign exchange rates and current contractual terms. Please refer to Section 3 - Introduction "Caution regarding forward-looking information" and Section 21 - Risk Factors for risks related to this forward-looking information. The current projections differ from previous projections as a result of new borrowing or leasing, the acquisition of Voyageur, and a change in the foreign exchange rate, among other things.

Long-term debt

Long-term debt consists of the following:

(expressed in thousands of Canadian dollars)	December 31, 2015 $	December 31, 2014 $
Term loans - purchased aircraft(1)	564,222	383,872
Term loans - purchased engines(2)	9,035	8,186
Term loan - Halifax facility(3)	12,000	12,000
	585,257	404,058
Less: Current portion	54,867	35,376
	530,390	368,682

(1) 27 individual term loans, repayable in semi-annual instalments, ranging from $1.1 million to $1.4 million, bearing fixed interest at a weighted average rate of 3.371%, maturing between May 2023 and December 2027, each secured primarily by one Q400 and two PW150A engines. At December 31, 2015, the total Q400 financing payable in US dollars was US$407.7 million (December 31, 2014 - US$330.9 million), and the net book value of property and equipment pledged as collateral under Q400 financing was $548.2 million (December 31, 2014 - $406.5 million).

(2) Four individual term loans, repayable in quarterly instalments of approximately $0.1 million, including fixed interest at a weighted average rate of 4.867%, maturing between December 2024 and October 2025, each secured primarily by one PW150A engine. At December 31, 2015, the total Q400 engine financing payable in US dollars was US$6.5 million (December 31, 2014 - US$7.1 million) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $7.9 million (December 31, 2014 - $8.2 million).

(3) Nova Scotia Jobs Fund loan, with a maximum contribution of $12.0 million, bearing interest at a fixed rate of 3.33% annually. Principal repayments of $1.0 million 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.

Under its financing agreement with EDC (for both aircraft and engines), the Jazz Group is required to maintain a maximum adjusted leverage ratio of 2.25:1 and a minimum adjusted interest coverage ratio of 1.66:1. As at December 31, 2015, the Jazz Group was in compliance with these covenants. Failure by the Jazz Group to comply with 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 financing agreement with EDC also contains a continuation of business under the CPA covenant which is specific to Jazz as the lessee of the Q400s and engines. As at December 31, 2015, Jazz was in compliance with this covenant.

As additional security under the EDC financing agreements, the aircraft and engine leases between Jazz and Jazz Leasing Inc. have been assigned to EDC. Also, Jazz Leasing Inc. has provided a full recourse guarantee to EDC and Jazz Aircraft Financing Inc. pledged the issued shares of Jazz Leasing Inc. to EDC.

Consideration payable

As part of the acquisition of Voyageur, the former owner provided Chorus with a non-interest bearing loan upon acquisition of $31.4 million, payable over three years. This consideration payable does not bear interest. As a result, an imputed interest rate of 3.5% was used to calculate fair value of interest savings of $2.0 million and record the loan at its fair value of $29.5 million.

Off balance sheet arrangements and guarantees

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

In aircraft financing or leasing agreements, Chorus typically indemnifies the financing parties, trustees acting on behalf of such financing parties 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 for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, except for their gross negligence or wilful misconduct. In addition, in aircraft 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 from time to time agrees 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 excluding liabilities that arise from the service provider's gross negligence or wilful misconduct.

Chorus has indemnification obligations to its directors and officers. Pursuant to such obligations, Chorus indemnifies these individuals, to the extent permitted by law, against any and all claims or losses (including amounts paid in settlement of claims) incurred as a result of their service to Chorus.

The maximum amount payable under the foregoing indemnities cannot be reasonably estimated. Chorus carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities). Chorus expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities described above.

Capital commitments

In connection with the January 1, 2015 Amendment, Chorus exercised its nine remaining options to purchase new Q400s under its purchase agreement with Bombardier, and amended that purchase agreement to add firm orders for four additional Q400s and options for up to ten additional Q400s. Based on the list price for the Q400s, the firm order for a total of 13 Q400s is valued at approximately US$424.0 million, and could increase to US$758.0 million if the options to purchase all additional ten aircraft are exercised. Chorus had purchased six Q400s as of December 31, 2015. Chorus is committed to spend an additional $187.1 million in 2016 related to the remaining seven Q400s (US dollar amounts were converted to Canadian dollars at 1.3840, which was the exchange rate in effect at the end of day closing December 31, 2015). Chorus has received commitments from EDC to finance up to 80% of the net purchase price for all firm 13 orders.

On February 11, 2016, Chorus took delivery of one Q400 aircraft and drew EDC financing. The term loan is repayable by Chorus to EDC in semi-annual instalments of approximately US$0.9 million, matures in February 2028 and is secured primarily by one Q400 aircraft and two PW150A engines.

Chorus has also entered into an agreement with Bombardier to be the launch customer for the Dash 8-300 ESP. The ESP is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). This agreement covers a minimum of 19 aircraft and the program is anticipated to begin in early 2017. The cost for each aircraft that undergoes the ESP installation includes the Bombardier service bulletin and parts and anticipated labour costs to complete the service bulletin. The anticipated cost for the years 2016, 2017, 2018 and 2019 is expected to be approximately $1.4 million, $19.9 million, $29.7 million and $14.2 million, respectively (US dollar amounts were converted to Canadian dollars at 1.3840, which was the exchange rate in effect at the end of day closing December 31, 2015). Chorus has received a commitment from Air Canada to finance up to 80% of this anticipated cost.

On February 3, 2016 Chorus took delivery of an additional King Air 200. The purchase price was approximately US $1.1 million, with additional spend of approximately $1.0 million expected for modifications to the aircraft.

Credit facilities

Chorus' subsidiaries have a combined total of $36.0 million in undrawn secured revolving credit facilities and an additional US$6.0 million secured facility specifically for letters of credit (US$2.1 million have been issued). A portion of one of the revolving credit facilities can also facilitate the issuance of letters of credit (US$0.6 million has been issued).

Capital expenditures

The following table provides a breakdown of capital expenditures on a quarter over quarter and year over year basis.

	Three months ended December 31,			**Year ended December 31,**		
(expressed in thousands of Canadian dollars)	**2015** **$**	**2014** **$**	**Change** **$**	**2015** **$**	**2014** **$**	**Change** **$**
Capital expenditures, excluding finance leases, aircraft acquisitions and ESP	4,389	3,800	589	13,035	12,693	342
Capitalized major maintenance overhauls	7,443	2,028	5,415	24,029	12,857	11,172
Finance leases	12,288	—	12,288	19,479	—	19,479
Aircraft acquisitions and ESP	137,965	40,343	97,622	199,877	40,343	159,534
Total capital expenditures(1)	162,085	46,171	115,914	256,420	65,893	190,527

(1) Includes non-cash transactions of $12.3 million and $19.5 million for finance leases and $4.8 million and $6.0 million for other aircraft purchases for the three months and year ended December 31, 2015, respectively.

The 2015 actual capital expenditures of $256.4 million was in line with the guidance previously provided for anticipated capital expenditures of $257.0 million to $269.0 million.

Shares

At February 12, 2016, the issued and outstanding Shares of Chorus were as follows:

	February 12, 2016	December 31, 2015
Issued and outstanding Shares		
Class A Variable Voting Shares	8,185,242	8,228,804
Class B Voting Shares	114,047,155	114,003,593
Total issued and outstanding Shares	122,232,397	122,232,397
Shares potentially issuable		
Stock-based compensation plans	3,317,406	3,317,406
Total outstanding and potentially dilutive shares	125,549,803	125,549,803

Dividends

For the three months and year ended December 31, 2015, Chorus declared dividends of $14.7 million and $57.8 million respectively (2014 - $13.5 million and $54.5 million respectively). For the three months and year ended December 31, 2015, Chorus paid dividends of $14.7 million and $57.4 million respectively (2014 - $13.5 million and $63.7 million respectively).

On February 18, 2015, Chorus announced an increase in the monthly dividend from $0.0375 to $0.04 per Share, effective with the March dividend for Shareholders of record at the close of business on March 31, 2015 and payable on April 17, 2015. Chorus' Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board.

12 RELATED PARTY TRANSACTIONS

As at December 31, 2015, Chorus had no transactions with related parties as defined in the CPA Canada 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' financial instruments consist of cash, restricted cash, accounts receivable, ABCP, accounts payable and accrued liabilities, dividends payable, obligations under finance leases, consideration payable and long-term debt.

Chorus has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk.

Interest rate risk

Investments included in Chorus' cash earn interest at prevailing and fluctuating market rates, as Chorus' objective is to maintain these balances in highly liquid investments.

The 31 term loans with EDC and the Nova Scotia Jobs Fund loan bear fixed interest rates and the consideration payable does not bear interest. The debt is therefore not subject to interest rate volatility.

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

Credit risk

Credit risk arises from cash, restricted cash, deposits, as well as credit exposure to customers, including outstanding receivables. Chorus manages the credit risk on cash by ensuring that the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. In accordance with its investment policy, Chorus invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 Banks and Schedule 2 Banks rated R-1 high, and commercial paper rated R-1 high.

The maximum exposure to credit risk for cash, restricted cash, deposits and trade and other receivables approximate the amount recorded on the statement of financial position.

With the exception of trade receivables, Chorus has no financial assets past due. As at December 31, 2015, the total amount of trade receivables was $56.6 million (2014 - $52.6 million), net of allowances for doubtful accounts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The amount of this allowance was $0.8 million (2014 - $nil). At December 31, 2015, trade receivables of $52.3 million (2014 - $52.3 million) were not past due or impaired; $5.1 million (2014 - $0.3 million) were past due, but not impaired, and $nil (2014 - $nil) were impaired. Chorus continues to work with the entities from which it holds past due receivables to recover the full amount outstanding. Approximately $42.9 million (2014 - $51.3 million) of the total receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada. Chorus does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

Liquidity risk

Chorus' objective is to maintain sufficient liquidity to meet liabilities when due. Chorus monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. Cash flow forecasting is performed in respect of each operating entity of Chorus and then aggregated. Chorus monitors rolling forecasts of Chorus' liquidity requirements. Such forecasts take into consideration Chorus' operational cash flow requirements, debt financing plans and compliance with internal balance sheet ratio targets.

Currency risk

Chorus receives revenue and incurs expenses in US and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for services in the underlying currency related to the expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under finance leases, and long-term debt, which are long-term and subject to larger unrealized gains or losses. Chorus mitigates this currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US denominated assets was $40.4 million and US denominated liabilities was $475.8 million at December 31, 2015. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $4.4 million.

Fair value of financial instruments

The carrying amounts reported in the statement of financial position for cash, restricted cash, accounts receivable, accounts payable and accrued liabilities and dividends payable approximate fair values based on the immediate or short-term maturities of these financial instruments. Assets and liabilities, such as commodity taxes and deferred lease inducements, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- ABCP

  The ABCP is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis. During the year ended December 31, 2015, a valuation gain of $0.3 million (2014 - $nil) was recorded.

- Long-term debt

  At December 31, 2015, the fixed rate term loans had a fair value of $587.6 million. 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.

- Finance leases

  The repayment terms that Chorus is committed to make have been discounted at the relevant market interest rates applicable at year-end. Interest rates used to calculate fair value are based on the change in the risk-free rate at December 31, 2015, compared to the risk-free rates at the inception of the leases. Chorus determined there was no difference between carrying value and fair value as the leases were recently entered into and the interest rates used at the inception of the leases was, on average, not materially different from the year-end interest rate.

- Consideration payable

  At December 31, 2015, consideration payable had a fair value of $30.2 million. The fair value was calculated by discounting the payable at the relevant market interest rates applicable at year-end.

14 ECONOMIC DEPENDENCE

The CPA

Chorus provides capacity for a significant portion of Air Canada's domestic and transborder regional 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 the CPA under which Air Canada currently purchases the greater part of Chorus' fleet capacity on Covered Aircraft at predetermined rates.

On February 2, 2015, Chorus announced that it had reached a long-term agreement for an amended and restated CPA with Air Canada. The agreement was retroactively effective January 1, 2015 and is in effect until December 31, 2025. (Refer to Section 2 - Capacity Purchase Agreement with Air Canada for further discussion).

Chorus has a significant amount of transactions with Air Canada and its subsidiary. Air Canada and its subsidiary represented 95.4% of Chorus' operating revenues for the year ended December 31, 2015 (98.6% for the year ended December 31, 2014). Approximately 6.8% and 10.2% of Chorus' operating expenses for the years ended December 31, 2015 and 2014 respectively were incurred with Air Canada and one of its subsidiaries.

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. By their nature, estimates and judgments may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates (refer to Section 3 – Introduction, “Caution regarding forward-looking information”). The significant accounting policies of Chorus are described in note 3 of the audited consolidated financial statements of Chorus for the year ended December 31, 2015.

Other Future Employee Benefits

Chorus' significant policies related to the Pilot DB Plan, and the SERP DB Plan (collectively referred to as "Pension Benefits"), and the Other Future Employee Benefits are as follows:

- The cost of Pension Benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees. Obligations are attributed to the period beginning on the date the employee joins the plan and ending on the earlier of the date of termination, death or retirement. Actuarial gains and losses on the pension benefits are recognized in full in the period in which they occur in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the interest income on plan assets and the interest arising on the pension liability are included in salaries, wages and benefits in the statement of income.
- Other Employee Benefits consist of two categories of benefits:
    - Medical and dental benefits provided to employees while on long-term disability, and Worker's Compensation and Workers Safety Insurance Board benefits in respect of Ontario employees, are collectively referred to as other long-term benefits. The actuarial gains and losses for this component of Other Employee Benefits are charged to operating expense in the year they occur.
    - Sick leave benefits are paid to certain employees upon or just prior to retirement. The actuarial gains and losses on this component of other employee benefits are charged to other comprehensive income in the year they occur.
- The cost of the Other Employee Benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation, as applicable to each of the categories of benefits.
- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan and other employee benefit plans are recognized immediately in income.
- The registered pension plan is subject to certain minimum funding requirements. The liability, where applicable, in respect of the minimum funding requirement is determined using the projected minimum funding requirements based on actuarial forecasts. The liability in respect of the minimum funding requirement and any subsequent re-measurement of that liability is recognized in other comprehensive income without subsequent reclassification to income.
- The measurement date of each of the plans' assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the

date of termination, death or retirement. The obligations relating to other employee benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).

- Chorus also maintains several defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable.

The following assumptions were used in valuing the benefit obligations under the plans and the employer's net periodic pension or benefit cost:

- The discount rate used to determine the pension and benefit obligation and the interest income on assets was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.
- The health care inflation used to determine cost of Other Future Employee Benefits costs is based on recent industry experience and long-term expectations. The weighted average health care inflation assumption used for the health care plans is 6.1% per annum for 2015 and 4.5% per annum for 2029 and later years.
- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, which is recognized each period through other comprehensive income.

The following table contains assumptions used in valuing the benefit obligations under this plan and the employer's net periodic pension or benefit cost:

	Fiscal year ended December 31, 2015	2014
Weighted average assumptions used to determine accrued benefit obligation		
- Discount rate	3.4% - 3.9%	3.5% - 4.1%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation - Select	6.0%	6.1%
- Health care inflation - Ultimate	4.5%	4.5%
- Year ultimate trend reached	2029	2029
Weighted average assumptions used to determine pension and benefit costs		
- Discount rate	3.5% - 3.8%	4.4% - 5.0%
- Rate of compensation increase	2.0% - 4.5%	2.3% - 4.5%
- Health care inflation - Select	6.1%	6.3%
- Health care inflation - Ultimate	4.5%	4.5%
- Year ultimate trend reached	2029	2029

Depreciation of long-lived assets

Management makes estimates and judgements about the expected useful life and the expected residual value of long-lived assets. Depreciation methods for long-lived assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit. Useful life and residual values are based on estimates of future fair values and can vary significantly from actual. Management revises depreciation estimates and patterns regularly and makes any changes on a prospective basis. A 25% reduction to the residual values of aircraft would result in an increase of $5.6 million to annual depreciation expense.

In the first quarter of 2015, Chorus reviewed the estimated useful economic lives of its owned aircraft and flight equipment. As a result, the expected estimated useful economic lives of certain of these assets have been extended and there was no significant impact related to the residual values. The effect of these changes was a reduction to depreciation expense for the three months and year ended December 31, 2015 of approximately $9.8 million and $27.6 million respectively. The impact of this change was offset by flight equipment acquired in 2014 and 2015 for a net reduction in depreciation period-over-period and year-over-year of approximately $4.3 million and $15.5 million respectively.

Operating revenue

In accordance with the terms of the CPA, Chorus and Air Canada agreed on detailed rates applicable to the period commencing on January 1, 2015 and ending on December 31, 2015. The new rates are retroactive to January 1, 2015. Chorus and Air Canada have reconciled amounts already recorded in 2015 to these new rates. As a result, Chorus recorded a reduction in CPA operating revenue of $0.8 million related to the year 2015 in the fourth quarter of 2015.

Business combination

Chorus applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of an entity is equal to the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair value of the acquired company's assets and assumed liabilities. There are various assumptions made when determining the fair value of the acquired company's assets and assumed liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets.

Consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by Chorus is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognized in profit or loss.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer relationships and trade name. To determine the fair value of these customer based intangible assets, significant assumptions were made, which include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

16 ACCOUNTING POLICIES

The significant accounting policies of Chorus are described in note 3 of the December 31, 2015 consolidated financial statements of Chorus.

Accounting standards issued but not yet applied

The IASB issued IFRS 9 (2014), "Financial Instruments" ("IFRS 9 (2014)") effective for annual periods beginning on or after January 1, 2018. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new expected credit loss model for calculating impairment, and new general hedge accounting requirements. Chorus has already early adopted all previous iterations of IFRS 9 (2009 through 2013). Chorus is currently evaluating the impact of IFRS 9 (2014) on its consolidated financial statements.

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. Chorus is currently evaluating the impact of the new standard on its consolidated financial statements.

The IASB issued IFRS 16, "Leases" ("IFRS 16") effective for annual periods beginning on or after January 1, 2019 with early adoption permitted for entities that have also adopted IFRS 15. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17, "Leases". This will impact Chorus' statement of financial position and statement of income. Qualifying leases will be recorded on the balance sheet as an asset under property and equipment, and will have a corresponding liability with both current and long-term portions. Chorus is currently evaluating the financial impact of these amendments on its consolidated financial statements.

The IASB issued amendments to IAS 12, "Income Taxes" regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. Chorus has no debt instruments measured at fair value at December 31, 2015. Chorus is currently evaluating the impact of these amendments on its consolidated financial statements.

17 CONTROLS AND PROCEDURES

Disclosure controls and procedures and internal control over financial reporting

Chorus' disclosure controls and procedures ("DC&P") have been designed to provide reasonable assurance that information required to be disclosed in any public filings is recorded, processed, summarized and reported on a timely basis. Chorus' internal controls over financial reporting ("ICFR") have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. They were both designed based on the framework established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, our certifying officers have limited the scope of their design of DC&P, and our Company's ICFR to exclude controls, policies and procedures relating to the acquisition of Voyageur (as it was acquired in the second quarter of 2015) and they have not yet performed sufficient procedures to include it in our certifications. National Instrument 52-109 permits a business that an issuer acquires not more than 365 days before the issuer's financial year-end be excluded from the scope of the certifications to allow it sufficient time to perform adequate procedures to ensure controls, policies and procedures are effective. Voyageur will be included in Chorus's certification processes in 2016. Summary financial information for Voyageur includes revenue of $15.5 million and $46.8 million and Adjusted EBITDA of $9.6 million and $17.2 million for the three months ended December 31, 2015 and the period May 1, 2015 to December 31, 2015 respectively. Information concerning assets and liabilities acquired is provided in note 5 of the audited consolidated financial statements of Chorus for the year ended December 31, 2015.

An evaluation of the design and effectiveness of Chorus' DC&P and ICFR has been conducted by management, under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2015, Chorus' disclosure controls and procedures and internal control over financial reporting, as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, are operating effectively.

Because of inherent limitations, ICFR and DC&P 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 year ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, Chorus' ICFR.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A, and the consolidated financial statements of Chorus for December 31, 2015, and Chorus' Board of Directors approved these documents prior to their release.

18 2016 OUTLOOK

The discussion that follows represents forward-looking information (refer to Section 3 - Introduction, "Caution regarding forward-looking information"). This outlook is provided for the purpose of providing information about current expectations for 2016 and includes Voyageur. This information may not be appropriate for other purposes.

Effective January 1, 2015, Billable Block Hours no longer directly affect CPA compensation, but remain relevant for rate setting on Controllable Costs. Based on the 2015 - 2016 winter schedule, the summer 2016 schedule and updated planning assumptions received from Air Canada, Billable Block Hours are expected to be between 349,000 and 359,000 based on 116 Covered Aircraft as at December 31, 2016. The actual number of Billable Block Hours for 2016 may vary from this anticipated range due to a number of factors. See Section 21 - Risk Factors.

Capital expenditures for 2016, excluding those for the acquisition of finance leases, aircraft and the ESP, and including capitalized major maintenance overhauls, are expected to be between $35.0 million and $41.0 million. The increase in 2016 reflects additional spend for Voyageur and lower anticipated major maintenance overhauls.

		Actual	
(expressed in thousands of Canadian dollars)	Planned 2016 $	Year ended December 31, 2015[(1)] $	Year ended December 31, 2014 $
Capital expenditures, excluding finance leases, aircraft acquisitions and ESP	19,000 to 22,000	13,035	12,693
Capitalized major maintenance overhauls	16,000 to 19,000	24,029	12,857
Finance leases	—	19,479	—
Aircraft acquisitions and ESP[(2)]	185,000 to 195,000	199,877	40,343
	220,000 to 236,000	256,420	65,893

(1) Includes non-cash transactions of $12.3 million and $19.5 million for finance leases and $4.8 million and $6.0 million for other aircraft purchases for the three months and year ended December 31, 2015 respectively.
(2) Includes the acquisition of one King Air 200, seven Q400s and ongoing deposits for the Q400s and ESP. All amounts have been converted using a foreign exchange rate of $1.3840.

19 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 Reports.

20 NON-GAAP FINANCIAL MEASURES

Chorus uses certain non-GAAP financial measures, described below, to evaluate and assess performance. These non-GAAP measures are generally numerical measures of a company's financial performance, financial position or cash flows, that include or exclude amounts from the most comparable GAAP measure. As such, 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 and Adjusted EBITDA

EBITDA is defined as earnings before net interest expense, income taxes, and depreciation and amortization and is a non-GAAP financial measure. Adjusted EBITDA (net income before net interest expense, income taxes, depreciation and amortization and other items such as asset impairment and foreign exchange gains or losses) is a non-GAAP financial measure used by Chorus, and commonly by other regional airlines in the industry, as a supplemental financial measure of operational performance. Management believes Adjusted 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 factors such as historical cost. Adjusted 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. While the one-time signing bonuses, CPA advisory fees and employee separation program costs have been included within our definition of adjusted EBITDA, it is shown separately below to facilitate transparency and comparability.

	Three months ended December 31,			Year ended December 31,		
	2015	2014	Change	2015	2014	Change
(expressed in thousands of Canadian dollars)	$	$	$	$	$	$
Net income	12,512	11,338	1,174	25,487	64,710	(39,223)
Add:						
Net interest expense	4,442	3,058	1,384	15,014	15,748	(734)
Income tax expense	11,152	8,066	3,086	35,604	29,808	5,796
Depreciation and amortization	17,647	16,839	808	59,745	66,057	(6,312)
EBITDA	**45,753**	**39,301**	**6,452**	**135,850**	**176,323**	**(40,473)**
Gain on disposal of property and equipment	(4)	(42)	38	(186)	(249)	63
Foreign exchange loss	18,617	10,564	8,053	74,336	28,384	45,952
Other	(258)	—	(258)	(758)	(500)	(258)
Adjusted EBITDA	**64,108**	**49,823**	**14,285**	**209,242**	**203,958**	**5,284**
Other items:						
One-time signing bonuses	—	—	—	13,500	—	13,500
CPA advisory fees	—	—	—	2,079	—	2,079
Employee separation program	1,578	1,325	253	3,454	11,942	(8,488)
Adjusted EBITDA, excluding other items	*65,686*	*51,148*	*14,538*	*228,275*	*215,900*	*12,375*

Adjusted Net Income

Adjusted net income and Adjusted net income per Share are used by Chorus to assess performance without the effects of unrealized foreign exchange gains or losses on long-term debt and finance leases related to aircraft. Chorus manages its exposure to currency risk on such long-term debt by billing the lease payments within the CPA in the underlying currency (US dollars) related to the aircraft debt. These items are excluded because they affect the comparability of our financial results, period-over-period, and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are non-recurring due to ongoing currency fluctuations between the Canadian and US dollar. While the one-time signing bonuses, CPA advisory fees and employee separation program costs have been included within our definition of adjusted net income, it is shown separately to facilitate transparency and comparability.

(expressed in thousands of Canadian dollars, except per Share amounts)	**Three months ended December 31,**			**Year ended December 31,**		
	2015 **$**	**2014** **$**	**Change** **$**	**2015** **$**	**2014** **$**	**Change** **$**
Net income for the periods	12,512	11,338	1,174	25,487	64,710	(39,223)
Unrealized foreign exchange loss	19,625	12,359	7,266	70,848	30,522	40,326
Adjusted net income	**32,137**	**23,697**	**8,440**	**96,335**	**95,232**	**1,103**
Adjusted net income per Share - basic	**0.26**	**0.20**	**0.06**	**0.79**	**0.78**	**0.01**
Other items:						
One-time signing bonuses	—	—	—	13,500	—	13,500
CPA advisory fees	—	—	—	2,079	—	2,079
Employee separation program	1,578	1,325	253	3,454	11,942	(8,488)
Adjusted net income, excluding other items	*33,715*	*25,022*	*8,693*	*115,368*	*107,174*	*8,194*
Adjusted net income, excluding other items per Share - basic	*0.28*	*0.21*	*0.07*	*0.95*	*0.88*	*0.07*

Return on Invested Capital

Return on Invested Capital is a non-GAAP measure commonly used to assess the efficiency with which a company allocates its capital to generate returns. Return is calculated based on Chorus' earnings before tax, excluding special items, finance costs and implied interest on off-balance sheet aircraft leases for aircraft for which Chorus holds the head lease. Invested capital includes average long-term debt, average finance lease obligations, average Shareholders' equity and off-balance sheet aircraft operating leases for aircraft for which Chorus holds the head lease.

(expressed in thousands of Canadian dollars)	Trailing twelve months ended December 31, 2015 $	December 31, 2014 $	Change $
Income before income taxes	61,091	94,518	(33,427)
Unrealized foreign exchange loss	70,848	30,522	40,326
Income before income taxes (and unrealized foreign exchange loss)	131,939	125,040	6,899
Add:			
Finance costs	17,457	16,895	562
Implicit interest in operating leases(1)	4,657	3,816	841
	154,053	145,751	8,302
Invested capital:			
Average long-term debt(2)	494,658	442,696	51,962
Average obligations under finance leases(3)	11,418	4,891	6,527
Average consideration payable(4)	15,084	—	15,084
Average Shareholders' equity	120,428	158,021	(37,593)
Off-balance sheet aircraft leases(5)	66,529	54,514	12,015
	708,117	660,122	47,995
Return on invested capital(6)	21.8%	22.1%	(0.3)%

(1) Interest implicit in operating leases is equal to 7.0 percent of 7.5 times the trailing 12 months of aircraft lease expense. 7.0 percent is a proxy and does not necessarily represent actual for any given period.
(2) Average long-term debt includes the current portion and long-term portion.
(3) Average obligations under finance leases include the current portion and long-term portion.
(4) Average obligations under consideration payable include the current portion and long-term portion.
(5) Off-balance sheet aircraft leases are calculated by multiplying the annual aircraft leasing expense by 7.5 only for aircraft which Chorus holds the head lease. For the trailing twelve months ended December 31, 2015 and December 31, 2014, these aircraft lease expenses totaled $8.9 million and $7.3 million respectively.
(6) Aircraft rent was $103.3 million and $93.4 million for the trailing twelve months ended December 31, 2015 and December 31, 2014 respectively. 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 $94.5 million and $86.1 million for the trailing twelve months ended December 31, 2015 and December 31, 2014 respectively, have 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, return on invested capital would be 14.1% and 14.6% respectively.

Adjusted net debt

The following table reflects Chorus' adjusted net debt balances as at December 31, 2015 and as at December 31, 2014:

(expressed in thousands of Canadian dollars)	December 31, 2015 $	December 31, 2014 $	Change $
Long-term debt, finance leases	604,741	407,410	197,331
Consideration payable	30,168	—	30,168
Total long-term debt and finance leases (including current portion)	634,909	407,410	227,499
Less: Cash	(32,677)	(114,578)	81,901
Net debt	602,232	292,832	309,400
Capitalized operating leases	66,529	54,514	12,015
Adjusted net debt	668,761	347,346	321,415

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 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 $103.3 million and $93.4 million for the trailing twelve months ended December 31, 2015 and December 31, 2014 respectively. The majority of Chorus' aircraft under operating leases are subleased from Air Canada, or its subsidiary, which hold the head lease or own the aircraft. Aircraft rent related to these aircraft of $94.5 million and $86.1 million for the trailing twelve months ended December 31, 2015 and December 31, 2014 respectively, have 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 $1,377.0 million and $993.0 million respectively.

As at December 31, 2015, adjusted net debt increased from $347.3 million to $668.8 million, representing an increase of $321.4 million or 92.5% from December 31, 2014. This increase was a result of a higher US dollar exchange rate which increased long-term debt by approximately $69.1 million, new debt and finance leases of $162.3 million, consideration payable related to the Voyageur acquisition of $30.2 million, net cash used for the Voyageur acquisition of $45.5 million, cash to make the $13.5 million one-time signing bonuses in 2015, $2.1 million related to advisory fees for the January 1, 2015 Amendment and deposits made on additional Q400s and the ESP of $26.2 million. These increases were offset by debt repayments of $39.2 million.

21 RISK FACTORS

The risks described below are not intended to be an exhaustive list of all risks facing Chorus. Other risks of which Chorus is not currently aware or which Chorus currently deems immaterial may arise and have a material adverse impact on Chorus' business, results from operations and financial condition.

Risks Relating to the Industry

Economic conditions

Airline operating results are sensitive to economic and geopolitical conditions, which have a significant impact on the demand for air transportation. Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. A downturn in economic growth in North America could have the effect of reducing demand for air travel. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition.

Competition in the regional airline industry

Chorus' ability to provide regional air service is limited by existing relationships that network airlines have with other regional operators. In addition, many of the network airlines are subject to scope clause restrictions under their collective bargaining agreements with employees that restrict their ability to add new regional jet capacity. New competitors may also enter the regional airline industry. Such new or existing competitors may enter into capacity purchase agreements with airlines, including Air Canada, in respect of routes currently operated by Chorus. Capacity growth by other regional airlines in the regional jet market would lead to significantly greater competition and may result in lower rates of return in the regional airline industry. Further, many of the network airlines are focused on reducing costs, which may also result in lower operating margins in the regional airline industry. Aggressive competition among tour operators and carriers providing flying services can limit Chorus' ability to expand in those markets. Any of the foregoing events could have a material adverse effect on Chorus' business, results from operations and financial condition.

Interruptions or disruptions in airport facilities

Chorus' business is significantly dependent upon its ability to operate without interruption at a number of key airports, including Toronto Pearson International Airport. An interruption or stoppage in service at a key airport could have a material adverse effect on Chorus' business, results from operations and financial condition.

Cyber-attacks and dependence on technology

Chorus relies in part on technology, including computer and telecommunications equipment and software to increase revenues, reduce costs and operate its business. Proper implementation and operation of technology initiatives is fundamental to Chorus' ability to operate a profitable business. Chorus continuously invests in new technology initiatives to remain competitive, and its continued ability to invest sufficient amounts to enhance technology will affect Chorus' ability to operate successfully. An inability to invest in technological initiatives would have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus' technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, cyber-attacks, telecommunications failures, computer viruses, hackers and other security issues. While Chorus maintains and continues to invest in technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any failure in technology employed by Chorus could materially and adversely affect Chorus' operations and could have a material adverse effect on Chorus' business, results from operations and financial condition.

Epidemic diseases

The spread of contagious diseases could have a material adverse effect on passenger demand for air travel and the number of passengers traveling on Chorus' flights, especially in the event travel related restrictions are imposed. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition.

Terrorist attacks and other geopolitical instability

The occurrence of a terrorist attack (whether international or domestic and whether involving Chorus, another carrier or no carrier at all) and increasingly restrictive security measures, such as the restrictions on the content of carry-on baggage, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Chorus' flights. Geopolitical instability in various areas of the world could have the effect of reducing demand for air travel. Any such negative effect on demand could have a material adverse effect on Chorus' business, results from operations and financial condition.

Third party war risk insurance

Prior to January 1, 2016, the Government of Canada had provided Canadian air carriers with an indemnity for third party war risk liability that satisfied the air carriers' aircraft lessors and lenders. That coverage expired December 31, 2015 and the replacement indemnity that the Government of Canada put in place was not satisfactory to the air carriers' aircraft lessors and lenders. As well, the replacement indemnity was only for the period until June 30, 2016 and the Government of Canada has announced that it will not continue to provide the indemnity after that date. As a result, effective January 1, 2016, Jazz has acquired replacement coverage for this risk to the extent coverage is currently available in commercial insurance markets, and which coverage satisfies Jazz's obligations to its aircraft lessors and lenders.

Casualty losses

Due to the nature of its core operating business, Chorus may be subject to liability claims arising out of accidents or disasters involving Chorus aircraft or aircraft of other carriers maintained or repaired by Chorus, including claims for serious personal injury or death. There can be no assurance that Chorus' insurance coverage will be sufficient to cover one or more large claims and any shortfall could be material. Additionally, any accident or disaster involving Chorus' aircraft or aircraft of another carrier maintained or repaired by Chorus, could significantly harm its reputation for safety, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Regulation and potential legislative changes

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, licensing, competition, the environment (including noise levels) and, in some measure, pricing. Additional laws and regulations may be proposed, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional regulations or decisions by Transport Canada, the Competition Bureau and/or Competition Tribunal, the Canadian Transportation Agency or other local, domestic or foreign governmental entities may have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus is also subject to domestic and foreign laws regarding privacy of passenger and employee data, and compensation for tarmac delays. Compliance with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Chorus' business, results from operations and financial condition.

As a participant in the airline industry, Chorus is exposed to any future regulations concerning greenhouse gas emissions by its aircraft. Chorus would be faced with additional costs necessary to comply with any such regulations, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

On August 2, 2015, Bill C-439, *An Act Respecting the Rights of Air Passengers*, died on the order paper of the previous session of Parliament. If reintroduced to the current or a future session of Parliament, the Bill would impose obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. Such legislation could lead to significant costs for air carriers, including Chorus, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form currently proposed by Bill C-439 or otherwise.

Also on August 2, 2015, Bill C-51, which included the *Secure Air Travel Act* died on the order paper of the previous session of Parliament. If reintroduced to the current or a future session of Parliament, that Act would provide a new legislative framework for identifying and responding to persons who may engage in an act that poses a threat to transportation security or who may travel by air for the purpose of committing a terrorism offence. It would also authorize the Minister of Public Safety and Emergency Preparedness to establish a list of such persons and to direct air carriers to take any necessary actions to prevent the commission of such acts. Such legislation could lead to increased costs for air carriers, including Jazz and Voyageur Airways, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form previously proposed by Bill C-51 or otherwise.

Risks Relating to Chorus

Employees

Chorus' business is labour-intensive and requires a large number of pilots, flight attendants, mechanics and other personnel. Chorus' business requires Chorus to locate, hire, train and retain new employees. There can be no assurance that Chorus will be able to locate, hire, train and retain a sufficient number of qualified employees that it needs to carry out its plans or replace departing employees. Chorus' inability to hire and retain a sufficient number of qualified employees at a reasonable cost could have a material adverse effect on its business, results from operations and financial condition.

Labour costs and labour relations

Labour costs constitute the largest percentage of Chorus' total operating costs that are borne by Chorus. There can be no assurance that the estimates of Chorus' future labour costs will be accurate. If such costs exceed Chorus' estimates, Chorus may realize decreased profitability under the CPA that will undermine Chorus' financial performance.

The majority of Chorus employees are unionized. Jazz's current agreements with its pilots, represented by ALPA, its flight attendants, represented by CFAU, and its flight dispatch employees, represented by CALDA, do not expire until the end of the CPA in 2025 and contain no-strike clauses. On January 28, 2016, Chorus announced that a new tentative agreement had been reached with Jazz maintenance and engineering employees represented by Unifor. The agreement is subject to a ratification vote by union members. Jazz crew schedulers and airports customer service employees, also represented by Unifor, have Collective Agreements in place until June 30, 2016 and January 13, 2017 respectively.

There can be no assurance that the collective agreements will be renewed in the future without labour conflict or action, or that there will not otherwise be a labour conflict or action that could lead to an interruption or stoppage in Chorus' operations and adversely affect Chorus' ability to meet its targets, all of which could have a material adverse effect on its business, results from operations and financial condition. There can be no assurance that these agreements with Chorus employees' unions will be on terms that are consistent with management's expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Chorus.

Leverage and restrictive covenants in current and future indebtedness

The ability of Chorus to pay dividends, or make other payments or advances, is subject to, among other things, its liquidity position, applicable laws and contractual restrictions contained in the instruments governing any indebtedness. The degree to which Chorus is leveraged has important consequences to Shareholders, including: (i) that Chorus' ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) that a significant portion of cash flow from operations may be dedicated to the payment of principal and interest in respect of its indebtedness, thereby reducing funds available for future operations; (iii) that certain borrowings will be at variable rates of interest, which exposes Chorus to the risk of increased interest rates; and (iv) that Chorus may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

Current global financial conditions have been characterized by high levels of volatility and several financial institutions have faced significant liquidity and other issues in recent years. Access to new public financing has been negatively impacted by these events, which may impact the ability of Chorus to obtain financing in the future on acceptable terms. Any failure of Chorus in the future to obtain required financing on acceptable terms could have a material adverse effect on Chorus' business, results of operations and financial condition.

Dilution of Shareholders

Chorus is authorized to issue an unlimited number of Class A Variable Voting Shares and an unlimited number of Class B Voting Shares for consideration, and on terms and conditions, as shall be established by the Board. The Shareholders have no pre-emptive rights in connection with such further issues. Chorus may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Chorus which may be dilutive, and materially adverse to current Shareholders.

Uncertainty of dividend payments

Payment of dividends may be impacted by factors that can have a material adverse change on Chorus' business, results from operations and financial condition and which could impact its liquidity and ability to declare and pay dividends (whether at current levels, revised levels or at all), and is also dependent on, among other things, the ability of Chorus to generate sufficient cash flows, the financial requirements of Chorus, and applicable solvency tests and contractual restrictions (whether under credit agreements or other contracts).

Level of indebtedness - refinancing risk

The level of Chorus' indebtedness from time to time could impair Chorus' ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise. Any failure of Chorus in the future to obtain required financing or acceptable terms in these circumstances could have a material adverse effect on Chorus' business, results of operations and financial condition.

Diversification and growth

Management regularly reviews potential diversification and growth opportunities and business acquisition opportunities. As part of any such initiative, management conducts customary due diligence and performs analysis with the goal of identifying and evaluating material risks. Notwithstanding their review, management may be unsuccessful in identifying all such risks or realizing the intended synergies of any given initiative, or in successfully executing a particular diversification or growth transaction. Any such failure, or management's inability to effectively manage growth, could have a material adverse effect on Chorus’ business, results from operations and financial condition

Under the CPA, Chorus is prevented from carrying on or undertaking certain passenger airline services. Except under certain permitted circumstances, Chorus may not provide passenger services utilizing fixed-wing aircraft over a certain number of seats between two destinations located within the Non-Compete Geographic Area.

Under the CPA, Chorus may enter into contracts for charter services performed entirely outside of the Non-Compete Geographic Area. However, Chorus requires Air Canada's consent to enter into contracts for charters with more than a certain number of rotations between the same cities for the same customer and over agreed levels, to or from any Extended Hub Airport, or on any Air Canada routes.

If Chorus should enter into a contractual flying arrangement within North America for a third party whereby all or substantially all of the capacity of an aircraft or a number of aircraft is purchased by a third party and the capacity is then sold or otherwise made available or provided to the general public whether directly or indirectly on terms more favourable than those in the CPA, then the terms of the CPA will be adjusted to match the more favourable terms. In the event of a change of control of Jazz, this obligation for Chorus to extend more favourable contractual flying terms to Air Canada will also apply to any Chorus affiliate resulting from or created after the change of control.

Except under certain permitted circumstances, Chorus cannot provide or initiate scheduled (at risk) passenger flying to or from any Extended Hub Airport without the prior consent of Air Canada.

In the CPA, the parties have agreed on certain restrictions for Chorus acquisitions of airline operators in the Non-Compete Geographic Area. There are no restrictions on Chorus providing cargo services with dedicated cargo aircraft.

These restrictions on Chorus' business may prevent Chorus from entering into possible beneficial arrangements, which may have a material adverse effect on Chorus' business, results from operations and financial condition.

Reliance on key personnel

The success of Chorus depends on the abilities, experience, industry knowledge and personal efforts of senior management and other key employees, and Chorus' ability to retain and attract skilled employees. As Chorus seeks to diversify and/or grow, this may put additional strain and demand on management and on Chorus' employees and produce risks in both productivity and retention levels. In addition, Chorus may not be able to attract and retain additional qualified management as needed in the future. The loss of the services of such key personnel could have a material adverse effect on the business, results from operations, financial condition or future prospects of Chorus.

Risks relating to financial instruments

For a description of the interest rate risk, credit risk, liquidity risk and currency risk associated with Chorus' financial instruments, see the discussion in Section 13 - Financial Instruments and Risk Management.

Off balance sheet arrangements and guarantees

Chorus has agreed to indemnify various third parties in connection with the entering into of leases, agreements and other arrangements. The maximum amount payable under such indemnities cannot be reasonably estimated. Chorus carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities). While Chorus expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities, if such insurance coverage was not available or insufficient, any payment pursuant to Chorus' indemnification obligations could have a material adverse effect on Chorus' business, results from operations and financial condition.

Suppliers

Chorus secures goods and services from a number of third party suppliers. Any significant interruption in the provision of goods and services from such suppliers, some of which would be beyond Chorus' control, could have a material adverse effect on Chorus' business.

Chorus is dependent on Bombardier as the supplier of new Q400s and the planned Dash 8 300 ESP. If Chorus is unable to acquire additional aircraft from Bombardier, complete the ESP, or if Bombardier were unable or unwilling to provide adequate support for their products, Chorus' business, operating results and financial condition could be adversely affected.

Chorus' ability to obtain parts, materials, inventory, consumables and services from third party vendors and outside service providers on commercially reasonable terms will also impact its operating cost structure and the loss of any such suppliers or service providers may negatively impact Chorus' business.

Legal Proceedings

Various 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.

Risks Relating to Chorus' Relationship with Air Canada

Dependence on Air Canada

Chorus is directly affected by the financial and operational strength of Air Canada and its competitive position. Air Canada has, like other network carriers, sustained significant operating losses in the past and may sustain significant losses in the future. Air Canada's business, results from operations and financial condition are subject to a number of risks, including:

- Air Canada has substantial commitments for capital expenditures, including for the acquisition of new aircraft.
- Fuel costs, despite recent lows, continues to constitute a significant portion of Air Canada's operating expenses.
- Labour conflicts or disruptions.
- The airline industry is highly competitive and subject to price discounting.
- The risk factors described under "Risks Relating to the Industry".

In the event of any material decrease in its financial or operational strength, Air Canada's ability to make full payment of amounts owing to Chorus may be adversely affected. Such events could result in the inability of Air Canada to pay all amounts owing to Chorus under the CPA or other defaults by Air Canada of its obligations under the CPA or other contracts with Chorus, which would have a material adverse effect on Chorus' business, results from operations and financial condition.

Liquidity

Air Canada has significant ongoing capital and liquidity requirements and from time to time issues new equity, enters into or amends credit facilities and seeks cost cutting or containment changes to its arrangements with its workforce, suppliers and other stakeholders in order to improve its liquidity position. There can be no assurance that these measures will provide Air Canada with sufficient liquidity to continue operations in the longer term. The failure of Air Canada to satisfy its liquidity requirements could have a material adverse effect on Chorus' business, results from operations and financial condition. Such material adverse effect could arise as a result of any inability of Air Canada to pay all amounts owing to Chorus under the CPA or other defaults by Air Canada of its obligations under the CPA or other contracts with Chorus.

Termination of the CPA

Substantially all of Chorus' current revenues are received pursuant to the CPA, which currently covers the Covered Aircraft. During the term of the CPA, which expires December 31, 2025, the non-defaulting party is entitled to terminate the CPA at any time upon the occurrence of an event of default by the other party. Events of default include, without limitation:

- Bankruptcy or insolvency of the other party.
- Suspension or revocation of any of Chorus' regulatory authorizations and licenses required for Chorus to perform the air services required by the CPA.
- Failure by Air Canada or Chorus to pay amounts when due where such default continues for a period of 30 days after notice.
- Failure by Air Canada or Chorus to comply with any of its obligations under the CPA, where such default continues for a period of 30 days after notice.
- More than 50% of the Aircraft do not operate any Scheduled Flights for more than seven consecutive days or 25% of the Aircraft do not operate any Scheduled Flights for more than 21 consecutive days, other than as a result of an order of a governmental authority affecting the industry generally or as a result of any action by Air Canada, any strike by Air Canada employees or any force majeure (including any cessation, slow-down, interruption of work or any other labour disturbance).
- Default by Air Canada or Chorus with respect to a material term of any other material agreement between Chorus and Air Canada if such default continues for more than the applicable period, if any.
- Failure by Chorus to maintain adequate insurance.
- Failure of Chorus to maintain specified critical service levels for four consecutive quarters or five of the prior eight quarters.
- Failure by Chorus to comply with Air Canada's audit and inspection rights.

If the CPA is terminated, Chorus' revenue and earnings would be significantly reduced or eliminated unless Chorus were able to enter into satisfactory substitute arrangements. There is no assurance that Chorus would be able to enter into satisfactory substitute arrangements or that such arrangements would be as favourable to Chorus as the CPA. A termination of the CPA, or any failure of Chorus to enter into satisfactory substitute arrangements in the event of any such termination, would have a material adverse effect on Chorus' business, results from operations and financial condition.

Under the CPA, if a change of control of Jazz occurs without the consent of Air Canada that results in Jazz being directly or indirectly controlled by, or under common control with (a) certain air carriers operating out of Vancouver, Calgary, Toronto, Montreal, or (b) entities which own or operate a loyalty program which provides its members the ability to redeem points in exchange for air transportation services, Air Canada may terminate the CPA. The existence of this right may limit Chorus' ability to negotiate or consummate the sale of all or part of its business to another entity or otherwise participate in any consolidation in the airline industry.

If the CPA is terminated as a result of Chorus' default, all leases from Air Canada (or any affiliate of Air Canada) to Chorus in respect of Covered Aircraft and Spare Engines will not be automatically terminated. In such event, Chorus would remain liable for its obligations under such leases with no corresponding ability to earn income under the CPA to cover its lease obligations, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus owns the Q400s and Dash 8-100s and certain Dash 8-300s. There can be no assurance that Chorus will be able to deploy these aircraft on terms as favourable as the terms of the CPA if Air Canada terminates the CPA as a result of Chorus' default. Any inability to redeploy these aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

If the CPA is terminated as a result of Chorus' default, Air Canada has the option to purchase certain of Chorus' Q400s subject to certain terms and conditions specified in the CPA. If Air Canada were to exercise such option, there can be no assurance that Chorus would be able to purchase replacement Q400s on favourable terms and Chorus would be prevented from redeploying the affected aircraft. Any inability to purchase replacement aircraft or redeploy the affected aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

Early termination of the CPA constitutes an event of default under Chorus' financing arrangements with EDC in respect of the Q400s. In the event of such termination, EDC has the right to oblige Chorus to immediately repay all amounts financed in respect of these aircraft. Such repayment would have a material adverse effect on Chorus' liquidity and financial condition.

Upon the expiration or termination of the CPA, Chorus may lose access to airport facilities at key locations where Air Canada supplies facilities and other services to Chorus. Chorus may also lose access to such airport facilities should Air Canada not be able to secure such access to airport facilities in the future. Most of the airport facilities at Chorus' principal domestic destinations are leased by Air Canada from airport authorities. Under the CPA, Chorus is currently entitled to use these facilities to fulfill its obligations to Air Canada. All of Chorus' airport takeoff or landing slots used for Scheduled Flights are under Air Canada's name. Upon the expiry or termination of the CPA, Chorus may lose access to those airport facilities, airport takeoff or landing slots, and Chorus may have to enter into alternative arrangements to use the same or other airport facilities and slots at higher rates. There can be no assurance that Chorus would have access to other airport facilities or slots or as to the terms upon which Chorus could do so. Chorus' inability to secure access to sufficient airport facilities or slots, or ability to do so only with a significant cost increase, could have an adverse effect on Chorus' business, results from operations and financial condition.

Compensation under the CPA

The basis for compensation under the CPA fundamentally changed effective January 1, 2015. Chorus is now paid a Fixed Margin per Covered Aircraft. Such arrangements are currently a more common basis for payment in the regional airline capacity provision industry; however, they constitute a significant departure from the previous CPA terms. The Fixed Margin per Covered Aircraft is set for the period from 2015 to 2020, and set at a lower level for the period from 2021 to 2025. In addition, Chorus is paid a Fixed Infrastructure Fee per Covered Aircraft which is also set for both the 2015 to 2020 period and at a lower level for 2021 to 2025 period.

- *Labour Rate Risks* - Labour costs constitute a significant percentage of Chorus' total operating costs. Under the CPA, flight crew and cabin crew labour rates have been set until December 31, 2025. All other labour rates payable to Chorus under the CPA are set annually, and subject to certain escalators. Labour costs significantly in excess of those anticipated by Chorus in agreeing to the CPA rates could have an adverse effect on Chorus' business, results from operations and financial condition.

- *Controllable Cost Risks, excluding labour* - With respect to the Controllable Costs, excluding labour, Air Canada is obligated to pay amounts based, in part, on pre-determined rates. These rates are generally pre-determined on an annual basis but may vary from the actual expenses incurred in delivering the associated services. To the extent that Chorus incurs expenses that are greater than the pre-determined reimbursement amounts payable by Air Canada, this could have an adverse effect on Chorus' business, results from operations and financial condition.

- *Pass-Through Cost Risks* - Under the CPA, Air Canada is obligated to pay Chorus costs that are defined as Pass-Through costs, the actual amount of the cost (or alternatively, pay the cost directly) without any markup. Under the CPA, Air Canada is directly responsible for many costs formerly incurred by Chorus, and certain expenses formerly defined as Controllable Costs are now Pass-Through Costs. Chorus has no risk with respect to these costs.

- Under the CPA, performance incentive revenues may become increasingly difficult for Chorus to earn as the utilization of the Covered Aircraft increases.

Impact of competition on Air Canada's profit margin and fixed costs

The airline industry is highly competitive. Air Canada competes with other major carriers as well as low cost carriers on its routes, including routes that Chorus flies under the CPA. Competitors could rapidly enter markets Chorus serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Chorus' regional operations to Air Canada. WestJet Encore operates a fleet of Q400s across Canada and Air Canada has capacity purchase agreements with other smaller regional carriers to operate a number of regional routes including transborder routes.

The airline industry generally, and scheduled service in particular, are characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix could have a significant effect on Air Canada's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. A minor shortfall from Air Canada's expected revenue levels could have a material adverse effect on Chorus' business, results from operations and financial condition if Air Canada were unable to meet its obligations under the CPA.

Seasonal nature of the business, other factors and prior performance

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, principally as a result of the high number of leisure travelers and their preference for travel during the summer months. 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.

Demand for air travel is also affected by factors such as economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Under the CPA, Chorus is paid by Air Canada through rates based on a variety of different metrics and Chorus' estimated Controllable Costs in the applicable period plus certain predetermined fixed fees during the remaining term of the CPA. However, Chorus' actual quarterly results could differ from those contemplated by the target margin based on a variety of factors, including the timing of capital expenditures and changes in operating expenses, such as personnel and maintenance costs, over the course of a fiscal year.

Pilot Mobility

Jazz has entered a pilot mobility agreement with Air Canada. Air Canada expects to be in need of pilots as it continues to grow and face increased pilot retirements. Air Canada has agreed to source at least 80% of its new pilot hires from Jazz pilots named on the pilot mobility list (discussed in Section 2 - Capacity Purchase Agreement with Air Canada). As Air Canada hires Jazz pilots, Jazz will have to replace such pilots, which it anticipates it will be able to do on similar wage rates and pension and benefit terms as agreed to in the ALPA collective agreement. If Jazz were to have to pay costs materially above those in the new collective agreement, it could have a material adverse effect on Chorus' business, results from operations and financial condition.

Force Majeure

If either Air Canada or Chorus is prevented from performing its obligations under the CPA in whole or in part due to a force majeure event, the affected party shall be temporarily excused from performing its obligations to the extent it is so prevented.

In addition, if Jazz is affected by a force majeure event which prevents it from performing all of its services under the CPA, Air Canada's obligation to pay the agreed rates related to certain limited fixed costs would continue, however Air Canada's obligation to pay the other agreed rates would be temporarily suspended. All other obligations of Air Canada, including, but not limited to, those related to the fleet of Covered Aircraft and minimum average daily utilization guarantee would also be temporarily suspended and inapplicable in respect of the period of the force majeure event. Such force majeure event would also trigger prorated adjustments to be made to Air Canada's payment obligations in respect of the period of the force majeure event to reflect the level of service Jazz provides during such period.

Either of Air Canada and Chorus may terminate the CPA if the other party is prevented from performing all or substantially all of its obligations hereunder for more than 60 days due to a force majeure event.

Replacement of services provided by Air Canada under the CPA and the Master Services Agreement ("MSA")

Air Canada provides a number of important services to Chorus, including information technology, de-icing services and glycol usage, fuel purchasing services and passenger, aircraft and traffic handling services. As well, as Chorus does not sell scheduled air service directly to the public, Chorus does not perform ticket sales, reservations or call centre services. If the CPA is not renewed beyond December 31, 2025, or is otherwise terminated, and Chorus were to determine to operate its own at-risk airline services, it would either need to provide these services internally or contract with third parties for such services. There can be no assurance that Chorus would be able to replace these services on a cost effective or timely basis. In addition, pursuant to the MSA, Air Canada provides certain services to Chorus including information technology services and insurance claims services. If the MSA were terminated and Chorus decided to undertake at risk flying, it would either need to provide these functions internally or contract with third parties for such functions. There can be no assurance that Chorus would be able to replace these services on a cost-effective or timely basis and this may have a material adverse effect on Chorus' business, results from operations or financial condition.

Air Canada Pilots Association ("ACPA") Scope Clauses

Air Canada's collective bargaining agreement with ACPA limits the number of regional jet aircraft which can be operated by any Air Canada Express carrier. These restrictions may prevent Chorus from increasing the capacity it provides Air Canada, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot be certain that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions potentially affecting Chorus.

Absence of exclusivity arrangements

Chorus does not benefit from exclusivity arrangements preventing Air Canada from allocating some or all of its regional capacity requirements internally or to another carrier under a capacity purchase agreement or other forms of contractual arrangements. Air Canada's use of other regional carriers could negatively impact opportunities for increasing Chorus' flying under the CPA. The lack of exclusivity arrangements with Air Canada could have an adverse effect on Chorus' business, results from operations or financial condition.

Potential conflicts with Air Canada

Contractual agreements, such as the CPA, are subject to interpretation and conflicts or disputes may arise under such agreements if the parties to an agreement apply different interpretations to that agreement. Conflicts or disputes may arise between Air Canada and Chorus under the CPA in a number of areas, including:

- The nature and quality of the services Air Canada provides to Chorus and the services Chorus provides to Air Canada.
- The terms of Air Canada's and Chorus' respective collective bargaining agreements.
- Non-competition provisions (refer to Risks related to Chorus - Diversification and growth).
- Chorus' and Air Canada's respective rights and obligations under the CPA or other agreements between Chorus and Air Canada, including conflicts based on differing interpretations of the contract language.

Conflicts and disputes may divert management attention and resources from the operation of the business and may result in litigation or other dispute resolution. Chorus may not be able to resolve any potential conflicts with Air Canada and, even if any such conflicts are resolved, the resolution may be on terms and conditions less favourable to Chorus. Any such result could have a material adverse effect on Chorus' business, results from operations and financial condition.

Leasing risk related to Q400s

Chorus derives a significant portion of its revenues under the CPA from leasing Q400s. Chorus is paid a Fixed Margin per Covered Aircraft for an agreed number of Q400s during the term of the CPA. When the CPA expires on December 31, 2025, there is a risk that Chorus will be unable to find use for these aircraft to generate equivalent revenue. Any such inability to utilize such aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

Risks Relating to the Voyageur business

International operations and doing business in foreign countries

Voyageur's operations include international contract flying. As a result, Chorus is exposed to increased operational complexity and new regulatory requirements. In addition, operating in diverse international regions increases the risk of Chorus being exposed to political instability and military and/or civil conflict. Should Chorus not be able to effectively mitigate the impact on its business of these complexities, regulatory requirements and other risks, this may have an adverse effect on Chorus' business, results of operations and financial condition.

Renewal of customer agreements and competition

There can be no assurance that any of Voyageur's agreements with customers can or will be renewed on the same terms and conditions, or in the same amounts as are currently in effect. If such agreements are renewed, the terms and conditions will be subject to negotiation between Voyageur and each customer at the time of renewal. Voyageur competes for this business with contract air carriers from around the world. Should Voyageur not be able to renew such agreements or is not able to renew or replace such contracts on terms and conditions at least as favourable as current terms, this may have an adverse effect on Chorus' business, results of operations and financial condition.

22 GLOSSARY OF TERMS

"**ALPA**" means the Air Line Pilots Association;

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

"**Billable Block Hours**" mean actual Block Hours flown and 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;

"**CALDA**" means the Canadian Air Line Dispatchers Association;

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

"**CFAU**" means the Canadian Flight Attendant Union;

"**Chorus**" references herein to Chorus or the Company in this MD&A refer to, as the context may require, one or more of Chorus Aviation Inc. and its current and former subsidiaries;

"**Compensating Mark-Up**" has the meaning formerly given in the CPA before the January 1, 2015 CPA Amending Agreement;

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

"**Controllable Revenue**" means revenue earned by Jazz from Air Canada for rates established under the CPA in respect of certain Controllable Costs;

"**Covered Aircraft**" means the aircraft whose capacity Air Canada purchases from Jazz under the CPA;

"**CPA**" means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and Jazz, as amended on January 1, 2015 and as supplemented by the Rate Setting Agreement;

"**CPA Canada Handbook**" means the Chartered Professional Accountants of Canada Handbook - Accounting - Part 1, which incorporates IFRS as issued by the IASB;

"**CRJ200**" and "**CRJ705**" means Bombardier CRJ 200 and CRJ 705 regional jet aircraft;

"**Dash 8-100**", "**Dash 8-300**" and **"Dash 7-100"** means De Havilland Dash 8-100, Dash 8-300 and Dash 7-100 turboprop aircraft;

"**Debentures**" mean the $80.2 million principal amount of 9.50% convertible unsecured subordinated debentures of Chorus fully redeemed during 2014;

"**Departure**" means one take off of an aircraft;

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

"**ESP**" means the agreement entered into by Chorus with Bombardier to be the launch customer for the Dash 8-300 Extended Service Program to extend the service life of the Dash-8-300s;

"**Extended Hub Airport**" has the meaning given in the CPA;

"**Fixed Margin per Covered Aircraft**" means the fixed fee paid to Jazz by Air Canada for each Covered Aircraft provided by Jazz under the CPA;

"**Flight Completion**" means the percentage of flights completed from flights originally scheduled;

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

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

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

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

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

"**Infrastructure Fee per Covered Aircraft**" means the fixed fee paid to Jazz by Air Canada per Covered Aircraft for the additional services Chorus provides in support of Air Canada's regional flying network under the CPA;

"**Jazz**" means Jazz Aviation LP, a limited partnership established under the laws of the Province of Ontario on November 18, 2010;

"**Jazz Aircraft Financing Inc.**" means Jazz Aircraft Financing Inc., a corporation incorporated under the CBCA on November 28, 2013;

"**Jazz Leasing Inc.**" means Jazz Leasing Inc., a corporation incorporated under the CBCA on November 28, 2013;

"**King Air 100**" and "**King Air 200**" means Beechcraft King Air 100 and 200 turboprop aircraft;

"**Maintenance Capital Expenditures**" represent expenditures incurred to sustain operations or Chorus' productive capacity, which excludes Q400s and engine purchases;

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

"**Non-Compete Geographic Area**" has the meaning given in the CPA;

"**Operating Aircraft**" means the aircraft in Chorus' fleet, less aircraft which have not yet entered commercial service;

"**Pass-Through Costs**" means costs incurred directly by Jazz that are passed-through to Air Canada and fully reimbursed under the CPA;

"**Pass-Through Revenue**" means revenue earned from Air Canada under the CPA in payment of Pass-Through Costs;

"**PAWOBs**" means passengers arriving without baggage;

"**Q400s**" means Bombardier Q400 turboprop aircraft;

"**Rate Setting Agreement**" means the agreement between Jazz and Air Canada to set rates effective for 2015;

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

"**Shares**" mean common shares of Chorus Aviation Inc., which includes Class A Variable Voting Shares and Class B Voting Shares;

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

"**Voyageur**" means Voyageur Aviation Corp. (as successor by amalgamation to 519222 Ontario Limited, Hangar 6 Inc. and Voyager Airport Services Inc. under the Business Corporations Act (Ontario) on December 31, 2015) and its subsidiaries including Voyageur Airways Limited and Voyageur Aerotech Inc.;

"**Voyageur Aerotech**" means Voyageur Aerotech Inc., a corporation incorporated under the Ontario Business Corporations Act (Ontario) on July 30, 2015; and

"**Voyageur Airways**" means Voyageur Airways Limited, a corporation incorporated under the Business Corporations Act (Ontario) on January 4, 1968.